



Economic Flash!

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Canadian GDP: Sunny Skies in July

Per/Per % chg	18:Q1*	18:Q2*	May	Jun	Jul	Jul Y/Y
GDP (at Basic Prices)	1.8	3.3	0.5	0.0	0.2	2.4
Goods-producing	3.1	4.9	0.6	0.0	0.3	3.0
Services-producing	1.2	2.7	0.5	0.1	0.2	2.1
Business	1.7	3.6	0.6	0.0	0.3	2.5
Non-business	2.2	2.2	0.2	0.1	0.0	1.9

- It turned out to be sunny skies in July for the Canadian economy. Monthly GDP brushed off a slowdown in the energy sector, and posted a healthy rebound from a lackluster end to the first half of the year. Today's numbers will lift third quarter GDP tracking forecasts above 2%, and do their part to justify a Bank of Canada rate hike in October.
- Canada's economy expanded 0.2% in July, ahead of expectations which were weighed down by outages in the energy sector. Oil production was off 1.2% on the month, but that wasn't as much of a negative as we had been penciling in. As activity starts to ramp back up in the oil region, production should swing from a negative to a positive contributor to growth in August. Although, given that the trough in oil production wasn't as low as expected, the rebound will also likely be somewhat more moderate than previously anticipated.
- Gains were only seen in 12 of 20 sectors, but outsized strength was seen in a few places. Both, manufacturing and wholesaling were up more than 1% in July. Factories showed relatively broad-based strength across sectors for a second month in a row. Looking ahead, recent revisions to capacity data also show that manufacturing activity could still have a bit more room to grow. Wholesaling, on the other hand, was simply rebounding from a very weak prior month.
- Real estate continued its rebound from the recent policy-led slowdown, giving comfort to BoC officials still uncertain about the full impacts of recent mortgage rule changes. But other aspects of the housing market didn't fare as well. Residential construction was down 1.5%, the largest drop since a strike took output lower in May of 2017. That follows the cooling down in housing starts seen so far this quarter.
- News on the retail sector won't inspire confidence that the households can continue as a stalwart of growth. Retailing was down for the second month in row, and is now tracking a

paltry 0.9% gain over the past year, a stark deceleration from the heady 7% growth rates seen in the middle of 2017.

- A spike in utilities usage in July was driven by a heatwave that struck much of the country. That growth isn't, however, sustainable as weather has since returned to more seasonable temperatures.

Implications & Actions

Re: Economic Forecast — The upside surprise in today's data has raised our Q3 GDP forecast to 2.2%, and leaves the economy well placed for another rate hike in October. A subsequent rate hike next year is also now looking like a Q1 story rather than the April move we had previously expected. Nevertheless, Governor Poloz will only have a green light so long as NAFTA negotiations haven't completely gone south.

Re: Market Impact — The data has been bullish for the Canadian dollar and bearish for fixed income.

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