

Economic Watch

Canada

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Economic Analysis

US

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Canada GDP: Monthly and Quarterly Situation Report

- March industry based GDP bounced back (0.1%MoM) after declining 0.2%MoM in February. On the goods producing side strong manufacturing and continued growth in construction spending buoyed the last month of the quarter. In addition, on the service producing side wholesale and retail trade remained strong.
- Quarterly GDP was in line with consensus estimate of 1.9% at an annualized rate. Last quarter's GDP was also revised up to 1.9% from 1.8%. In total, much activity remained relatively unchanged; imports continued to rise while exports slowed, business investment remained robust – investment in plant equipment increased 1.2%QoQ and investment in housing increased 2.9%– and consumer demand continued to expand, although at a pace below that of the previous quarter.

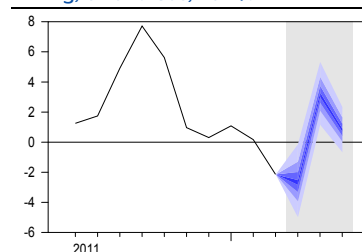
Recent Data

The recent industry-based data has been mixed. Mining, oil, and gas disappointed given the regional shutdowns and natural gas and crude price pressures. Also, utilities output has declined due to unseasonably hot weather. On the plus side, manufacturing, retail trade, construction, and wholesale trade have continued to produce above-average growth. Specifically, wholesale trade expanded 4.2% and 3.9% in February and March, respectively, while retail trade expanded 3.9% and 3.5% in the aforementioned period.

Upcoming Trends

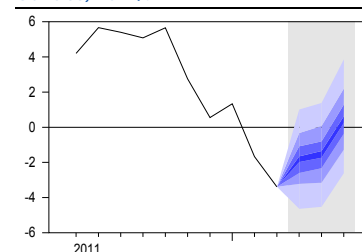
Given the persistence of recent trends—growing imports, declining exports, yet strong business investment and domestic demand— it is likely that Canada will maintain its middling growth trajectory. Growth of around 2% is below BoC's previous reported expectations and thus it is likely that the closing of the output gap will take longer than previously anticipated. If, however, external demand somehow rebounds and the competitiveness challenges abate, it is possible that Canadian GDP could surprise to the upside in 2H12.

Chart 1
Mining, Oil and Gas, YoY %



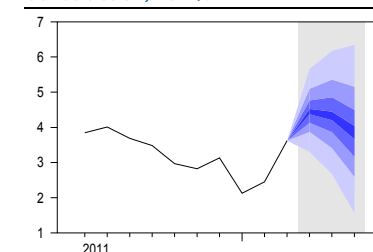
Source: BBVA Research

Chart 2
Utilities, YoY %



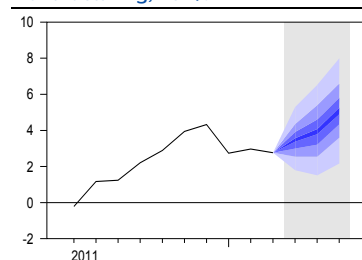
Source: BBVA Research

Chart 3
Construction, YoY %



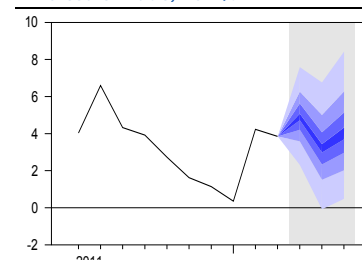
Source: BBVA Research

Chart 4
Manufacturing, YoY %



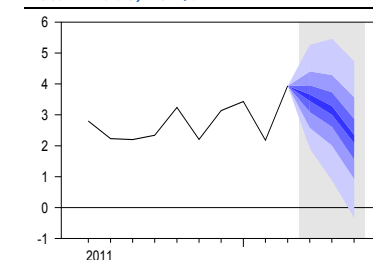
Source: BBVA Research

Chart 5
Wholesale Trade, YoY %



Source: BBVA Research

Chart 6
Retail Trade, YoY %



Source: BBVA Research

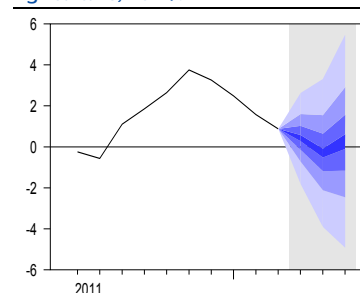
Contribution to Growth

Business gross investment was a large contributor to the 1Q12 growth. In terms of quarterly expenditure-based GDP, non-residential structures and equipment investment grew 1.2%QoQ in addition to residential investment (2.9% QoQ). Exports remained positive while imports climbed 1.1%QoQ. To no surprise, Government expenditure declined 0.4% QoQ. In terms of monthly industry contributions to growth, manufacturing was the standout contributing 0.12pp to overall growth. Wholesale trade grew 3.9% MoM yet only contributed 0.4pp. Mining offset gains by 0.7pp.

Bottom Line

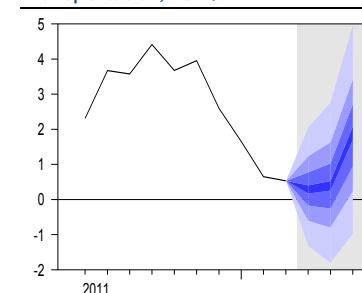
The March industry-based GDP estimates and strong quarterly report suggest that, while below BoC expectations, growth is still auspicious. Furthermore, given the extremely negative external demand pressure and a slight slowdown in US growth, 1.9% QoQ annualized growth is acceptable given all these pressures. In the long-run, however, Canadian exports must rise if growth is to accelerate. This necessitates stronger emerging market demand and more importantly strong and sustained growth in the US. Domestic consumption is partially buoying overall growth in the short-run, but the high levels of borrowing associated with this growth partially financed by low borrowing costs suggests consumers are somewhat saturated with debt. Thus, given the slight downward underperformance over the last two quarters, and slight structural weakness, we maintain that BoC overnight rate will remain unchanged in 2012.

Chart 7
Agriculture, YoY %



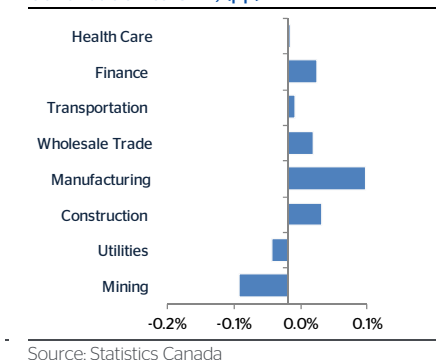
Source: BBVA Research

Chart 8
Transportation, YoY %



Source: BBVA Research

Chart 9
Contribution to GDP, (pp)



Source: Statistics Canada

Chart 4
Model Deviations

	Agriculture	Mining	Utilities	Construction	Manufacturing	Goods-Producing	Wholesale Trade	Retail Trade	Transportation	Information	Financial	Other	Services-Producing	Total
Deviation	-0.7	-2.3	-1.7	1.2	-0.2	-0.4	-0.4	1.8	-0.1	0.3	0.3	0.1	0.2	0.1
2M Prev	2.5	1.1	1.3	2.1	2.7	2.2	0.4	3.4	1.7	0.4	1.8	1.5	1.6	1.8
1M Prev	1.6	0.2	-1.7	2.5	3.0	1.9	4.2	2.2	0.7	0.2	2.0	1.5	1.8	1.8
Actual	0.9	-2.1	-3.4	3.6	2.8	1.4	3.9	3.9	0.5	0.5	2.2	1.5	2.0	1.8
Predicted	1.6	0.2	-1.7	2.5	3.0	1.9	4.2	2.2	0.7	0.2	2.0	1.5	1.8	1.8
Next	0.4	-2.6	-1.9	4.5	3.5	1.9	4.9	3.5	0.3	0.5	2.5	1.5	2.1	2.1

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

Source: BBVA Research