

Economic Watch

Canada

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Economic Analysis

US

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Canada Monthly GDP by Industry: Monthly Situation Report

- The February Canada industry based GDP release surprised to the downside, declining 0.2%MoM (Consensus: 0.2%). Much of the downward correction was related to potash and nickel mine shutdowns (mining oil& gas), unseasonably hot winter (utilities), reduced output of chemical and rubber products (manufacturing), and decreased transportation support activities.
- The slowdown in February suggests that growth for 1Q12 will be well below BoC expectations and for that matter below market expectations. As of now, it would take 1.0%MoM or 2.5%YoY growth in March to be in line with the BoC's quarterly GDP expectations. For us, this release suggests possible structural weaknesses and a greater negative bias than previously anticipated. Thus, we now expect the QoQ growth of below 2.0% in 1Q12. Moreover, given the sharp downward correction and increased likelihood of an enduring output gap, we reaffirm our forecast for interest rate increases no earlier than 2013.

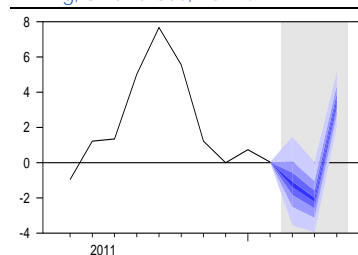
Recent Data

The February industry based GDP data surprised to the downside in categories which had been contributing positively to the Canadian economy. For example, manufacturing declined on a MoM basis for the first time since August 2011. Moreover, mining, which had been a positive contributor to growth in 4Q11 and early 2012 declined 7.0%MoM. Transportation support activities were also uncharacteristically weak given their recent trends. Construction, however, remained strong with 0.5%MoM growth.

Upcoming Trends

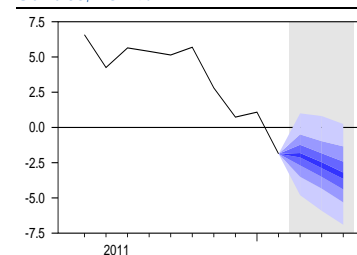
Given that much of the downward correction was due to shutdowns in specific activities such as mining and manufacturing it is hard to declare the February decline a trend. Nonetheless, there are some structural weakness that are concerning. First, crude oil price distortions appear to have had real effects in February, as exploration activity slowed. Second the price collapse of natural gas has led to slowed exploration and expanding storage levels. Last, the energy price distortions appear to be impacting manufacturing and transportation support activities.

Chart 1
Mining, Oil and Gas, YoY %



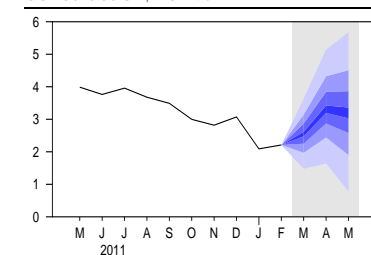
Source: BBVA Research

Chart 2
Utilities, YoY %



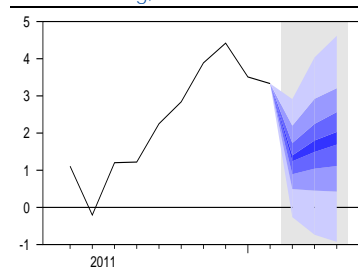
Source: BBVA Research

Chart 3
Construction, YoY %



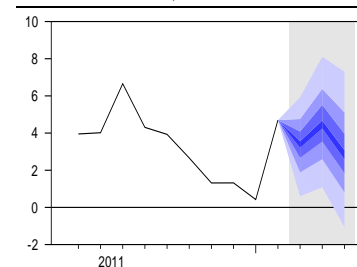
Source: BBVA Research

Chart 4
Manufacturing, YoY %



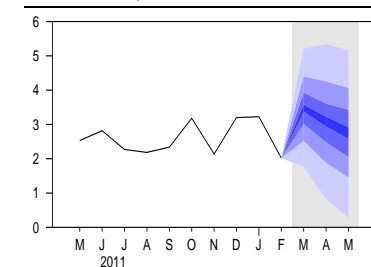
Source: BBVA Research

Chart 5
Wholesale Trade, YoY %



Source: BBVA Research

Chart 6
Retail Trade, YoY %



Source: BBVA Research

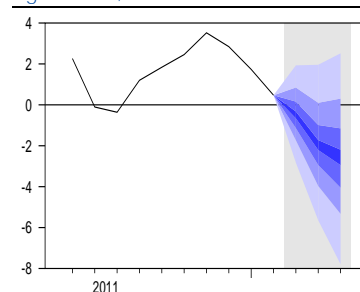
Contribution to Growth

The sharp contraction in Manufacturing greatly contributed to the MoM decline. In contribution terms, the February decline in Manufacturing reduced the monthly output by .15pp whereas financial activities added .08pp. Construction also, contributed positively to growth (0.03pp). Other industries of note were utilities which continued to contribute negatively to growth (0.05pp), transportation which reduced output by 0.04pp, and wholesale trade which added .09pp to growth.

Bottom Line

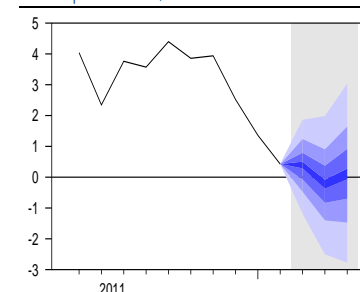
February GDP is likely to be a consensus shifting release. Last week markets digested the communication from the BoC that suggested interest rate adjustments could be seen as early as the end of the summer. This shift in communication also arrived with a forecast of 2.7%, 2.3% and 2.5%YoY growth for 2012Q1 to Q3, respectively. Now upon digesting this GDP release, 2.7% growth is statistically improbable and thus growth is likely to be at least **0.5%pp less than the bank's most recent forecast in 1Q12**. Furthermore, the downside risks scenarios of the BoC, specifically inefficient energy prices, appear to be affecting real activity. In total, the recent release almost assures **1Q12 GDP will be below the BoC's expectations** and thus interest rate futures will retrace their gains.

Chart 7
Agriculture, YoY %



Source: BBVA Research

Chart 8
Transportation, YoY %



Source: BBVA Research

Chart 9
Contribution to GDP, (pp)

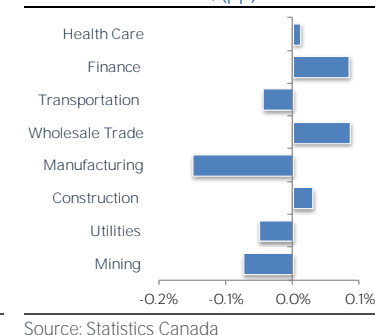


Chart 4
Model Deviations

	Agriculture	Mining	Utilities	Construction	Manufacturing	Goods-Producing	Wholesale Trade	Retail Trade	Transportation	Information	Financial	Other	Services-Producing	Total
Deviation	-1.3	-0.7	-3.0	0.1	-0.2	-0.6	4.3	-1.2	-0.9	-0.2	0.2	-0.1	0.2	0.0
2M Prev	2.8	0.0	0.7	3.1	4.4	2.9	1.3	3.2	2.5	0.1	2.1	1.3	1.7	2.1
1M Prev	1.7	0.7	1.1	2.1	3.5	2.4	0.4	3.2	1.4	0.3	1.8	1.4	1.5	1.8
Actual	0.5	0.0	-1.9	2.2	3.3	1.8	4.7	2.0	0.4	0.1	2.0	1.3	1.7	1.8
Predicted	1.7	0.7	1.1	2.1	3.5	2.4	0.4	3.2	1.4	0.3	1.8	1.4	1.5	1.8
Next	-0.5	-1.2	-2.0	2.5	1.3	0.7	3.3	3.5	0.4	0.5	2.5	1.5	2.0	1.6

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 YoY

Source: BBVA Research