

Canada's Illusory GDP Beat

- GDP growth in April beat expectations in line with revised guidance...
- ...but the report was a one-trick pony lacking breadth...
- ...as the exclusion of one single driver resulted in a marginal dip in GDP
- The BoC may treat the report as stale compared to forward risks...
- ...even though Q2 growth is tracking firmer than their last estimate

Canada, GDP, m/m % April:

Actual: 0.3

Scotia: 0.2

Consensus: 0.2

Prior: Unrevised from 0.5

- While headline GDP growth in April beat expectations in line with revised guidance shared after the wholesale report, the details were unimpressive and the data is best treated as stale in the face of forward-looking risks in any event. In fact, upon excluding one single sector that played an out-sized and distorted role, the Canadian economy actually *shrank* a touch in April. CAD is largely unchanged following the report and roughly flat to the USD on the day so far with short-term interest rates little affected.
- **The concern here lies in the fact that there was not much breadth on a weighted contributions basis.** Please see the accompanying chart that depicts weighted contributions to growth by sector. The mining/oil/gas extraction sector did the bulk of the heavy lifting toward overall growth in the economy. Wholesale trade was the next biggest contributor and then 'others' also added just under 0.1. Beyond that, the rest of the sectors played little role in driving growth.
- Why did energy/mining drive economic activity higher? **It's a distortion mainly introduced by virtue of the fact that Alberta's mandated production cuts at the start of the new year have been fading in consequence ever since.** Oil sands output was up 11% m/m which StatsCan flagged to be seasonally unusual "as facilities scaled up production rather than undertaking maintenance activities, to take advantage of the easing of production restrictions."
- Mining excluding oil and gas was up 1.7% including a 4.4% rise in potash mining but also solid gains in mining of copper, nickel, lead and zinc. **Given more recently fading commodity prices on global trade and specifically China concerns, the durability of such gains may be an added dent to the quality of the overall report.**
- Total GDP growth in April just barely rounded up to 0.3% (0.258%). That positions **Canadian GDP growth to be tracking 2.1% q/q in Q2** based on Q1 hand-offs and April while assuming flat May and June readings. We have nothing to go by for June and little for May, so Q2 tracking is best kept focused upon what we can credibly estimate to this point. Still, that's consistent with the rebound narrative from Q1 when growth was only 0.4%, but Q2 is tracking roughly in line with consensus and isn't a particularly impressive rebound.

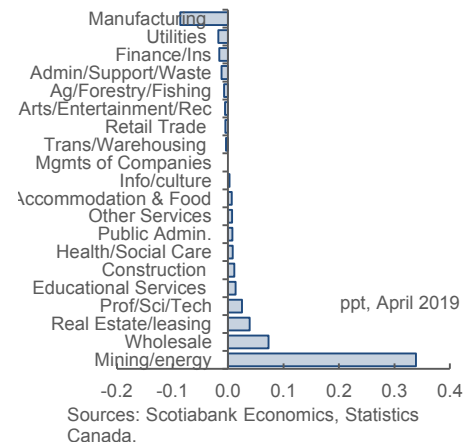
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com

Contribution to Canadian Real GDP Growth



- **Q2 GDP growth is tracking stronger than the BoC had anticipated back in the April MPR when they forecast 1.3% for Q2 growth. That's a very dated estimate by now,** however, and so at best they would be positively surprised in minimal fashion compared to more recent expectations and in the face of forward-looking risks.

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