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Economic Flash!

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Canadian GDP: Bounces Back Better-Than-Expected

Per/Per % chg	17:Q3*	17:Q4*	Dec	Jan	Feb	**Feb Y/Y**
GDP (at Basic Prices)	2.4	2.2	0.2	-0.1	0.4	**3.0**
Goods-producing	3.4	2.5	0.2	-0.5	1.2	**4.6**
Services-producing	2.0	2.1	0.2	0.0	0.1	**2.4**
Business	2.4	2.4	0.2	-0.2	0.5	**3.3**
Non-business	2.6	1.4	0.3	0.1	0.1	**2.1**

- The Canadian economy bounced back better-than-expected from the energy-induced slowdown in January. February's GDP reading revealed that oil extraction had returned to more normal levels following some unexpected production issues. With the upside surprise largely the result of a faster rebound, growth was simply pulled forward which will limit the implications for monetary policy. As a result, we're still leaning towards the Bank of Canada waiting until July to hike rates again.
- The economy grew 0.4% in February, a tick faster than the consensus had been expecting. The surprise was powered by a strong rebound in oil extraction activity which had been dragged lower by some idiosyncratic issues in the prior month. The healthy bounce-back in February will, however, simply eat away at some of the growth we were expecting in March, meaning it doesn't materially change the outlook for quarterly GDP.
- Real estate provided a slight offset with the industry still feeling the bite from recently enacted B20 rules. Output in the sector declined 0.2% in February, following a 0.5% drop to open the year. That represents the first back-to-back declines since 2010. That said, unit home sales data suggest that activity has troughed, leading us to believe that real estate won't be a drag on growth again in March.
- Overall, three-quarters of industrial sectors registered advances in February. Retail sales and manufacturing both grew during the month, with the latter benefitting from a pickup following some atypical plant shutdowns in January. Those moves were, however, already factored in given the previously released industry reports.

Implications & Actions

Re: Economic Forecast — The upside surprise has our tracking forecast now running just a touch below 2% for the first quarter. While that's better than what the Bank of Canada had in its most recent MPR, there's still a myriad of uncertainties to deal with in Canada, so for now we're sticking with our July rate hike call.

Re: Market Impact — The Canadian dollar had been trading weaker earlier this morning, but is now back to where it closed yesterday. Fixed income also sold off following the release.