

Scotiabank Nowcast: Strong Employment Gains Bode Well for Q3-2021 Growth, Nowcast at 2.01%

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](#).

- Following a disappointing Q2-2021 Canadian growth print (more on that below), Q3-2021 seems to have started on a better footing, at least where the labour market is concerned. In August the Canadian economy generated +90K (+0.5% m/m) net new jobs according to the Labour Force Survey (LFS), following a similar gain in July. While the increase in hours worked in August was relatively tepid (+0.1% m/m), any rise was welcome after a jump in hours reported in the July survey (+1.3% m/m). Thus, in the first two months of Q3-2021 the post-lockdown re-opening spurred strong net new hiring and is likely to lead to expansion in the quarter.
- After today's print, the nowcast moves up to +2.01% Q/Q SAAR, slightly below the most recent Scotiabank forecast. Behind the nowcast estimate, the model is using the strength in employment to discount some of the weakness in early July indicators (retail, manufacturing and wholesale sales, as well as the flash estimate for GDP). The economic justification for this is that the lifting of health restrictions has impacted the services sector to a greater extent, which is not well-captured in these early statistics. The contrast between the goods-producing and services-producing sectors was stark in the August LFS report, with +93K net new jobs generated in the latter, while the former lost -2.6K jobs.
- Other factors also lead us to be wary of being too reliant on the early estimates from Statistics Canada, given that they are usually based on low response rates. This uncertainty also flows into the "flash" estimates of monthly Canadian GDP growth.
- Beyond the uncertainty around early or "flash" indicators, even official monthly GDP growth within a given quarter carries a risk of revisions. Most recently, this occurred in Q2-2021, with a 2.4% quarterly annualized growth estimate as of late July being revised away completely in late August. As a result of the high revision risk, in the model we increased the in-quarter uncertainty around published monthly GDP data and included alternative indicators (e.g. internal card spending data) as a cross-check.

Table 1: Canadian GDP Nowcast, Q3-2021

	Nowcast Date	Q3-2021 GDP Growth, %
Initial nowcast	09-Sep-21	1.70
Revisions and other data		0.00
Employment, Canada		+0.35
Hours worked, Canada		-0.04
Current Nowcast	10-Sep-21	2.01

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Chart 1: Employment, Canada

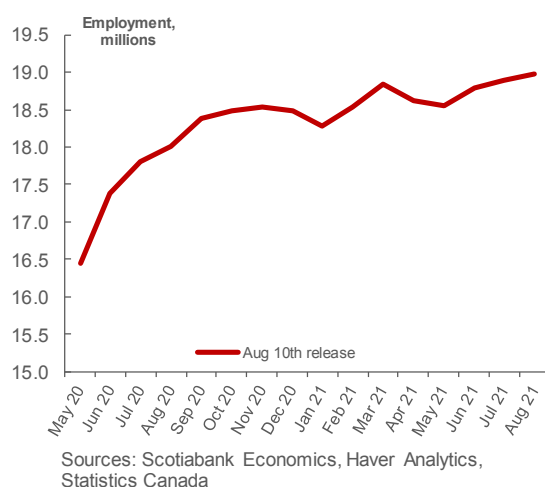
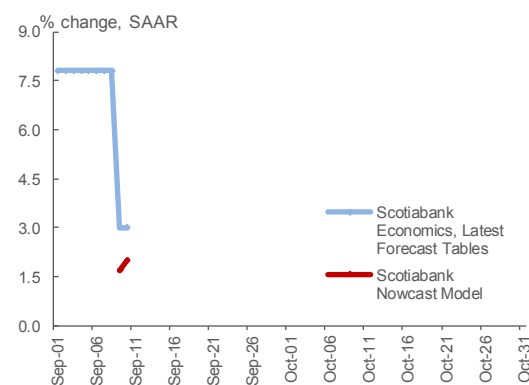


Chart 2: The Evolution of the Scotiabank Economics Q3-2021 Nowcast



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