SCOTIA FLASH

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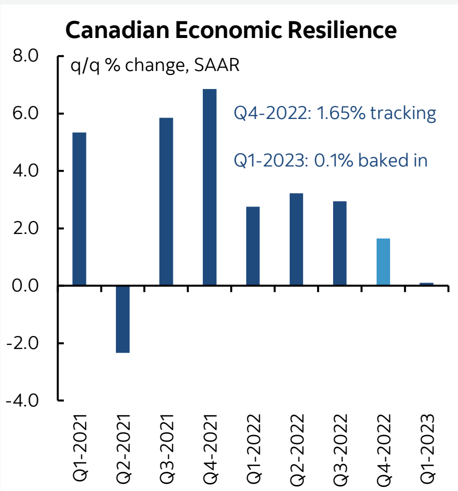
Contributors

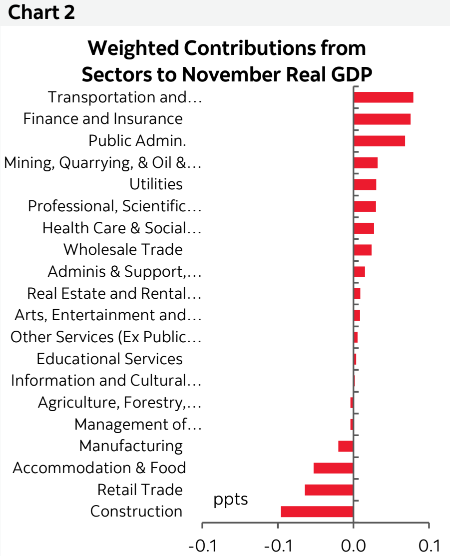
Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canada's Economy Remains in Excess Demand

- **Q4 GDP of 1.7% offers a soft transition to 2023Q1**
- **It's a baby step toward evaluating 2023 with the BoC on pause**

Canadian GDP, m/m % change, November, SA:
Actual: 0.1
Scotia: 0.2
Consensus: 0.1
Prior: 0.1
December guidance: "essentially unchanged" (ie: likely –0.1% to +0.1% m/m SA)

Canada's economy remains in a deep state of excess demand that may be very tentatively shifting toward opening up some slack. Having said that, we need to treat this possibility with a high degree of care. Consensus has felt this way toward Canada over prior quarters and thus far Canada's economy has consistently outperformed such expectations.

The economy remains in excess demand because Q4 GDP growth landed at 1.65% q/q at a seasonally adjusted and annualized rate using the monthly production-based GDP accounts. That kind of growth is broadly in line with guesstimates of the ability of the supply side to grow around a comparable rate and continues to illustrate trend resilience (chart 1). As production grows in line with the supply side's ability to feed it and neither more nor less than that the result is that Canada's economy has moved sideways in terms of capacity constraints on the Canadian economy. Canada needs to have a protracted period of economic growth undershooting potential GDP growth in order to open up slack in the economy and exert sustained downward pressure upon inflation. To date, we cannot say that is happening.

Will it into 2023? Probably, but this will only be informed by what actually data and we have nothing to go by thus far. All we can say to this point is that the way in which 2022 ended bakes in neither upside or downside momentum into the first quarter. There is no growth 'baked in' to Q1 GDP which means tracking Q1 GDP is now fully a matter of tracking evolving data to determine whether it will be an up or down quarter for overall activity in the economy.

This tracking is informed by the fact that November GDP was up by 0.1% m/m and December was reported as "essentially unchanged" by Statcan. That's their code language for basically anything from -0.1% m/m to +0.1% in December. Weighted contributions by sector are shown in chart 2. So if Q4 averaged growth of 1.65% and ended as guided then the math points toward a loss of momentum. We'll inform the up or down risks to this loose guidance as December goods sector data arrives and as Statcan more fully incorporates service sector performance.

The Bank of Canada would not view this batch of estimates as offering any new information to their refreshed forecasts from last week (MPR **here**). In it they had forecast Q4 growth of 1.3% q/q SAAR using expenditure-based GDP. Expenditure-based GDP growth can deviate from this morning's production-based GDP accounts. Production-based GDP does not take into account how higher output was achieved (e.g. more or less use of imported content) and where it went (ie: higher or lower inventories). Expenditure-based GDP does take account of such factors and so next week's trade figures will help to inform tracking of the BoC's forecasts and so will more complete inventory data.

For now, we've only taken a small baby step on the path toward evaluating the economy's performance with the central bank on pause as it does so.

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