A Strong Q3 Is Baked In For Canadian GDP

- Q3 GDP already has a 20% gain 'baked in' before any Q3 data
- Next week will start the parade of third quarter readings...
- ...after Canada's economy beat expectations over May and June
- Under half (43%) of the covid-19 hit to GDP has been recovered
- The C$ jumped ¼ cent to the USD post-release
- GDP is tracking the BoC's recent forecast

Canadian GDP, m/m % change SA, May :
Actual: 4.5
Scotia: 3.5
Consensus: 3.5
Prior: -11.6
June preliminary estimate: +5% m/m SA.

Canada's economy is indeed going 'v' shaped in its recovery. Markets already saw that in a wave of higher frequency readings before lagging GDP confirmed it. The incremental information to this morning's release is not just that May and June GDP came in strongly, but also that **Q3 already has a strong expansion baked in before we even get any Q3 readings.**

With gains of 4.5% and 5% in May and June respectively, **Canada's economy has already recovered 43% of the covid-19 shock** and it only took two months to achieve this (chart 1). The gain in May was a full 1.5 percentage points above StatsCan's guidance on June 30th. Combined, the two months still leave behind a large hit from the pre-covid shutdown levels in February, but it confirms bullish readings we've been getting across other indicators.

For the quarter as a whole, Q2 GDP was down 12% q/q at a seasonally adjusted but non-annualized clip (-41% annualized). This decline obviously reflects the magnitude of the hit to March and April that front-loaded the decline before the recovery set in over May and June.

Before assessing what this means relative to BoC expectations, note that the quarterly GDP by expenditure figures could still be materially different and that's what the BoC forecasts in the MPR. That's because the production side doesn't consider *how* higher output was achieved whereas the expenditure-based figures also consider inventory and import drivers of growth. If the quarterly expenditure GDP accounts come in similarly to the 41% annualized drop in Q2 from the production side GDP accounts then our Q2 forecast tracked fairly well and so did the BoC's forecast for a 43% annualized drop. **Thus, there could be little to no incremental information here compared to the BoC's forecasts that were provided two weeks ago.** We'll find out when Q2 expenditure-based GDP lands on August 31st.

What is already baked in for Q3 Canadian GDP is a rise of 20.5% q/q at an annualized rate before we even get any Q3 data. That's based upon what we know in terms of the Q2 average levels and the way the quarter ended. Obviously it could swing either way, but I'm confident that the estimate will only rise from

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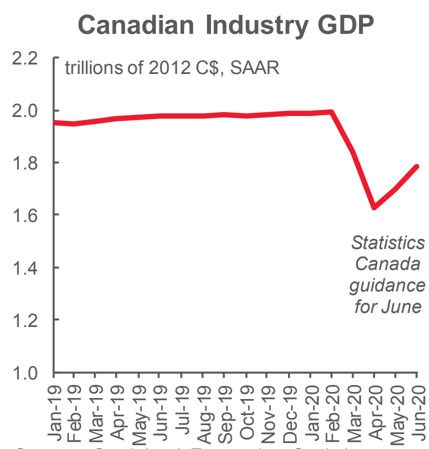
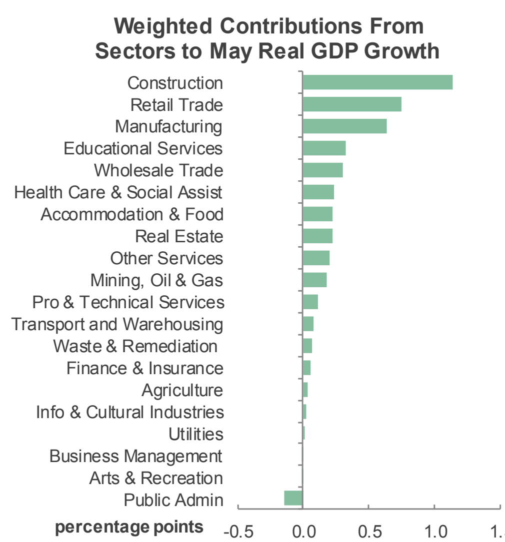
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

here based upon momentum in reopening plans by province. Go here for a useful rolling tally Regardless, before one data point has arrived for Q3, monthly GDP is already going 'V', quarterly GDP is on the cusp of going 'V' and the other high frequency readings have been there before lagging GDP.

The first Canadian readings for July start to arrive next week and will include the following.

1. Watch local real estate board reports for existing home sales for the larger cities ahead of the national tally the week after. This will help to inform expectations for ancillary services that facilitate resale transactions.

2. I've submitted +900k for my estimate of Cdn jobs next Friday. Reopening plans timed to the Labour Force Survey's reference period (the week with the 15th) point to a replay of the prior month. In fact, it's feasible that it comes in stronger. We'd still be down over 850k from February but up by 2.1 million from the April low.

3. The Ivey PMI for July also arrives on Friday after having gone vertical of late and recall this is different from other global PMIs in that it combines everything all together across public/private and all sectors. Expect it to follow the reopening timelines higher.

4. Then the week after next we get housing starts that should remain over 200k in keeping with the solid dwelling permit figures.

Details behind the May estimates and the June guidance are very constructive. In May, only arts and media (-2.9%) and public administration (-1.8) were materially lower while management of companies was roughly unchanged (-0.1%). All other sectors were higher. Chart 2 shows which sectors did the heavy lifting in terms of weighted contributions to overall GDP growth to account for relative sizes of the industries in addition to their growth. StatsCan’s verbal guidance for the preliminary June estimate was similarly constructive.