

Canada's Economy Shrinks—US Strike Is A Red Herring

- The economy shrank in October
- Breadth was slightly better than the headline retreat
- Retail, manufacturing and wholesale did the damage
- The US GM strike played a trivial role in Canada...
- ...and it is difficult to isolate the full effects...
- ...but overwhelmed by shutting down GM's last plant in Canada
- In weighted terms, the positive drivers were rounding errors
- The BoC had incorporated the GM strike effects in its October MPR...
- ...and is still getting weaker than forecast growth and more slack

GDP m/m % change, seasonally adjusted, October:

Actual: -0.1%

Scotia: -0.1%

Consensus: 0.0%

Prior: 0.1%

Canada's economy contracted by 0.1% m/m in October. That's small, bang on Scotia's estimate and a touch weaker than consensus. Breadth was mixed but generally better than the headline retreat indicated as a handful of sectors did the damage, but not by much as the upside contributors were trivial in weighted terms.

It is important not to dismiss the reading as an offshoot of the GM strike in the US. The full effects of the US strike upon Canada are difficult to isolate, but were likely very small. Further, Canada's GM operations were in decline since the final announcement on November 26th 2018 (and many years before) that the GM plant in Oshawa would be closed. The last vehicles rolled off the assembly lines at GM's only remaining plant in Canada last week and that will mean a modest further drag on GDP growth into 2020Q1 from 2019Q4 levels. This is the bigger issue in Canada than the spillover effects of the US GM strike.

Six industries contracted, twelve expanded and two were flat (rounding to one decimal point). Among the expanding industries, four grew by just 0.1% m/m but the rest generally grew convincingly.

The accompanying chart shows a weighted contribution breakdown to the overall dip in GDP by sector. In weighted terms, three industries did the damage, but the weighted positive contributors were all rounding errors and most industries contributed nothing material to overall GDP growth.

The contracting industries were led by manufacturing (-1.4% m/m), retail (-1.1%) and wholesale trade (-1.0%). Agriculture/forestry/fishing, finance and insurance and accommodation and food services fell by 0.2% m/m. Construction and 'other' services were flat.

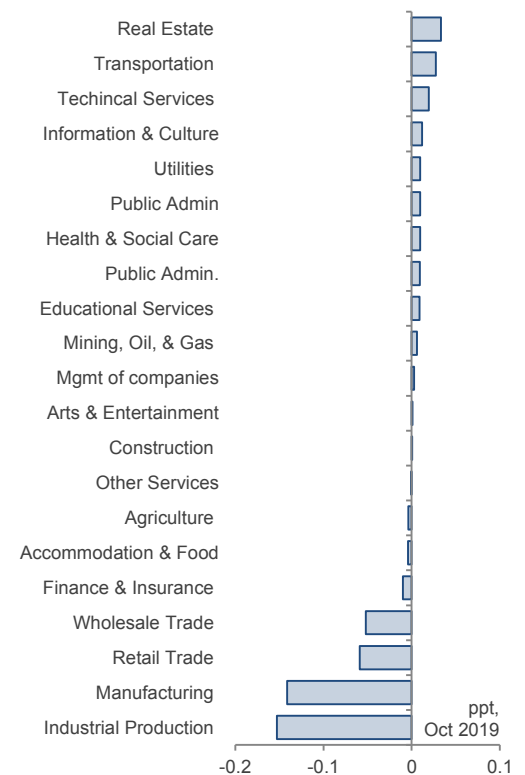
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com

Contributions to Canadian Real GDP Growth



Sources: Scotiabank Economics, Statistics Canada.

GDP growth in Q4 is tracking a small -0.16% q/q retreat at an annualized and seasonally adjusted rate using monthly GDP accounts. The next month's reading for November will trade off considerations such as the end of the GM strike effect (small positive) against knowns like the roughly 0.3% retreat in hours worked that matters since GDP is hours worked times labour productivity.

The drop in manufacturing was driven by 8 of 10 sub sectors and enough of them had little to nothing to do with the GM strike in the US. The direct effect of the GM strike on GDP was small in Canada. In weighted terms, motor vehicle manufacturing only knocked 0.01% off GDP and parts only subtracted another 0.01% for a combined total of 0.02 percentage points of softer GDP growth in weighted terms. It's feasible that other manufacturing sectors were indirectly hit by the strike, but here too, the candidates offer little weighted effect including machinery manufacturing (-0.04%), primary metals (-0.02%), plastics and rubber manufacturing (-0.03%) and fabricated metals (-0.03%). More important is that it's impossible to isolate the impact of the GM strike on these sectors and that several of these subsectors have had weak trends that pre-dated the GM strike. Recall that in addition to the impact of the US strike at GM, Canada's GM operations have been in long-term decline and the Oshawa plant

Overall the release continues to point toward significant downside risk to the BoC's 1.3% GDP growth forecast for Q4 that itself was soft and below potential. Actual growth is tracking around a percentage point weaker than the BoC's forecast and possibly more than that. Recall that the BoC would have known and incorporated the GM strike effect into its forecasts in the October MPR that was released on the 30th of that month. It also would have known and incorporated the effects of the GM plant closure this month.

More slack is emerging in the Canadian economy than the BoC anticipated and that portends slightly greater downside risk to inflation forecasts in 2020 that may merit an easing bias as per our forecasts.

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.