



Economic Flash!

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April Canadian GDP: A Slight Beat, But A Big Relief

Per/Per % chg	17:Q4*	18:Q1*	Feb	Mar	Apr	Apr Y/Y
GDP (at Basic Prices)	2.3	1.8	0.4	0.3	0.1	2.5
Goods-producing	2.5	3.1	1.1	0.6	0.2	4.4
Services-producing	2.3	1.3	0.1	0.2	0.0	1.8
Business	2.5	1.8	0.5	0.4	0.1	2.6
Non-business	1.6	1.9	0.1	0.2	0.1	2.0

* annualized

- Disappointing data flow had expectations relatively muted coming to today's all-important GDP print. So, even a slight beat turned out to be a big relief for markets that had largely priced in a July Bank of Canada hike. The healthier-than-expected April reading has us tracking roughly 2 ½% growth for the second quarter.
- The economy grew 0.1% in April, ahead of consensus expectations for a flat reading and a range that had some forecasters calling for as weak as a 0.2% decline on the month. The surprise showed up in manufacturing where the previously released sales report showed a material decline in real activity, but today's GDP release revealed a relatively strong gain. The difference was in inventories where a build-up wouldn't have been reflected in the sales report, but did show up in today's production numbers.
- Weather clearly played a role in the April numbers. The ice-storm was an overall net negative for growth given that it left retailing, construction, food services and arts/entertainment/recreational activity weaker on the month. But it did provide a boost to utilities, which benefitted from the extra heating days needed in central and eastern Canada.
- Real estate also provided a slight lift during the month, and it's notable that this is the first increase for that sector in 2018. Following a general cooling in the housing market associated with tighter lending standards in Canada, the industry had been shrunk in each month of the first quarter. But, with unit home sales also now having stabilized, the sector may be taking its first steps back towards growth.
- Mining, oil and gas showed as a slight decrease in activity, but was related to a labour disruption that almost halved iron ore production during the month. The bad news is that there's more weakness in store for that industry. An unexpected shutdown at a major oil

producer will provide an even more material drag on monthly GDP as June and July data roll in.

Implications & Actions

Re: Economic Forecast – The upside surprise in April GDP has us now tracking a roughly 2 ½% growth rate for Q2. That’s enough to keep central bankers on track to hike rates in July, but don’t expect the pace of growth to remain in the second half. With trade uncertainties a headwind to business investment and a cooler housing market weighing on building activity, growth should average roughly 2% in the second half and below that next year, contributing to the Bank of Canada’s cautious approach to higher rates.

Re: Market Impact – Markets were highly attuned to today’s GDP report, and even the only slight beat has seen fixed income sell off and the loonie catch a bid.

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