Canadian GDP Beats Expectations, Adds To BoC Hike Risk

Canada, GDP, m/m % April:
Actual: 0.1
Scotia: -0.1
Consensus: 0.0
Prior: 0.3 unrevised

- The market moved to price in about 85% odds of a BoC hike on July 11th by adding an extra 3–4bps of tightening priced in for about 21bps of a ¼ point hike and CAD rallied by over half a cent post-GDP. **The figures were not expected to influence the BoC's July 11th decision but they certainly don't hurt either, especially given StatsCan guidance on weather disruptions that held back broad forms of economic activity in April.**
- **After 0.1% m/m growth in April (0.07% to be exact), CDN GDP growth is now tracking 1.7% q/q SAAR in Q2 using the monthly GDP measures assuming flat May and June readings to focus upon the effects of what is known by way of the Q1 hand-off and the start of Q2.** I had been tracking about 1% into the data and so this is a significant upside that restores growth to about the potential rate. There is likely further modest upside ahead in terms of the monthly tracking and translating that into quarterly GDP. On an expenditure accounts basis, we figure growth will be just over 2% q/q at an annualized rate in Q2. Recall that the BoC forecast Q2 growth of 2.5% in the April MPR. After revising its Q1 growth projection down from 2.5% in the January MPR to 1.3% in the April MPR, actual growth of 1.3% was on track and so the broad forecast narrative laid out in the April MPR is generally intact.
- **Breadth was decent.** 12 out of 20 industrial sectors advanced. On the goods side of the picture, output was up 0.2% m/m due to a 1.6% increase in utilities output but also a 0.8% pick-up in manufacturing while output in the ag/forestry/fishing category fell 0.4%, mining/oil/gas output fell 0.3% and construction declined by 0.5%. On the services side, output was flat overall with leading decliners including retail trade and the arts/entertainment/recreation sector which may have been influenced by the fact that only two Canadian hockey teams got into the playoffs in April this year. The leading gainers included health care, professional scientific and tech services and finance/insurance.
- **Even notwithstanding the upside to CDN GDP, StatsCan is fairly aggressively blaming weather distortions that cut both ways but more so as an explanation for why growth was not stronger yet.** Utilities output was up 1.6% m/m because it was colder than usual and yet retail sales were down as "colder-than-normal temperatures were a factor in the declines of store types associated with springtime activities." Construction was also down and food service/drinking places fell as "Weather conditions may have played a role". Gosh, ya think?! It wasn't exactly patio weather this Spring. Again, however, the hockey playoffs probably played a role on top of weather.
- **It's unlikely the data matters much to the BoC but it doesn't hurt the case for hiking.** For starters, Governor Poloz would have had a strong sense of today's print when he spoke on Wednesday and came across hawkishly.

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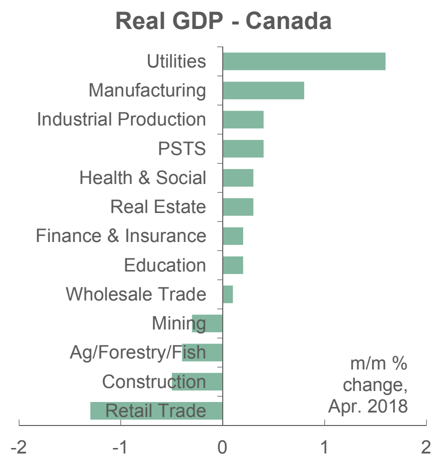

Sources: Scotiabank Economics, Statistics Canada.

Furthermore, recall that at his recent press conference, Governor Poloz emphasized how “hundreds of data points” are relied upon and not just a handful, that the broad “underlying narrative is correct” as laid out in the April MPR “which is quite reassuring” and against this bigger picture “the little picture is the bumps and wiggles” and “we don’t set monetary policy on the basis of those single data points.” The strong message to the markets is that data hits and misses that accumulate over time will be taken into consideration but that thus far there has been no material deviation from the BoC’s policy framework that suggests deviating from plans to tighten monetary policy.