Canadian Economy Tracking Soft Growth, As Recent Jobs Data Thrown Into Doubt

- Headline GDP disappointed expectations…
- ...as energy projects continue to be plagued by shutdowns…
- ...while growth in most other sectors…
- ...made little weighted contribution to the economy's overall growth rate
- Q3 GDP is tracking in line with the BoC's downward forecast revision
- Canadian jobs data is seriously messed up of late…
- ...as two estimates of growth in payrolls employment are sharply at odds

Canada, GDP, m/m % August:
Actual: 0.1
Scotia: 0.3
Consensus: 0.2
Prior: 0.0

Canada's economy disappointed expectations in August and payrolls data cast serious doubt on the quality of the job growth readings from Statistics Canada other household survey. At the margin, both are dovish developments that incrementally add to rate cut expectations. The two year Canada yield was little changed post-data but is holding onto the morning's decline of about 3bps. Because US core inflation dipped, there wasn't much of a CAD response as weak data on both sides of the border cancelled out implications for the currency cross.

Fourteen of twenty industries registered GDP growth in August. The first accompanying chart shows weighted contributions to GDP growth in August by sector. The largest weighted upsides came from manufacturing, professional and scientific services, real estate and finance, but they are all very small with under a tenth of a percentage point impact on GDP for each one. **Thus, even though breadth was decent, the gains were so small in weighted contribution terms across sectors that the overall report had a weak feel to it.** The largest downsides were more limited to wholesale trade and utilities.

The fly in the ointment was once again Canada's energy projects. Clearly pipelines are not the only issue in managing the country's large energy factor endowments. Seemingly perpetual maintenance issues associated with running the projects also don't help.

Because of this, where I went wrong in estimating upside to August GDP was through a stronger assumed rebound in energy production than was delivered. Behind the 3.6% m/m drop in output in the broad mining and energy sector was a 1.6% decline in oil and gas extraction because of additional maintenance shutdowns at several facilities. Behind that was a small 0.3% m/m rise in oil and gas extraction excluding oilsands with only higher natural gas extraction behind it. Maintenance issues continued to weigh on output at east coast projects, but this time their challenges were joined by a 3.6% m/m plunge in oilsands output that Statistics Canada flagged as partly driven by maintenance shutdowns. The mining and quarrying component was also soft, however, in that a 0.2% m/m dip was

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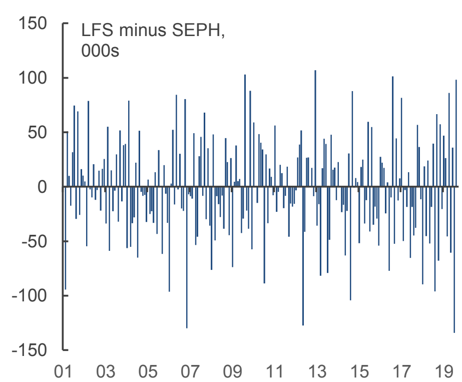
Weighted Contributions From Sectors to August Real GDP Growth

Sources: Scotiabank Economics, Statistics Canada.

Spread between Change in LFS and SEPH Monthly Payroll Employment



Sources: Scotiabank Economics, LFS, SEPH.

driven by a 1.7% drop in metal ores and a 5% decline in coal output that combined to offset gains in potash mining and iron ore mining. Eventually the maintenance issues will be solved and production will rebound and that could be a powerful upside catalyst to overall growth, but one that could itself be transitory along a weak trend. I won't hold my breath for when that happens, however, as for some time now it has been assumed that eventually unusually timed maintenance issues would settle down.

CDN GDP growth is tracking 1.1% q/q SAAR in Q3 based solely upon known data to date up to August and with no inferences drawn for September. September nevertheless faces downside risk given the drop in hours worked as we await more activity indicators for the month. This tracking evidence is also based upon monthly production side GDP versus the expenditure based GDP figures that also ask how higher output was achieved (inventories, imports etc).

The BoC had forecast 1.3% Q3 GDP growth in yesterday's downgraded projections based upon GDP using expenditure data. So at the margin, be careful in comparing the two concepts, but given historical tracking between the two concepts and what we can so far infer for inventories and imports, **the BoC's revised forecast is tracking in line with data.** In fact, Scotia's Nikita Perevalov's 'nowcast' estimate sits at about 1.4% using expenditure based figures.

In a separate release, something seriously wonky is going on with Canadian jobs numbers of late. StatsCan's estimate of the change in payrolls (-6,100) in August flies in the face of the Labour Force Survey's estimated payroll gain of 92,200 in public and private sector payrolls. That's the fourth biggest overestimation of the growth in payroll jobs by LFS compared to SEPH on record (chart 2). This follows the prior month's record for the biggest *underestimation* of the change in payroll employment by LFS compared to SEPH. Taking the sum of the absolute values of the two differences in estimated payroll changes amounts to a whopping 232,597 jobs in just two months. On net, the spreads between the two months of estimates for the change in payroll employment work out to about 36,000 jobs as the over/under estimations across the two months partly but not fully cancel each other out to a still substantial 36k overestimation of SEPH relative to LFS.

I like to point out that since job growth began accelerating from mid-2016 onward, the three main sources of job growth (ADP being the other one) have generally pointed in the same direction and magnitude such that they all say Canada has grown +/- 1 million jobs over that period. I still believe that. But the outsized deviations between the two main StatsCan sources for payroll employment of late are blowing the confidence bands as outliers. There are wide bands around both estimates for payroll changes but the spreads between the two estimates are pushing beyond historical norms. This lessens confidence in recent jobs data.