

# Economic Watch

## Canada

2 March 2012  
Economic Analysis

US

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### Canada Monthly GDP by Industry: Monthly Situation Report

- Both industry and expenditure-based GDP increased 0.4% MoM and QoQ, respectively. The strong 2011Q4 number reflected the abatement of transitory factors including mining, oil and gas retooling and renormalization of auto-industrial supply chains, which coalesces with our expectations for modest Canadian growth in 2012.
- On balance for 2011, the Canadian economy continued to chug along—1.8% since December 2010. Strong nonresidential business fixed investment, consumption and residential construction continued to buttress slowing global growth. However, GDP growth has slowed from the torrent pace of 2010. Regardless of the domestic boost to GDP, Canada remains largely dependent on external economic conditions, for example, a shock to exports such as a US slowdown, geopolitical event in Iran, continued slack in emerging markets, or a messy European austerity implementation.

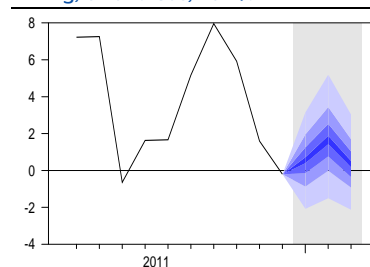
#### Breakdown of the Recent Data

The December release largely reflects our previous expectations regarding Canadian GDP. Strong housing activity, consumer spending and auto production buoyed retail trade, manufacturing and construction. Furthermore, much of the downside surprises of the previous month abated such as Mining, Oil, and Gas and wholesale trade. Also of note, the utility contribution to GDP continues to drop (1.0%MoM), although unseasonably warm weather conditions appear to explain a large portion of the decline.

#### Upcoming Trends

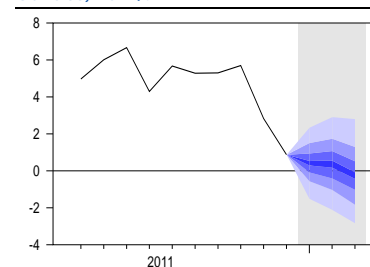
The trend for Canada appears more stable than previously thought and thus our revised expectation for January is for 1.9% YoY growth. The revision reflects improved expectations regarding oil and gas extraction (0.5%YoY), construction (2.6%YoY), manufacturing (2.9%YoY), and retail trade (2.3%YoY). Utilities contribution to GDP continues to be paltry and given that the unseasonably hot winter it is unlikely that utility growth will surprise to the upside. In addition, oil price increases and strong early year demand for autos could further boost January GDP

Chart 1  
Mining, Oil and Gas, YoY %



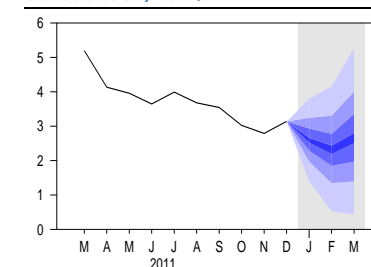
Source: BBVA Research

Chart 2  
Utilities, YoY %



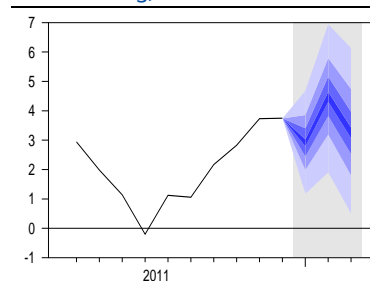
Source: BBVA Research

Chart 3  
Construction, YoY %



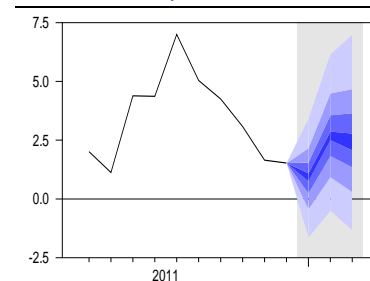
Source: BBVA Research

Chart 4  
Manufacturing, YoY%



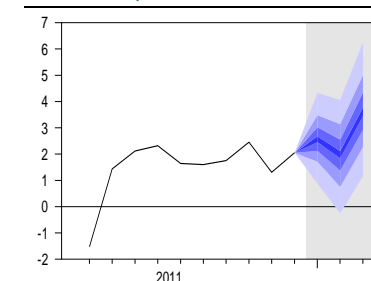
Source: BBVA Research

Chart 5  
Wholesale Trade, YoY %



Source: BBVA Research

Chart 6  
Retail Trade, YoY%



Source: BBVA Research

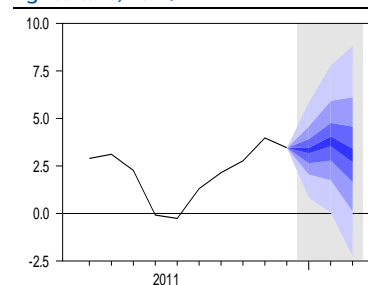
### Contribution to Growth

Much of the themes throughout 2011 continued in December. PCE contributed 0.4%MoM, exports contributed 0.4%MoM— albeit at a lower than historic pace— and business fixed capital investment increased 0.3%MoM. Although government spending slowed, there is no indication of further fiscal contraction in 2012. On imports, it appears the increased domestic consumption could continue to counterbalance gains in exports. Consumption moving forward may be limited by high levels of household debt.

### Bottom Line

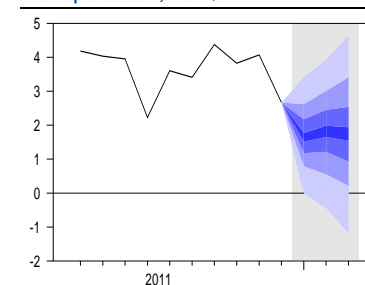
Given the rebound in December and upward revision to 3Q11 GDP, it appears Canada's current growth trajectory will persist. However, there are global risks that threaten 2012 growth. Nevertheless, if external economic conditions remain favorable and domestic demand continues to boost consumption, 2012 growth is likely to be similar to that of 2011.

Chart 7  
Agriculture, YoY %



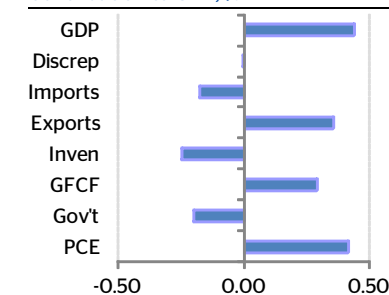
Source: BBVA Research

Chart 8  
Transportation, YoY %



Source: BBVA Research

Chart 9  
Contribution to GDP, %



Source: Statistics Canada

Chart 4  
Model Deviations

	Agriculture	Mining, Oil & Gas	Utilities	Construction	Manufacturing	Goods-Producing	Wholesale Trade	Retail Trade	Transportation	Information and Cultural	Financial	Other	Services-Producing	Total
Deviation	2.7	1.2	-1.3	0.6	0.9	0.8	1.7	0.4	0.3	0.0	0.2	0.0	0.2	0.4
2M Prev	2.8	5.9	5.7	3.0	2.8	3.6	3.1	2.5	3.8	0.7	2.6	1.4	2.1	2.5
1M Prev	4.0	1.6	2.8	2.8	3.7	3.1	1.6	1.3	4.1	0.6	2.1	1.5	1.8	2.2
Actual	3.5	-0.2	0.9	3.1	3.7	2.7	1.5	2.1	2.7	0.1	2.1	1.4	1.7	2.0
Predicted	0.8	-1.4	2.2	2.6	2.8	1.9	-0.1	1.7	2.3	0.1	2.0	1.4	1.5	1.6
Next	3.3	0.5	0.4	2.6	2.9	2.2	0.8	2.6	1.7	0.0	1.9	1.5	1.6	1.8

Note: "Goods-Producing" represents the sum of the individual components, not the official goods-producing headline series. We estimate a  $\pm 0.2\%$  statistical discrepancy to total YoY GDP growth due to an aggregation effect, which is not included above.

Source: BBVA Research