

Canada's Economy Makes The C\$ Sparkle

Canada, GDP, m/m % July:

Actual: 0.2

Scotia: 0.2

Consensus: 0.1

Prior: unrevised from 0.0

- Canadian GDP growth came in better than consensus and in line with my estimate. **I think this reinforces Governor Poloz's generally upbeat tone last evening and keeps us on track for an October hike especially after removing transitory effects focused upon the energy sector that will revert higher in future months.** CAD rallied an extra quarter cent versus the USD after the release and is now about $\frac{3}{4}$ of a cent firmer on a USDCAD basis than before Poloz spoke last evening. The C\$ is now at the top of the class among currency pairs to the USD today and is therefore the strongest performing major currency. Short-term Canadian yields increased and are now underperforming the US in the 2s bucket by about 2bps on the day.
- Energy dragged things lower again with the broad mining/oil/gas sector down 0.3% m/m. Within that, oil/gas extraction fell 1.2% m/m for a second consecutive month. To repeat, this is a transitory effect. Statscan states: "The main reason for this decrease is the 3.2% decline in non-conventional oil extraction, resulting in part from maintenance work at a production facility affected by a power outage in the latter half of June." They are referencing Syncrude's effects and they are a temporary factor.
- Indeed, underlying growth excluding the mining/energy sector's temporary problems was 0.3% m/m in July after 0.1% growth in June such that the economy is performing better than the headline growth number indicates. By the same measure that excludes this sector, quarterly growth is tracking 2.1%.
- Breadth was ok as 12 of 20 sectors advanced. That said, we can look past the energy hit, and two of the sectors that dipped did so trivially (rounding to -0.0% m/m) and so breadth is a bit better than the 12 of 20.
- However, what is also a transitory factor is that utilities output was up 2.1% m/m due to a hotter and drier than usual summer across much of the country. That was a downside surprise that a model can't consider, but take that sector out, and GDP growth still rounds up to 0.2% m/m because utilities only have about a relatively trivial $2\frac{1}{4}$ % weight in GDP.
- The BoC should be pleased with such growth. If we get just 0.1% average monthly gains in August and September, then we'll get Q3 growth of 2–2.1% versus the July MPR's 1.5% and that suggests some upside risk to their projections. This, of course, is subject to the usual issues when using monthly GDP to draw inferences for quarterly expenditure-based GDP growth that, among other things, needs a fuller quarterly view on inventory management.
- While utilities led the way, there was also a strong advance in manufacturing (1.2%), wholesale (1.4%), transportation/warehousing (0.9%), real estate/rental/leasing (0.3%), management of companies (0.3%), and three sectors that grew by 0.2% (professional/scientific/technical services, admin support/waste mgmt, accommodation and food services and 'other' services). Education, health and information/culture industries were all flat. Contractions included arts, entertainment and rec (-1.9%), finance and insurance (-0.3%) and retail (-0.1%).

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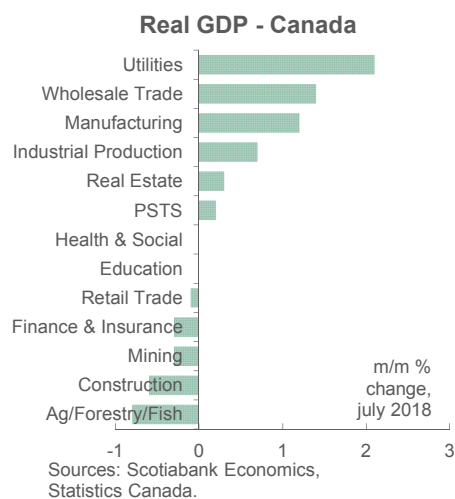
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