

Canada Is Bringing Manufacturing Home As A Growth Driver

Canada, GDP, m/m % November:

Actual: 0.4

Scotia: 0.5

Consensus: 0.4

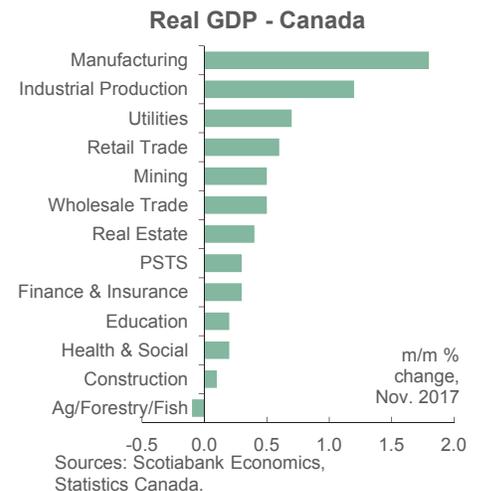
Prior: 0.0

- Strong growth in November combined with last week's further increase in core CPI ([here](#)) present evidence to somewhat hawkishly inform the BoC's data dependent posture in support of our forecast for another rate hike by Spring.** The economy grew at its strongest monthly pace since May and this materially raised tracking of Q4 growth.
- Manufacturing played a major role in driving growth (see weighted contributions below).** Indeed this is a global phenomenon backed by rising trend readings across purchasing managers indices drawn from the manufacturing sectors of numerous countries and regions. Canada is no exception to this which emphasizes how zero-sum trade policies have no role to play in today's global economy. Integrated global manufacturing operations of multinationals can indeed be a case of how a rising tide lifts all boats. The data did not add to pre-release momentum in CAD or the 2 year GoC yield but on net it reinforced a stronger currency and mild cheapening at the front end of the rates curve this morning.
- 17 of 20 sectors advanced and the broad details are at least as good as the headline.** The sector details slightly improved the dispersion of growth readings (see chart) but not by much because the weighted contributions were skewed.
- In weighted contribution terms, the goods sector accounted for about 58% of GDP growth in November and services accounted for the remainder. Within goods, manufacturing accounted for the lion's share and represented 45% of overall GDP growth during the month.** Within manufacturing, durable goods were up 2.5% m/m and led by autos as we saw in the manufacturing report for the month, while nondurables advanced by 1.1%. Manufacturing GDP has been trending higher since late 2016 and so some of the strength in November is transitory following prior shutdowns in the auto sector while some of it fits a trend. Across other goods sectors, the mining/quarrying and oil/gas extraction sector accounted for 9% of GDP growth. Utilities accounted for 4% of GDP growth, construction accounted for less than 1% of GDP growth and agriculture/forestry/fishing was a mild net drag on GDP growth.
- Within services, the biggest contributor to weighted GDP growth was real estate and rental/leasing that explained 13% of GDP growth during the month. Retail trade (about 8% of GDP growth), wholesale trade (about 7%), finance/insurance/real estate (about 5%) and the professionals category (4%) were the next biggest contributors to GDP growth.
- Growth tracking incorporating back months is now 1.7% q/q SAAR. That's up about a full percentage point compared to prior to the November figures.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

Scotiabank Economics
derek.holt@scotiabank.com



- **This is progress toward the BoC's 2 ½% Q4 GDP growth forecast in the January MPR but we'll still need a rather strong December reading or difference in GDP tracking sources to get there.** How strong? About 0.6% m/m, or tied with last May. I think that's unlikely, not least of which because the autos contribution is unlikely to repeat in December in my opinion since it largely reflected a transitory gain following prior shutdowns that were somewhat seasonally unusual. That doesn't mean the BoC's growth forecast is impossible to achieve but the risk is clearly skewed lower. Monthly GDP income-side figures often don't track expenditure-based GDP figures very well and differences of +/- ½% between the two are not uncommon and are sometimes bigger. Major reasons for this include the fact that the income side of the GDP accounts doesn't consider why production changed or how, like inventory investment changes or swings in import content.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.