

Scotiabank Nowcast: Weak Early Estimates for Retail, Manufacturing Reduce Q3-2021 to 2.24%

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](#).

- In the first few cold days of this fall, the outlook for the Canadian economy started to cool somewhat as well, as the pair of releases by Statistics Canada showed this morning. First, while the retail sales for August came in as expected (+2.1% m/m), the early signs for September were less than encouraging, with an estimate of a -1.9% m/m decline for the month. But the preliminary estimate of a surprise contraction in Canadian manufacturing sales (-3.2% m/m) in September strongly suggests that the Canadian economy likely stumbled in early fall. As a result, the GDP nowcast for Q3-2021 fell to +2.24% Q/Q SAAR.
- The outlook for the quarter is still significantly positive, with the expectation that the rebound in services, driven by the re-opening of the economy in the summer, will be shown to have lifted growth when the expenditure- and industry-side indicators are fully reconciled to arrive at the official Q3 GDP growth estimate at the end of November. However, there are downside risks as well, particularly if the rebound in services is held down by labour shortages and emerging frictions around the proof of vaccination, while retail and manufacturing (and possibly wholesale) sales are constrained by the lack of inventory.
- According to the flash estimate, manufacturing sales in September were reportedly held back by weak sales of transportation equipment (read: autos), as the sector continued to struggle with parts shortages. The early estimates for September for both retail and manufacturing sales were based on low response rates, however.
- August retail sales were driven by higher sales at food and beverage stores (+4.8% mm), as well as gasoline stations (+3.8% m/m) and clothing and accessories (+3.9% m/m).

Table 1: Canadian GDP Nowcast, Q3-2021

	Nowcast Date	Q3-2021 GDP Growth, %
Previous Nowcast	15-Oct-21	2.86
Revisions and other data		-0.10
Retail sales, Canada, August		+0.02
Retail sales, Canada, September, flash		-0.08
Manufacturing sales, Canada, September, flash		-0.46
Current Nowcast	22-Oct-21	2.24

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Chart 1: Retail sales, Canada

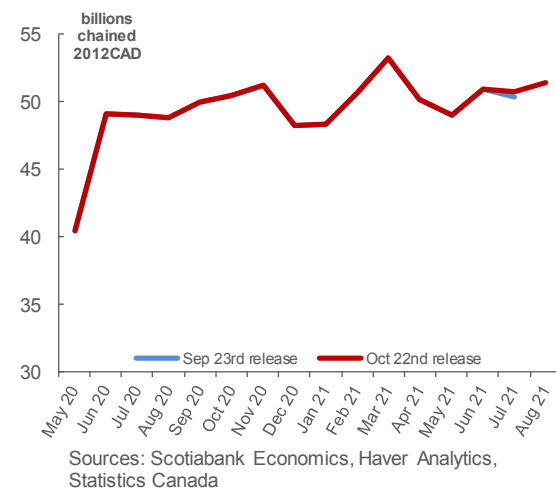
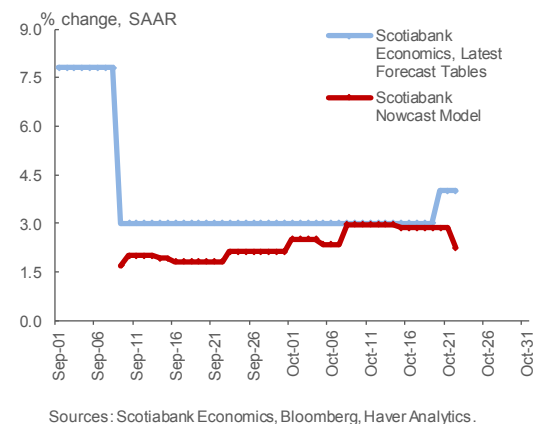


Chart 2: The Evolution of the Scotiabank Economics Q3-2021 Nowcast



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