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GLOBAL ECONOMICS

SCOTIA FLASH

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No Gold Medals For Canada's Economy

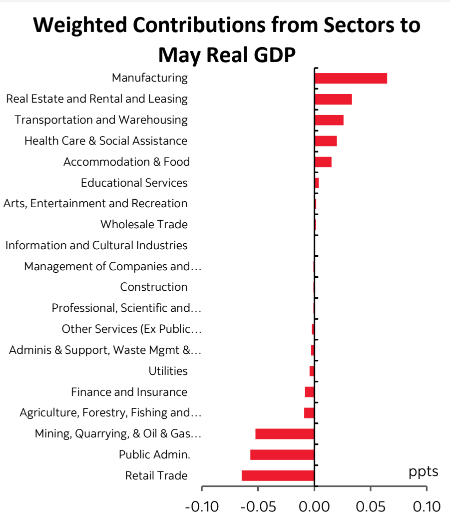
- **Canada's economy is treading water…**
- **…as Q1 tariff front-running gives way to Q2 payback…**
- **…requiring more H2 data to evaluate performance**
- **More evidence that US core inflation bottomed in March**

Canadian GDP, May, m/m % SA:
Actual: -0.1
Scotia: -0.2
Consensus: -0.1
Prior: -0.1
June GDP 'flash' estimate: +0.1

Canada's economy is treading water. Neither sinking, nor challenging Canada's world gold medal swimming superstar Summer Mcintosh. The figures are so distorted by tariff front-running and payback effects, weather, elections and perhaps postponed actions on expectations of fiscal goodies that they are largely meaningless in my opinion.

GDP shrank –0.1% m/m SA in May. That matched Statcan's initial estimate that they shared a month ago but we now have details as shown in chart 1. Tariff front-running likely explained the tiny contribution of manufacturing and perhaps ditto for transportation and warehousing. The election effect's unwinding explains the tiny drag from public administration. The rest of the sectors made very little contribution.

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

June GDP was tentatively estimated by Statcan at +0.1%. Details are never provided other than light verbal guidance: "Increases in retail trade and wholesale trade were partially offset by a decrease in manufacturing."

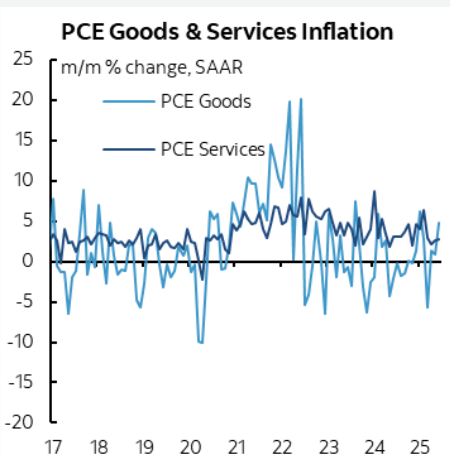
What it means for the Q2 depends upon which set of GDP accounts we use. Using monthly GDP figures based on income-based concepts, Q2 was flat (+0.1% q/q SAAR).

The BoC's forecast for Q2 in yesterday's MPR was for a contraction of 1½% q/q SAAR. What explains the difference? The BoC—and most forecasters—use expenditure-based GDP that does a more complete job of asking how the overall economy's income changed by incorporating figures for draw downs or expansions of inventories, and leakages or additions to GDP from import swings. Basically, the BoC is reasonably expecting that the inventory additions to GDP growth in Q1 and the higher imports that dragged on GDP in Q1 will reverse in Q2 on net. These are both related to tariff front-running and payback effects.

Nevertheless, Q2 GDP is still uncertain on an expenditure basis. We don't have the full quarter's trade figures with June out next week along with any possible revisions, and we don't have the full quarter's inventory figures among other readings. Our estimate of around no growth—or extremely little—will be further informed by more data.

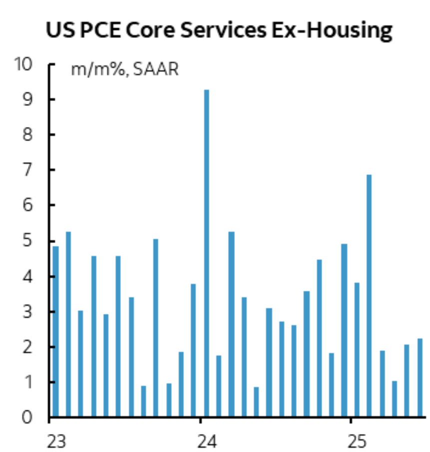
Separately, US core PCE inflation was up 0.26% m/m SA after 0.21% in May, leaving March's 0.1% as the low point into probably coming tariff effects. Services inflation remains sticky while goods inflation is picking up (charts 2, 3).

Chart 2



Sources: Scotiabank Economics, Bureau of Economic Analysis.

Chart 3



Sources: Scotiabank Economics, BLS.