

Contributors

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Chart 1

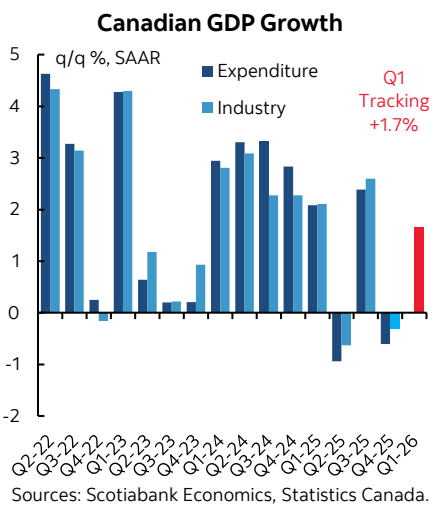
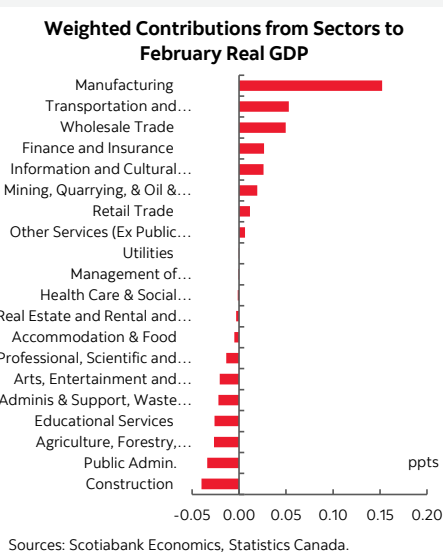


Chart 2



Bits and Bobs Across US-Canada Macro Reports

- Canada's economy rebounded in Q1
- Ignore Canadian SEPH payrolls, pay more attention to wages
- US GDP growth disappointed...
- ...as consumers save less to maintain a slowing consumption profile
- Core PCE inflation remains too hot...
- ...especially including core services inflation that Powell neglected to mention
- US ECI, claims and the unemployment rate

Canada's economy rebounded in Q1 and might be performing a smidge better than the Bank of Canada's published forecast yesterday. Still, it's backward data that settles nothing much other than to reject gloomier consensus views on the underlying performance of the economy coming into the start of the year.

The economy grew by 0.17% m/m SA rounded up to 0.2% on screens. Statcan's preliminary guidance for March was that GDP was unchanged, absent any details.

What this translates into is Q1 GDP tracking growth of 1.7% q/q SAAR (chart 1). This is a rebound from the 0.3% q/q SAAR contraction in Q4 with an asterisk beside both readings.

That asterisk speaks to the fact that we're using monthly, production-side GDP accounts. The BoC and the street focuses upon more complete quarterly GDP accounts that also consider how activity was generated, such as by considering swings in inventory investment.

The difference may be material. Q4 GDP in expenditure-based terms shrank by -0.6% q/q SAAR because inventory depletion drove a 4.2 percentage point weighted drag against GDP economy (chart 1 again). Final domestic demand excludes inventory effects and it grew by 2.3% q/q SAAR in Q4. We don't have the complete inventory and trade picture for Q1 yet and so there continues to be some tracking risk.

Chart 2 shows what drove February GDP. Manufacturing punched above its weight class while the rest was an evenly distributed mixture of small growth additions and drags. Some of the drags were weather oriented in my view, like construction, and maybe some of the leisure categories.

Chart 3

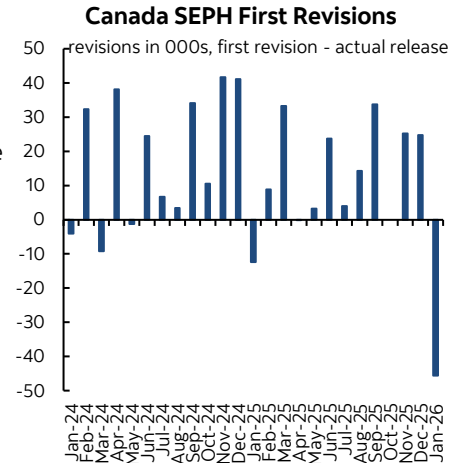


Chart 4

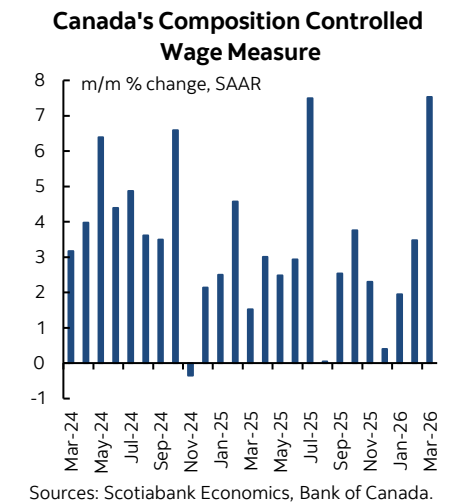
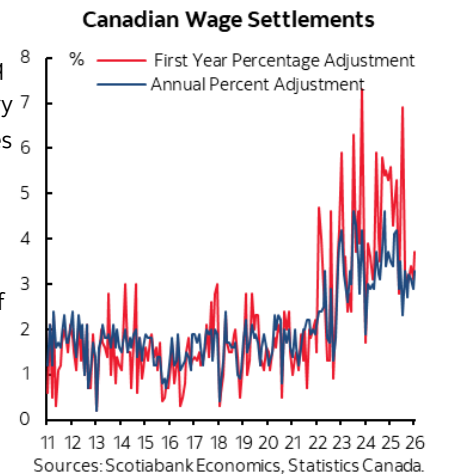


Chart 5



So, while GDP rebounded, it likely outpaced the supply side of the economy which will probably translate into a narrower output gap when we get the full set of Q1 GDP accounts.

And ignore Canada's SEPH payrolls report and its reported decline of 60k m/m in February. First, it's lagging, when we'll get the April Labour Force Survey next Friday. Second, it excludes off-payroll employers by definition, like many small businesses that are important in Canada. Third, it gets revised by tens of thousands of jobs each and every month (chart 3).

What's more interesting in Canada is that the Bank of Canada's figures for wage growth that control for compositional shifts surged last month according to their fresh estimates (chart 4). Canada is still very much in an upward wage spiral including the effects of expiring collective bargaining agreements struck 3-4 years ago that are cementing years of wage gains above the BoC's 2% inflation target going forward (chart 5). Canada is not the US in so many ways, one of which being the extended wage resets with triple the 10% unionization rate that exists stateside.

US

US releases were a little more interesting than Canada's. And my, what a list it is.

GDP growth disappointed. Q1 GDP was up by just 2.0% q/q SAAR (2.3% consensus, 3% Scotia). An import surge based on yesterday's advance merchandise import figures knocked over 2½ percentage points off of Q1 GDP growth as a higher leakage effect in the GDP accounting (chart 6). Housing and business investment in structures were roughly flat contributors. The government rebound was smaller than we were tracking using third party sources.

Still, final private domestic demand is key and it was solid (chart 7). Consumption didn't help much as the slowest pace of growth in a year was underwhelming and continued the slowing pattern (chart 8).

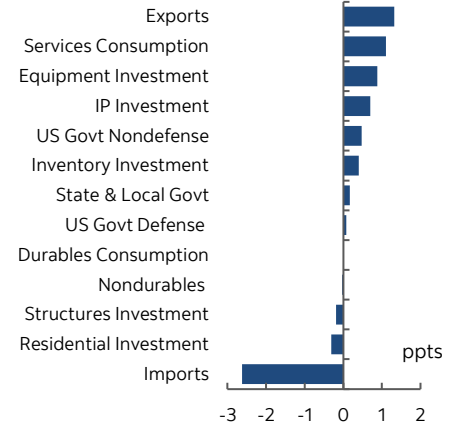
Investment ex-AI continues to decline in the US economy (chart 9). That could be because AI is soaking up cap-ex budgets with little else left, but the relatively narrow breadth of that spending might suggest otherwise. I still lean toward weak ex-AI investment as being driven by high uncertainty hanging over cap-ex budgets.

Alongside growth we have fresh figures on underlying inflation. Take a look at chart 10 and tell me Kevin Warsh won't get attacked on day one for not easing in June. He can't cut. He's faced with a rebellious Committee before he's even entered the room.

What Chair Powell neglected to mention yesterday was how hot the one-fifth of the inflation basket remains (chart 11). Core services price inflation remains far too warm to contemplate easing. Powell only referenced views on how tariffs and energy pass through risk would be temporary with some hopeful bias alongside this view. In the past he has also referenced core services inflation and this time did not.

Chart 6

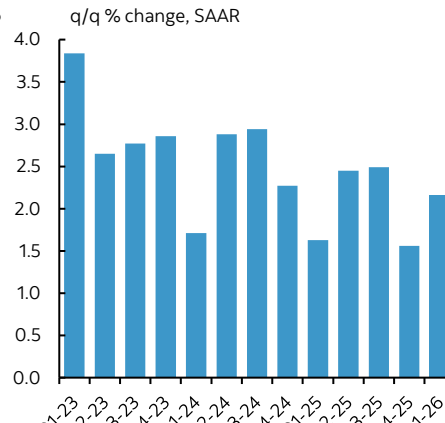
Contributions to Q1 US Real GDP



Sources: Scotiabank Economics, BEA.

Chart 7

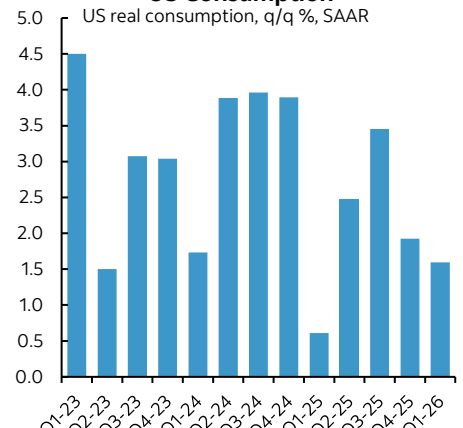
US Private Final Domestic Demand



Sources: Scotiabank Economics, BEA.

Chart 8

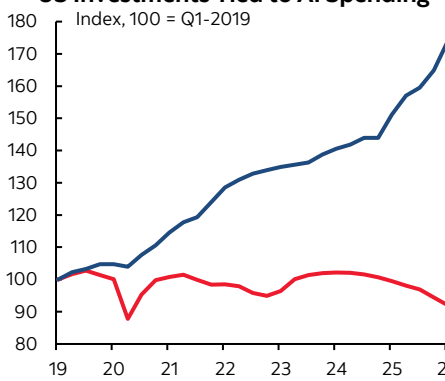
US Consumption



Sources: Scotiabank Economics, BEA.

Chart 9

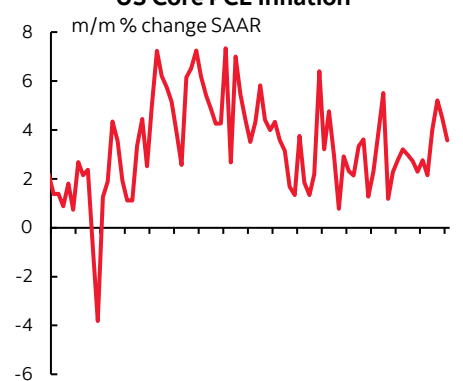
US Investments Tied to AI Spending



Sources: Scotiabank Economics, BEA.

Chart 10

US Core PCE Inflation



Sources: Scotiabank Economics, BLS.

So how are American consumers responding to higher inflation? By saving less. And less and less (chart 12). Disposable income growth in inflation-adjusted terms has weakened sharply over recent quarters (chart 13) and so to prop up cooling consumption growth they are saving less and with a negative wealth effect concentrated on falling real house prices added to the mixture.

Quick additional points include referencing the Q1 Employment Cost Index that grew faster than expected (0.9% q/q SA nonannualized, 0.8% consensus)—see chart 14—and a dip in initial jobless claims to 189k in the latest week while the drop in continuing claims into the nonfarm reference period suggests that the unemployment rate may fall again next Friday (chart 15).

Chart 11

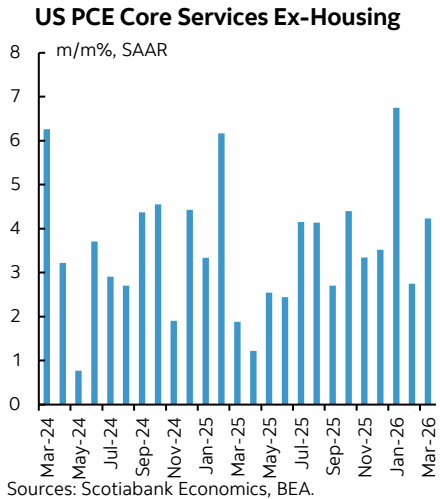


Chart 12



Chart 13

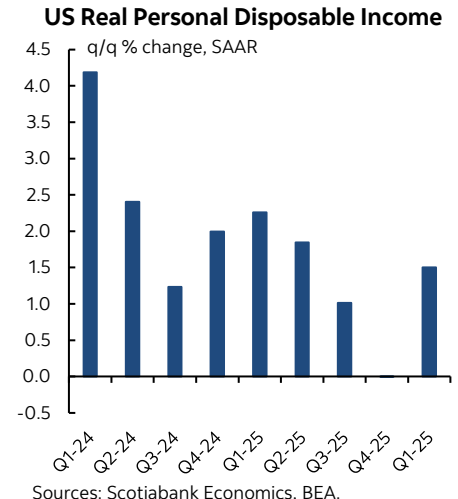


Chart 14

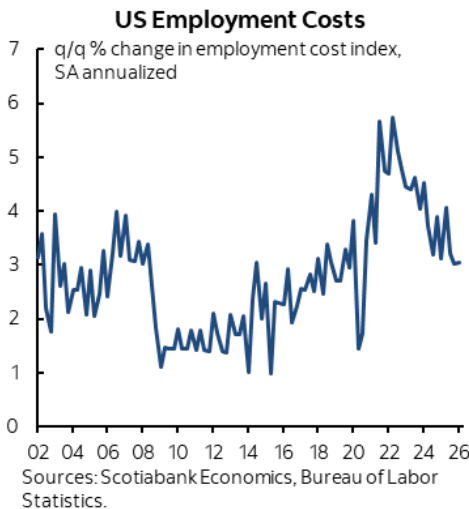
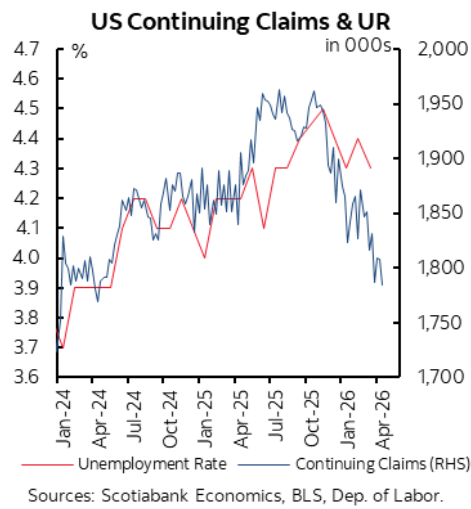


Chart 15



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