Weak Canadian GDP Supports BoC Caution — To A Point

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Canada, GDP, m/m % August:

Actual: -0.1

Scotia: 0.2

Consensus: 0.1

Prior: Unrevised from 0.0

- **A weaker than expected GDP estimate is backed by mostly soft underlying details.** In one respect, that's disappointing to my expectation (and most others) that Canada would register mild growth in August. In another, however, it just reinforces my bias that the BoC is on a prolonged hold and more so because of question marks hanging over the 2018 economy than a calendar quarter it can't do anything about anyway and only time will help to inform those risks. CAD depreciated by over half a cent versus the USD to 1.29 post-release. The currency has been depreciating versus the USD since the start of September and has depreciated by about 8½ cents since then and so clearly the momentum turned against the currency long ago and before either weak July and August GDP or a bias shift by the BoC first signalled via Poloz's comments at the conclusion of IMF meetings and then in the October MPR and statement.

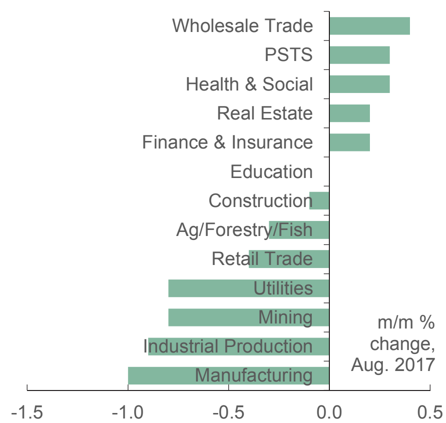
- **Q3 growth is now tracking 1.5% q/q SAAR. Using monthly GDP figures, Q2 growth just crossed 5% at 5.1% and so we'll watch for upward revision risk to the Q2 expenditure accounts that guided 4.5% growth.** Q3 growth is a touch softer than the BoC's downwardly revised 1.8% for Q3 so this will reinforce the BoC's cautious stance, but if Q2 growth is a little firmer than previously guided then the net effect is largely a wash. **I still believe one should be careful in not getting too gloomy on Canada's softened growth in Q3.** After 4.5% growth in Q2 (or, again, possibly stronger), what did you expect? Growth at the current tracking pace in Q3 is roughly in line with the BoC's estimate of the economy's noninflationary speed limit or 'potential' growth which leaves Q3 growth neutral to output gap considerations. The truer test will be hold the economy performs over the next couple of quarters once the child benefit distortions that helped super-propel GDP growth shake out of the figures.

- **Every goods-related sector contracted.** It's worth noting that manufacturing's decline of 1% m/m in sector GDP is strongly at odds with shipment volumes that did not translate well. Why? StatsCan observes that one reason for the drop in manufacturing GDP was as follows: "Declines reflected in part some lost capacity due to plant maintenance shutdowns" and so while manufacturers sent out more product via shipment volumes, output fell. Look for a strong manufacturing rebound next month as this effect shakes out even if it doesn't show up in strong shipments for September.

- Mining/quarrying fell 0.8% and has contracted for three straight months after a large 4.6% rise in May and so for the most part that sector is continuing to hit reset on a huge month but with little cause to abandon trend growth. Agriculture retreated by 0.3% and has not growth for three months. Utilities fell 0.8% but that's after a 1.7% rise.

- The broad services sector registered tepid growth of 0.1% but breadth of growth was not bad. Only 3 of 15 service subsectors contracted, two were flat, and ten registered growth. So the weakness was clearly on the goods side of the picture.

Real GDP - Canada



Sources: Scotiabank Economics, Statistics Canada.