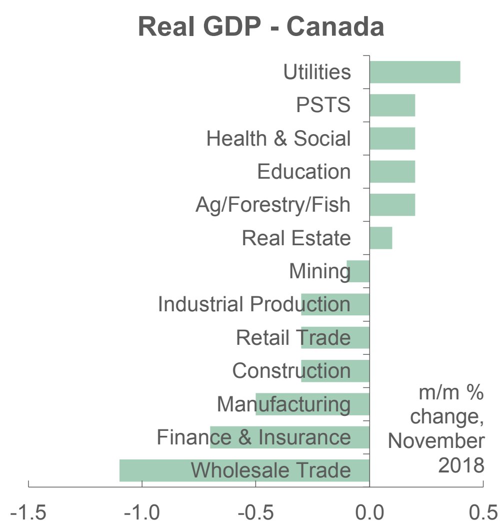
Soft Canadian GDP Masks Better Breadth, In Line With BoC Expectations

Canada, GDP, m/m % November:
Actual: -0.1
Consensus: -0.1
Scotia: 0.1
Prior: Unrevised from 0.3

- **The economy indeed slipped a touch in January but the details behind the report are more encouraging.** What happened is that the declines in the more observable sectors that had been tipped off by the higher frequency readings offset gains elsewhere that were hinted at by the strong rise in hours worked. The latter was not powerful enough to overwhelm the downward weight from sectors like manufacturing, construction, mining/energy, wholesale and retail. CAD's knee-jerk reaction was to rally but that was primarily due to the effects of a jump in US jobless claims to 253k (200k prior, 215k consensus). As the effects subsided, CAD resumed very slight depreciation.
- **Thirteen of twenty sectors posted growth with the other seven dragging the headline into the red a touch.** So the observable readings did drive the headline slightly softer. The gain in hours worked did correspond to a rise in the rest of the economy as all those extra hours worked were indeed a reflection of people producing more across many sectors. Now, out of seventeen times since 1997 when hours worked grew by 0.9% or more, three of those occasions involved small dips. The odds were strong but didn't work out this time.
- **GDP growth is tracking 0.9% q/q at a seasonally adjusted and annualized rate in Q4.** That is using the monthly GDP figures from the production/income side of the economy and assuming December comes in flat just in order to focus upon the effects of known data so far.
- **The BoC had forecast 1.3% q/q GDP growth using the quarterly expenditure based figures as of the January MPR.** That may still be where we land. Inventories, import leakage effects etc can drive divergence between the two approaches to GDP with monthlies focused upon income/ production regardless of where it goes (out, or stockpiled) and what it's made from (imports, domestic). Therefore tracking is roughly in the ballpark of BoC expectations and not a material source of new information to their expectations.
- **Regardless, fade the report as previously advised.** The exact hits and misses still fall within the context of what the BoC knew would be a soft patch for growth that will extend into Q1 as Alberta's mandated cuts bite into January readings for manufacturing, trade and GDP. A rebound, however, may already be underway. Alberta yesterday wiped out one quarter of the production cuts starting in February and it's quite probable that further reductions are in store that will lift GDP growth in subsequent periods. **Please see the morning note for the argument that the current soft patch and its three main drivers may turn as those three drivers themselves turn.**

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



Sources: Scotiabank Economics, Statistics Canada.