

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

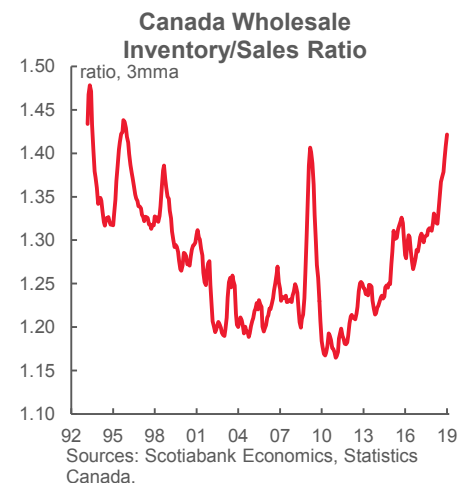
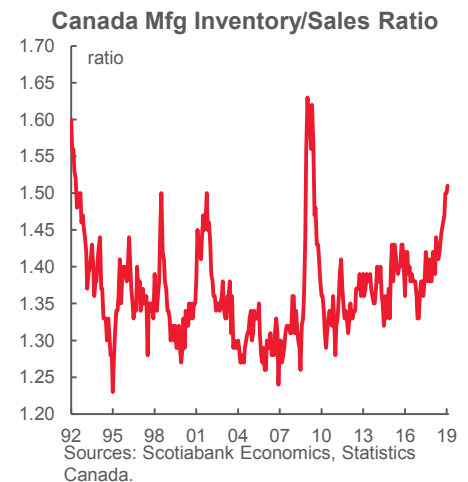
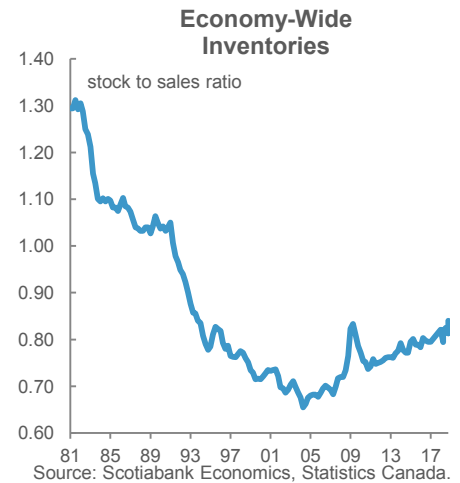
- **As far as GDP reports go, this one is a bit of a yawner, but there are transitory distortions worth considering across several components.** CAD and rates were very little changed post-release. I think **Governor Poloz and SDG Wilkins will shake this one off** in testimony later this morning.
- The 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

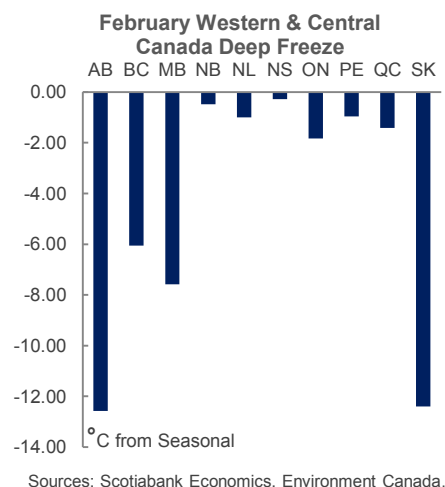
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com



- 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.



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.