Markets Yawn As Canadian GDP Dips

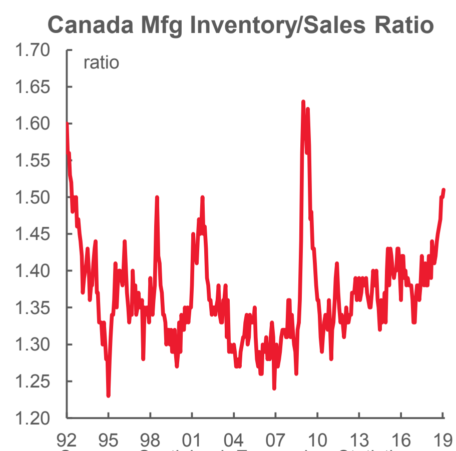
Canada, GDP, m/m % February:
Actual: -0.1
Scotia: 0.0
Consensus: 0.0
Prior: Unrevised from 0.3

- **As far as GDP reports go, this one is a bit of a yawner, but there are transitory distortions worth considering across several components.** CAD and rates were very little changed post-release. I think **Governor Poloz and SDG Wilkins will shake this one off** in testimony later this morning.
- The economy contracted by 0.15% m/m and was therefore a touch worse than the consensus guesstimate, but there is a high bar for a monthly GDP number to seriously shock BoC expectations for a soft patch in Q1. That's because of a) they were already low on Q1 growth and perhaps too low, and b) there are so many unobservable drivers of a monthly GDP call that it often takes a big surprise to significant guesswork to matter much.
- **Using monthly estimates, GDP growth is tracking 0.6% q/q at a seasonally adjusted and annualized rate in Q1.** On the surface that may look like a modest beat to the BoC's 0.3% q/q GDP forecast for Q1 in the April MPR unless March GDP were to contract significantly, but this is mixing GDP concepts together. Monthly GDP is production based and doesn't generally consider how higher/lower production was achieved, including whether through imports or changes to inventory investment. The BoC and private sector economists forecast expenditure-based GDP that does consider factors like inventories and imports so be careful toward the comparisons.
- The difference between production-based and expenditure-based GDP growth estimates can be significant and **the fact that inventories-to-sales ratios are rising is one reason why they can be materially different.** As the first 4 charts suggest, however, the sharp increases in I:S ratios suggest a risk to future growth should production be impacted in an effort to rein in the inventory rise. Of interest is that it's not the Amazon effect upon Canadian retailers driving the higher inventories.
- Scotia's 'nowcast' for quarterly GDP growth will be updated shortly but generally we remain of the view that expenditure-based GDP growth is tracking more firmly than the BoC's Q1 forecast for expenditure-based GDP.
- **Eleven of twenty sectors advanced with nine contracting.** The biggest unweighted declines were in mining/quarrying/oil& gas extraction (-1.6% m/m), transportation and warehousing (-1.6%), finance and insurance (-0.6%) and manufacturing (-0.4%).
- There were several distortions to the growth estimates, but don't assume that when they shake off it will be clear where growth goes next month.
    - The biggest unweighted upside came from **utilities thanks to exceptionally cold weather in western Canada**(1.5%). This sector likely faces some downside in March. As a reminder, see the last chart showing how February was compared to seasonal norms.

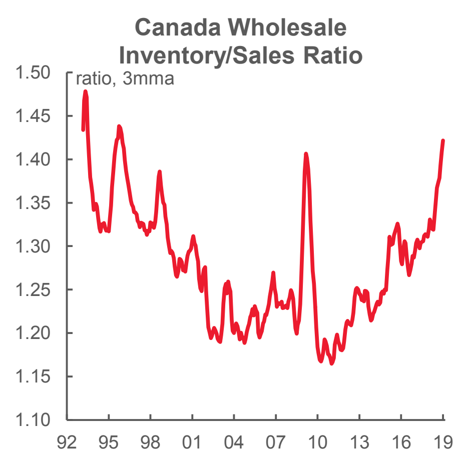
CONTACTS

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

Source: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Statistics Canada.

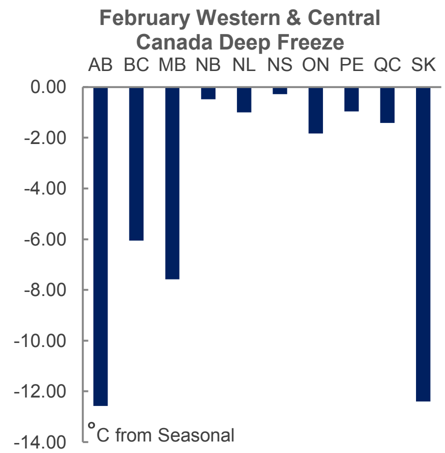


Sources: Scotiabank Economics, Statistics Canada.

- StatsCan cautioned that **the transportation/warehousing sector was distorted by cold and snow plus a train derailment in B.C** that closed the key rail line through the Rockies at the beginning of the month. This sector could rebound next month.
- **This report could also spell the end of the drag effect from Alberta's oil production cuts**. Oil and gas extraction fell by 0.6% m/m (-2.6% prior). Just oil sands extraction fell 0.1% m/m (-4.1% prior) as Alberta's mandated production cuts began to be rolled back. Look for this sector to be neutral if not an upside going forward.

- In weighted terms, mining, oil and gas extraction was the biggest drag effect on growth but we're only talking about a 0.1% drag effect. Transportation and warehousing was a similar drag on top line GDP growth. All other contributions—negative and positive—were small in the realm of half of one-tenth contributions or less.

Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Environment Canada.