

Contributors

Derek Holt

VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1

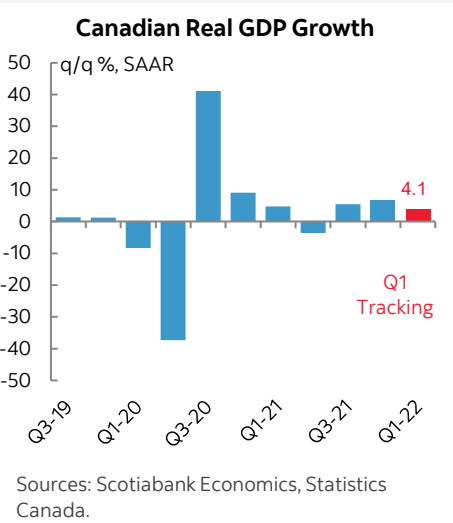
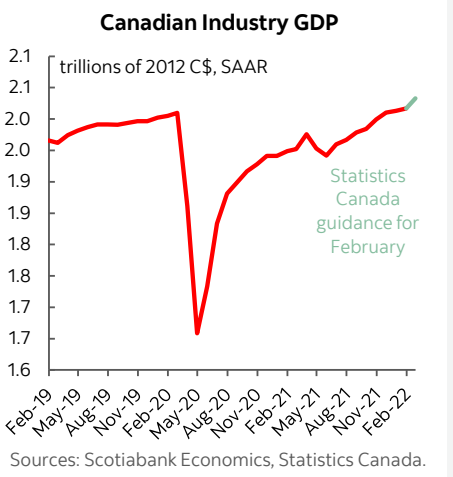


Chart 2



Canada’s Economy is Exceeding BoC Expectations — Adds to Case for Faster Hikes

- Canada’s economy is growing much faster than the BoC forecast in Q1
- Despite restrictions, the economy still grew in January...
- ...and ripped in February
- Strength adds to the case for a hike of 50bps or more on April 13th

Canadian GDP, m/m % change, February:

Actual: 0.2
 Scotia: 0.1
 Consensus: 0.2
 Prior: 0.1 (revised up from 0.0%)
 February guidance: +0.8% m/m

Canada’s economy is on a tear with growth surpassing the Bank of Canada’s forecasts. That further amplifies the need to more aggressively tighten monetary policy with a hike of at least 50bps in April.

Growth of 0.2% m/m in January, plus an upward revision to December and a very strong reading for February (+0.8% m/m) net out to impressive Q1 growth.

Short-term yields moved a touch higher with the 2-year GoC yield up by 1–2bps. CAD depreciated a touch but was correlated with other movements across global crosses to the USD like the euro and more driven by external factors (OPEC, US releases).

Q1 GDP growth is tracking well above the BoC’s 2% forecast that was last provided in the January MPR. Using monthly GDP figures we’re tracking GDP growth of 4.1% q/q at a seasonally adjusted and annualized pace based upon hard figures up to January, February’s preliminary guidance and assuming March is flat only to focus upon the growth effects of known information to date (chart 1).

A big caveat is that the BoC forecasts expenditure-based GDP whereas the monthly figures are based upon production/income side GDP accounts. The latter doesn’t generally consider factors like inventory swings and changes in import leakage effects. We think those effects will probably drive GDP growth in Q1 toward the ~5% annualized range.

That matters because it points to a faster closure of spare capacity and push into net excess aggregate demand than the BoC was assuming when it last put its forecasts together. Given that the BoC puts a lot of emphasis upon the gap framework, they’ll view this as a further inflationary impulse when they issue new forecasts on April 13th that have a lot of catching up to do to the war’s effects, commodity movements, easing restrictions etc.

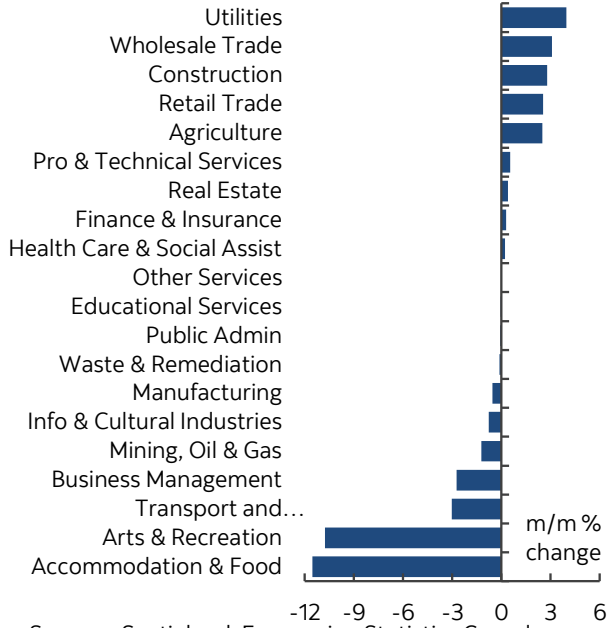
Canada’s economy is now 1% larger than it was just before the pandemic (chart 2). That includes the effects of the preliminary estimate for February.

Details for the preliminary guidance for February is available only on a narrative basis from Statistics Canada with no breakdown of the numbers. That’s the practice when providing flash estimates. The agency noted that there were gains in mining, quarrying, oil and gas, accommodation and food services and construction. Utilities slumped after a strong gain in January when it was a gazillion below 0 degrees across much of the country.

The fact the economy generated *any* growth in January is encouraging since much of the country had reintroduced COVID-19 restrictions starting in December through January. The break down by sector is shown in chart 3 while chart 4 shows the growth drivers in terms of weighted contributions to GDP growth. Cold weather popped utilities to the top of the list of growth drivers which was a transitory effect. Goods sectors led growth while the pandemic-affected services sectors that were subject to the restrictions contracted.

Chart 3

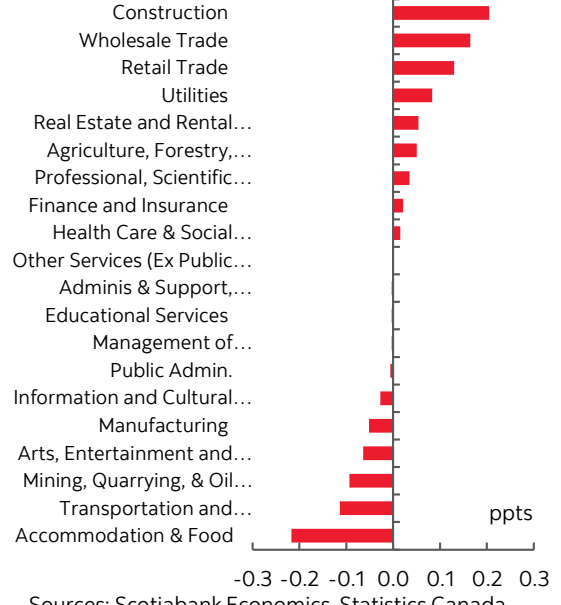
January Real GDP Growth by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

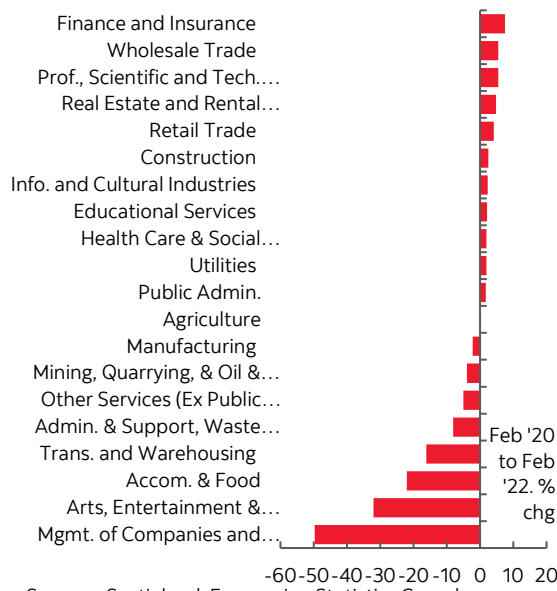
Weighted Contributions from Sectors to January Real GDP



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Change in Canadian Industry GDP Through the Pandemic



Sources: Scotiabank Economics, Statistics Canada.

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