

Economic momentum extended to Q2

FACTS: For Canada as a whole, our proprietary Index of Provincial Economic Momentum (IPEM - see next page for methodology) increased 0.5% in June. Monthly advances in Q2 averaged 0.3%, maintaining a trend that has persisted over the last twelve months (top table). This reflects progress in four of the seven indicators considered, that is, employment, retail sales, wholesale trade and average weekly earnings. In Q2, all the provinces exhibited positive momentum except Saskatchewan, which experienced declines in employment, manufacturing sales and non-residential building permits. Ontario and Quebec, the largest provinces, experienced very decent economic momentum, albeit slower than the average of the country. Momentum was especially brisk in B.C. and the Atlantic provinces. B.C.'s momentum accelerated in Q2, with six indicators contributing, the exception being housing starts. The pattern differed in each of the Atlantic Provinces except that wholesale trade contributed strongly everywhere. Alberta also displayed a strong economic momentum fed by five indicators, the exceptions being those related to construction. Manitoba's economic momentum in Q2 was similar to the national average.

OPINION: IPEM suggests Canada's economic momentum extended to the second quarter. That, however, does not mean GDP growth accelerated in Q2 from the already unsustainable pace of 3.7% in the prior quarter. While solid employment and average weekly earnings boosted the IPEM in Q2, they may not have resulted in stronger growth for consumption spending if, as we expect, the savings rate bounced back in the quarter. Looking at provinces, BC continues to impress, Alberta is recovering nicely from the oil shock, while Ontario and Quebec continue to see positive momentum albeit at a more moderate pace than the three previous quarters (middle chart). All told, strong economic momentum is nothing new in Canada, as IPEM is growing in all provinces with the exception of Newfoundland and Labrador (bottom chart).

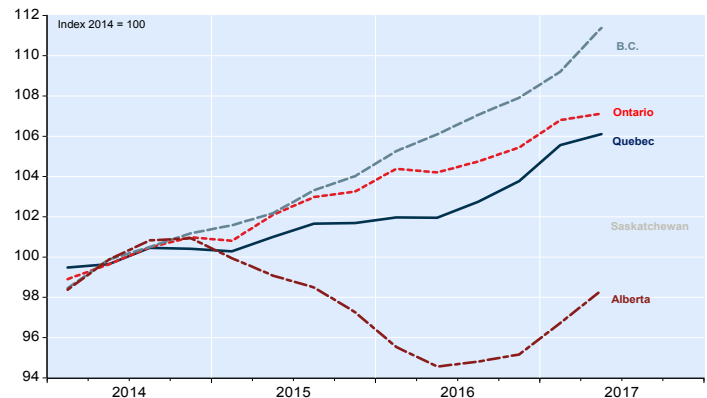
Marc Pinsonneault

	Monthly growth		Average of last months				
	June 2017	June	May	April	3 Mos	6 Mos	12 Mos
Canada		0.5	0.3	0.1	0.3	0.3	0.3
Atlantic Provinces							
Newfoundland & Labrador		2.6	-2.2	1.0	0.5	-0.1	0.0
Prince Edward Island		0.6	0.8	1.4	0.9	0.7	0.4
Nova Scotia		-0.7	0.1	2.6	0.7	0.1	0.2
New Brunswick		1.1	1.3	-0.2	0.7	0.4	0.2
Central Provinces							
Quebec		0.3	0.4	-0.2	0.2	0.3	0.3
Ontario		0.4	0.1	0.1	0.2	0.2	0.2
Western Provinces							
Manitoba		-0.2	1.7	-0.4	0.3	0.5	0.3
Saskatchewan		-0.4	-0.5	0.2	-0.2	0.2	0.2
Alberta		0.8	0.3	0.3	0.5	0.6	0.4
British Columbia		0.9	0.4	1.1	0.8	0.5	0.4

NBF's calculations using data from Statistics Canada.

IPEM for selected provinces

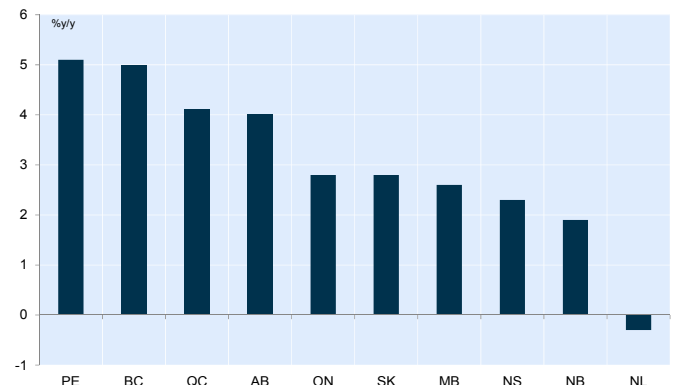
Quarterly level (last observation: Q2 2017)



NBF Economics and Strategy (calculations from Statistics Canada data)

Positive economic momentum almost everywhere over last four quarters

Quarterly IPEM's year-over-year- growth



NBF Economics and Strategy (Calculations from Statistics Canada data)

Purpose

Gross domestic product is the comprehensive indicator of the performance of an economy. For Canada as a whole we are well taken care of in this regard by Statistics Canada's monthly report of real GDP. For individual provinces the story is different. Their real GDPs are in general reported only once a year, four months after the end of the year in question. For a timelier idea of the state of a provincial economy, analysts must turn to a panoply of partial indicators such as employment, retail sales and manufacturing shipments, published with varying time lags.

In order to get in a timely manner a single figure summarizing the current trend of each provincial economies, we have developed the Index of Provincial Economic Momentum (IPEM).

Methodology

The IPEM summarizes changes in seven economic indicators (employment, housing starts, retail sales, wholesale trade, manufacturing sales, the value of nonresidential building permits, average weekly earnings). The criteria for inclusion of an indicator, in addition to availability for each province, are that it be published monthly, be seasonally adjusted or without seasonal pattern and be timely (released at most two months after the fact). Indicators based on surveys of opinions or those reputed to lag the economic growth are excluded. We also avoided the use of more than one indicator for the same sector.

The aggregation of the monthly growth rates of each economic indicators is based on the methodology used by the U.S. Conference Board for its leading indicator of the U.S. economy. For each indicator, we calculate the symmetrical monthly growth rate. Each symmetrical growth rate is then multiplied by a normalization factor consisting of the reciprocal of its standard deviation. The resulting normalized growth rates are comparable among indicators even if the indicators have different monthly variabilities. Each normalized growth rate is divided by the sum of the normalization factors.

The sum of the results of this calculation is the monthly growth rate of the Index.

IPEM - Index of Provincial Economic Momentum

Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist

stefane.marion@nbc.ca

Paul-André Pinsonnault

Senior Fixed Income Economist

paulandre.pinsonnault@nbc.ca

Krishen Rangasamy

Senior Economist

krishen.rangasamy@nbc.ca

Marc Pinsonneault

Senior Economist

marc.pinsonneault@nbc.ca

Matthieu Arseneau

Senior Economist

matthieu.arseneau@nbc.ca

Angelo Katsoras

Geopolitical Analyst

angelo.katsoras@nbc.ca

Kyle Dahms

Economist

kyle.dahms@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

MD, Public Sector Research and Strategy

warren.lovely@nbc.ca

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