

## Scotiabank Nowcast: Flat Real Manufacturing Shipments Leave Q2-2019 Stable at 2.78%

This note is part of a series that will be published after important data releases, documenting mechanical updates of the nowcast for Canadian GDP coming from the Scotiabank nowcasting model. The evolution of this nowcast will inform Scotiabank Economics' official macroeconomic outlook.

The model is described in a related note [here](#). Changes to the model this quarter are detailed in the box on the next page.

- Real manufacturing shipments declined slightly in June (-0.2% m/m) in a pullback from a strong expansion in May. The relatively flat reading masked a significant divergence among sub-sectors, with real shipments of nondurable goods declining by 1.5% m/m in June, offset by a continued durable goods expansion of 1.1% m/m.
- The expansion in durable goods was limited to a few industries, such as primary metals (+12.7% m/m), computer (+1.1% m/m) and transportation equipment manufacturing (+1.3% m/m). The latter sector mainly benefited from growth in shipments of auto parts and railroad stock.
- Overall manufacturing inventories declined in June, supporting our expectation of an inventory offset in Q2-2019. The decline is a welcome sign, as the elevated inventory levels prompted concerns about the durability of growth going forward.
- The manufacturing data received today is consistent with an expected slowdown in economy-wide activity in June, with industry-level GDP expected to be flat, leaving the Q2-2019 nowcast relatively stable at 2.78% and surpassing the Bank of Canada's latest forecast of 2.3%.

Table 1: Canadian GDP Nowcast, Q2-2019

	Nowcast Date	Q2-2019 GDP Growth, %	GDP by industry, %m/m		
			Apr <sup>actual</sup>	May <sup>actual</sup>	Jun
Previous nowcast	09-Aug-19	2.83	0.33 <sup>f</sup>	0.23	0.04
Revisions and other data		-0.02			
New motor vehicle sales, Canada		-0.02			
Manufacturing sales, Canada		0.00			
Manufacturing inventories, Canada		-0.01			
Current Nowcast	20-Aug-19	2.78	0.33 <sup>f</sup>	0.23	0.03

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Chart 1: Manufacturing Shipments, Canada

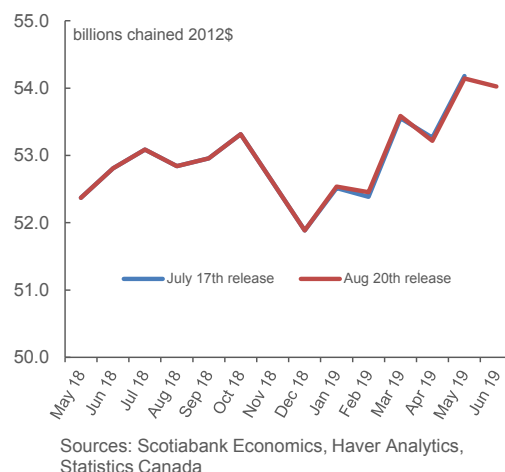
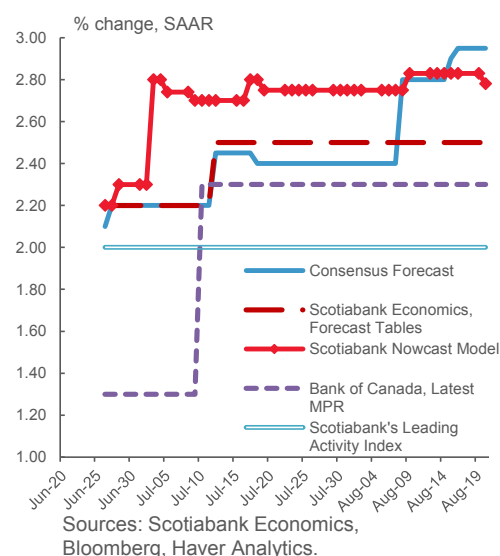


Chart 2: The Evolution of the Scotiabank Economics Q2-2019 Nowcast



**Box 1. Changes to the Nowcasting Model**

Starting in Q2-2019 we made the following tweaks to the model used for the Canadian GDP nowcast. A recent paper from the Bank of Canada points out that revisions to monthly GDP for the first month of the quarter are very significant, construction industry being one of the most heavily-revised (see Rizetto, P., 2018. [GDP by industry in real time: are revisions well-behaved?](#) Staff analytical note 2018-40, Bank of Canada). Given that in Q1-2019 the main reason for the forecast miss was data revisions and construction industry in particular, we made the following modifications to capture these aspects of the Canadian data:

- 1) Within a given quarter we treat observed monthly GDP as more uncertain than later vintages. This implies that first releases of monthly GDP are compared against all other available data and the model is used to back-cast monthly GDP in real-time. Technically this is accomplished by increasing the variance in the observation equation related to monthly GDP.
- 2) In order to cover real estate and construction in more detail we add average seasonally adjusted house price in Canada, as reported by CREA. This is also in line with evidence that house prices have leading information for Canadian GDP (see Lalonde, Perevalov, 2019, [A New Approach to Forecasting Economic Downturns](#)).

Other data we included are i) a measure of equity prices (S&P TSX index), and ii) Canadian employment from the Labour Force Survey.

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