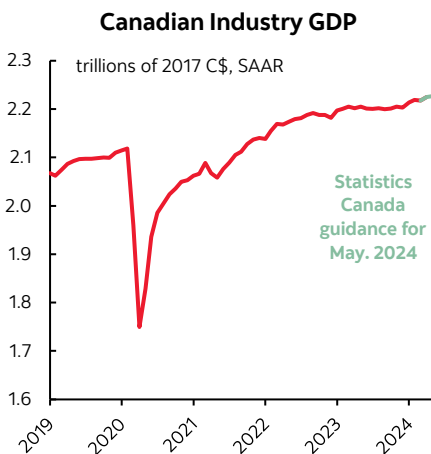


Contributors

Derek Holt

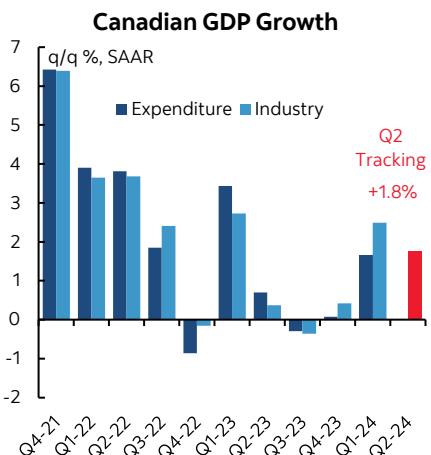
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Soft Core PCE, Persistent Canadian GDP Growth

- Markets react modestly to soft US core PCE inflation
- Markets largely ignored Canadian GDP

Canadian GDP, m/m % change, April, SA:

Actual: 0.3
 Scotia: 0.4
 Consensus: 0.3
 Prior: 0.0

May GDP 'flash' guidance: 0.1

Canada's economy offered few surprises except perhaps to the chronic over supply of Canada bears. The economy continues to expand with GDP up in four of five months with one flat print this year. Growth could always be better but chart 1 is out of sync with so much of the popular commentary from Canada bears.

The absence of material surprises has Canadian markets generally following the US tone in the wake of soft core PCE inflation (see below). CAD is flat to the USD on the day.

Canadian GDP Details

Growth of 0.3% m/m SA in April matched Statcan's prior flash guidance based upon partial sampling. The initial 'flash' reading for the month of May points to modest growth of 0.1% m/m SA.

Using the monthly production-side GDP accounts, Q2 GDP is tracking growth of about 1¾% q/q SAAR (chart 2) using known numbers to May and assuming June is flat solely for the purpose of evaluating what we know so far without imposing arbitrary judgement on June GDP in either direction when we have nothing to go by thus far.

What chart 2 also shows but not yet for Q2 is GDP growth using expenditure-based GDP accounts that also consider effects like inventory swings and more fully capture net trade.

Charts 3 and 4 show a breakdown of April GDP growth by sector in unweighted and weighted contribution to overall GDP growth terms. There was significant breadth to the growth during April.

There are no details or break downs ever provided for the preliminary reading for Canadian GDP in May, but Statcan guidance for May GDP is as follows: "Increases in manufacturing, real estate and rental and leasing and finance and insurance were partially offset by decreases in retail trade and wholesale trade."

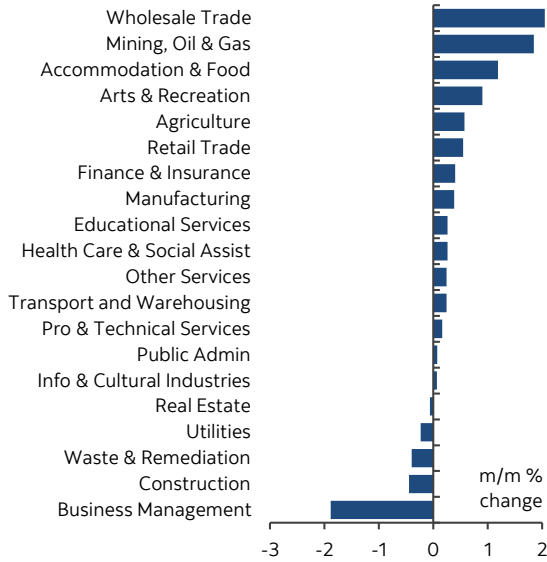
US Core PCE Inflation Was Soft, More Needed

US core PCE was little changed at 0.08% m/m SA to be exact, so the lighter side of 0.1 but rounded up on screens. Since this follows a trio of 0.3% m/m gains and 0.5% to start the year, the FOMC will require more evidence than just one report. There are three more CPI and two more PCE reports before the September 18th FOMC. See charts 5–9.

US nominal consumption was soft (0.2% m/m, 0.3% consensus) with a small downward revision to 0.1% m/m prior (from 0.2%). Real consumption was up 0.3% m/m which is solid. US real consumption is tracking only 1.4% q/q SAAR growth in Q2 based on data to May and assuming June is flat only to focus the math upon the effects of what we know so far without tilting the bias in either direction on June. Auto sales worry me for June spending. Industry tracking was already soft for sales before the CDK hack that seems to have had a sharp impact on dealers. I went with a m/m SA drop of over 6% for sales.

Chart 3

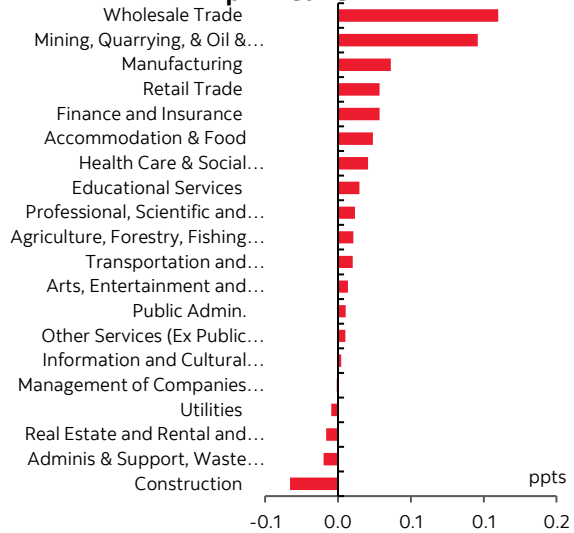
April Real GDP Growth by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

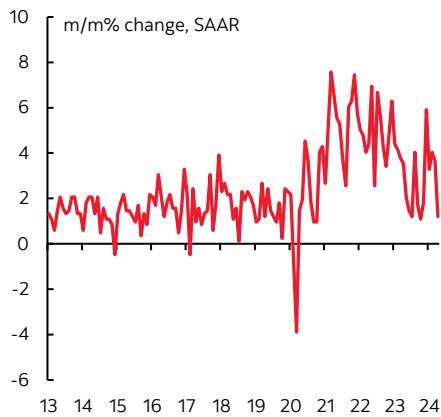
Weighted Contributions from Sectors to April Real GDP



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

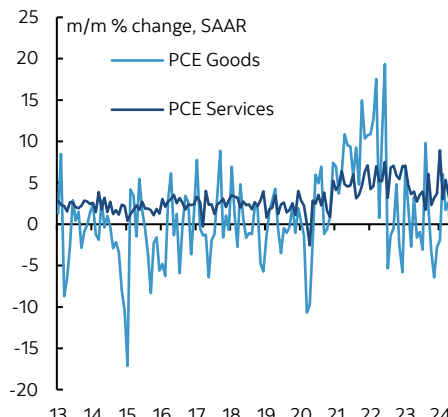
US Core PCE



Sources: Scotiabank Economics, Bureau of Economic Analysis.

Chart 6

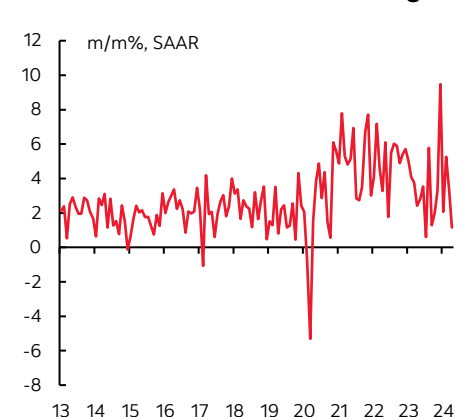
PCE Goods & Services Inflation



Sources: Scotiabank Economics, Bureau of Economic Analysis.

Chart 7

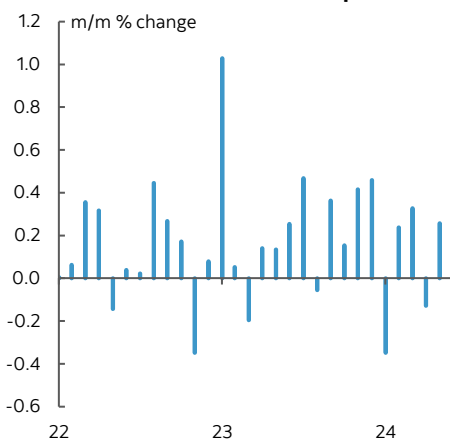
US PCE Core Services Ex-Housing



Sources: Scotiabank Economics, Bureau of Economic Analysis.

Chart 8

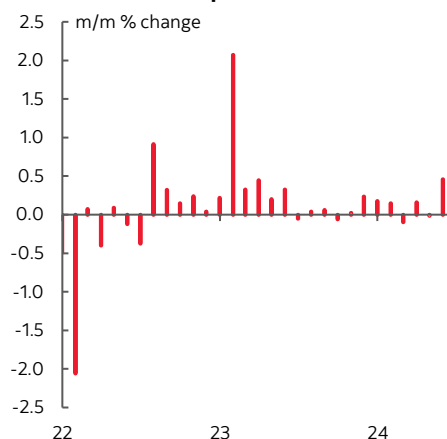
US Real Personal Consumption



Sources: Scotiabank Economics, US BEA.

Chart 9

US Real Disposable Income



Sources: Scotiabank Economics, US BEA.

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