

# Economic Watch

## Canada

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Economic Analysis

US

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

- Industry based Canadian GDP increased 0.1%MoM after increasing 0.5%MoM in December. On a YoY basis the Canadian economy expanded at a rate of 1.7% (BBVA: 1.8% Consensus: 1.7%). The moderate increase is consistent with our expectations of a persistent but declining output gap throughout 2012.
- Moderating residential construction, oil and gas extraction, and financial services could provide ammunition for interest rate doves. In other words, although inflation has crept up in recent months, data on growth exhibits a moderating trend. Internal growth dynamics are slightly stronger than expected, but they may be overshadowed by potential external shocks.

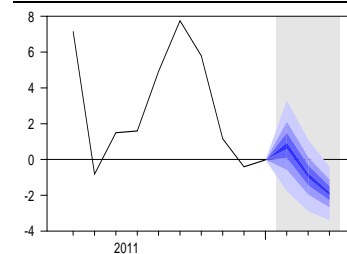
#### Recent Data

Canadian GDP showed disparate signs in January. For example, manufacturing increased 1.0% MoM, contributing to 72% of the January growth. Construction, although negative in January, was bolstered by a 0.2%MoM increase in non-residential construction, which previously had been weak. Excluding oil and gas, mining remained strong increasing 0.6%MoM. However, the price pressures in natural gas markets resulted in a 1.0% reduction in oil and gas extraction. Benefiting from the price reductions was utilities which increased 0.9%MoM.

#### Upcoming Trends

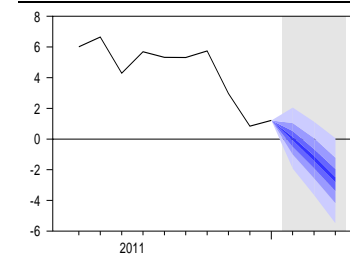
On trends, given the high degree of consumer leverage, manufacturing will likely look to external demand if its growth rate is to continue. On the other hand, the service producing sector will likely benefit from consumer expenditures in the short-run. Alternatively, the pull-back in residential construction could suggest the consumer will pull-back in certain areas of their balance sheets. Lastly, the hot winter and downward pressures on natural gas prices will likely weigh on oil and gas extraction in 2012. Whether or not utilities will continue to take advantage of price pressures is unclear.

Chart 1  
Mining, Oil and Gas, YoY %



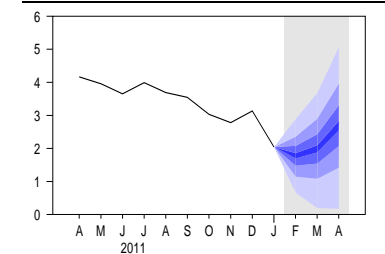
Source: BBVA Research

Chart 2  
Utilities, YoY %



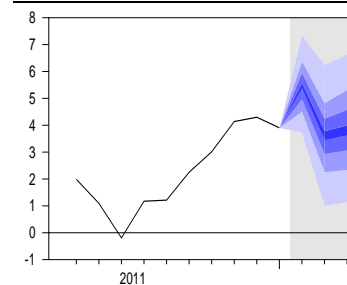
Source: BBVA Research

Chart 3  
Construction, YoY %



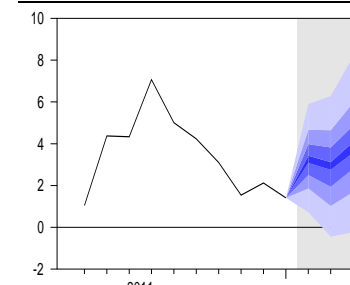
Source: BBVA Research

Chart 4  
Manufacturing, YoY %



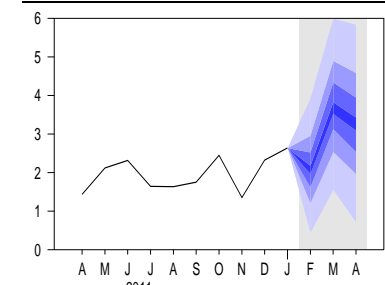
Source: BBVA Research

Chart 5  
Wholesale Trade, YoY %



Source: BBVA Research

Chart 6  
Retail Trade, YoY %

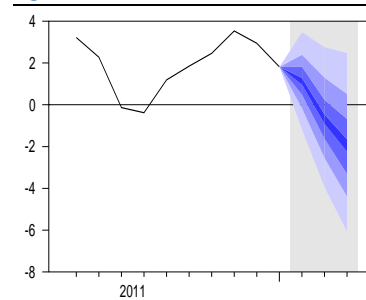


Source: BBVA Research

### Contribution to Growth

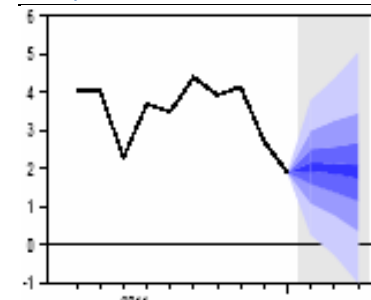
Manufacturing continues to be a large contributor to growth (72%). For example, chemical production, primary and fabricated metals, and machinery have increased every month since October 2011, and on aggregate, increased 1.4% in January. However, declining natural gas prices have influenced manufacturing, which resulted in a -18.0% share of this month's GDP. On construction, non-residential construction positively contributed to GDP for the first time since 1Q11. The increase helped to offset the downtrodden residential construction.

Chart 7  
Agriculture, YoY %



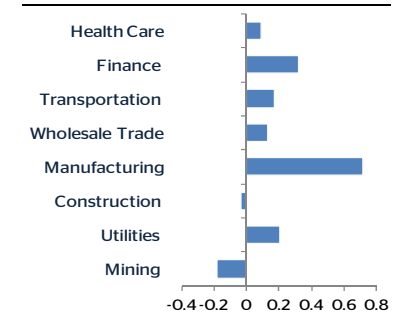
Source: BBVA Research

Chart 8  
Transportation, YoY %



Source: BBVA Research

Chart 9  
Contribution to GDP, %



Source: Statistics Canada

### Bottom Line

Next month the Bank of Canada (BoC) will release their quarterly Monetary Policy Report outlining their expectations for the coming quarters. The monthly data suggests a slightly better quarter than expected by both our forecasts and BoC's, biasing our expectations to the upside. Revisions to GDP data imply a bit smaller output gap and higher oil prices will cause a small upward revision to their inflation forecasts. Employment indicators are trending slightly worse, although not a part of BoC's target. Nonetheless, as the BoC has outlined, downside risk remains and suggest more jawboning by BoC of inflation and a slight pulling forward of rate futures. However, given the uncertain outlook, we are maintaining our expectations of a next rate hike in 2013 until conditions improve substantially for a significant time period.

Chart 4  
Model Deviations

	Agriculture	Mining	Utilities	Construction	Manufacturing	Goods-Producing	Wholesale Trade	Retail Trade	Transportation	Information	Financial	Other	Services-Producing
Deviation	-15	-05	08	-06	10	02	06	00	02	01	00	-01	01
2M Prev	35	12	30	28	41	32	15	14	42	06	21	15	18
1M Prev	29	-04	08	31	43	28	21	23	27	01	21	14	18
Actual	18	00	12	20	39	25	14	26	19	02	19	15	16
Predicted	33	05	04	26	29	22	08	26	17	00	19	15	16
Next	11	08	00	18	54	30	33	21	20	-01	18	15	17

Note: "Goods-Producing" represents the sum of the individual components, not the official goods-producing headline series. We estimate a ±0.2% statistical discrepancy to total

Source: BBVA Research