

Strong Q1 despite stagnation in February

Canadian real GDP growth:

February: 0.0% (actual), +0.1% (expected)

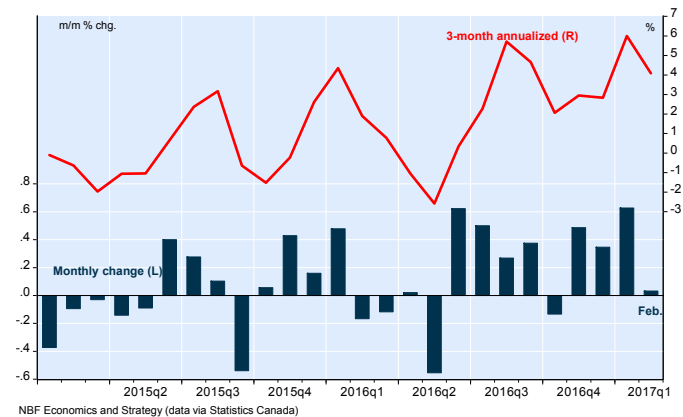
Previous: +0.6% (unrevised)

FACTS: Canada's real GDP was flat in February, below consensus expectations calling for a 0.1% rise. Goods producing industries experienced a 0.3% decline as gains in construction (+0.5%) were more than offset by declines in manufacturing (-0.6%), mining/oil and gas (-0.2%), agriculture (-1.2%) and utilities (-0.2%). Industrial production declined 0.4% as a result. The services sector's output was up 0.2% as gains in most categories including finance/insurance (+0.7%), real estate (+0.5%) and professional services (+0.5%) more than offset declines in arts/entertainment (-0.5%), wholesale trade (-0.4%) and transportation (-0.3%).

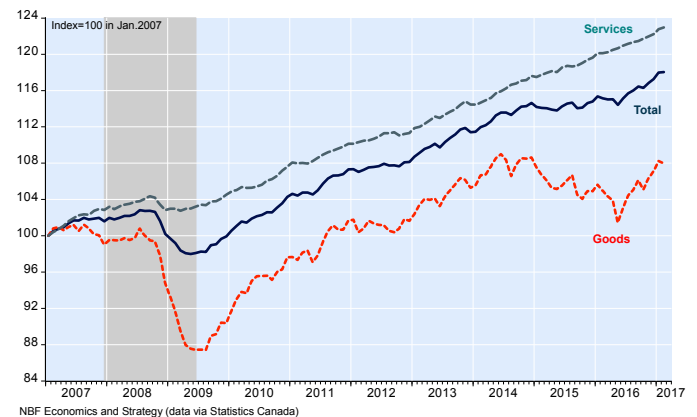
OPINION: After beating expectations in 7 of the 8 prior months, the Canadian economy took a breather in February (top chart). The weakness was in goods-producing industries which experienced a first decline in 4 months. This is not worrisome as it follows pretty decent gains in the prior months. The economy continues to find support from a resilient services sector which expanded for the 18th straight month (middle chart). What does it mean for economic growth in Q1? Even if GDP stagnated in February, it does not mean that economic growth in the quarter is at risk. Indeed, even if we assume a flat number again in March, GDP would have grown above 4.0% annualized thanks to a strong handoff and the surge in January (bottom chart). This is slightly above the 3.8% performance expected by the BoC in the April Monetary policy report. After struggling for some time, it's encouraging to see the Canadian economy being the fastest growing among G7 countries since the second half of 2016.

Matthieu Arseneau

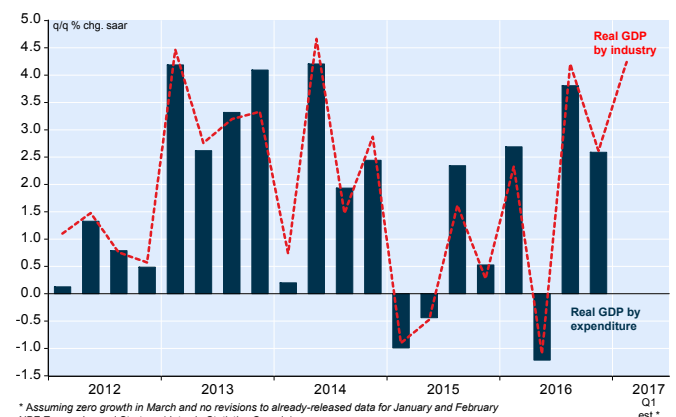
Canada: Output stagnated in February
Real GDP by industry



Canada: An 18th consecutive gain for services in March
Gross domestic product, chained dollars



Canada: Real GDP growth possibly near 4% annualized in Q1
Real GDP



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