

Canada: Economy regaining momentum in early Q4

FACTS: For Canada as a whole, our proprietary Index of Provincial Economic Momentum (IPEM - see next page for methodology) increased 0.4% in October, mostly due to employment, average weekly earnings and nonresidential building permits. IPEM rose in seven provinces out of 10. Newfoundland & Labrador's IPEM surges 1.4%, with 6 of the 7 indicators contributing to the upswing. New Brunswick was second on that count with 5 indicators contributing to the 1.2% advance in October. Alberta's IPEM rose 0.8% mostly due to employment, average weekly earnings and nonresidential building permits. B.C.'s index gained 0.4% mostly due to an exceptional level of housing starts. Ontario's and Manitoba's indexes both rose 0.3%. For the former, it was due to an outsized contribution of average weekly earnings. For the latter, strong employment growth was the source of strength. A decline in wholesale trade limited Quebec's gain (+0.1%). In the three provinces where IPEM declined in October (Prince Edward Island, Nova Scotia and Saskatchewan), 4 indicators contributed to the drop of economic momentum.

OPINION: Despite a moderate advance in October, Quebec's gain of economic momentum over the last three months is the biggest among the four largest provinces in Canada (Ontario, Quebec, B.C. and Alberta - top table). This is why, on a quarterly basis, Quebec's early start in Q4 at least equals those of these other provinces (middle chart). It is reassuring to see that Alberta's recovery restarted early in Q3, after having seemingly stalled in Q3. Also encouraging is the fact that the indicators that contributed the most to October's advance overall in Canada (employment, nonresidential building permits and average weekly earnings) did so in a majority of provinces (bottom chart). This bodes well in Q4 for household revenue and consumption and business investments.

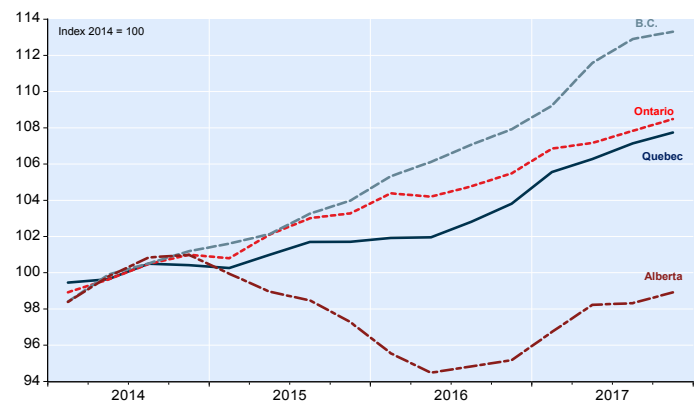
Marc Pinsonneault

INDEX OF PROVINCIAL ECONOMIC MOMENTUM (%)							
Reference month	Monthly growth			Average of last months			
	Oct	Sept	Aug	3 Mos	6 Mos	12 Mos	
Canada	0.4	0.3	-0.1	0.2	0.2	0.3	
Atlantic Provinces							
Newfoundland & Labrador	1.4	1.4	-1.3	0.5	0.2	0.3	
Prince Edward Island	-0.8	-0.3	-0.8	-0.6	-0.2	0.1	
Nova Scotia	-0.7	0.7	-0.9	-0.3	-0.1	0.2	
New Brunswick	1.2	1.7	-0.8	0.7	0.6	0.4	
Central Provinces							
Quebec	0.1	0.3	0.6	0.4	0.3	0.3	
Ontario	0.3	0.5	-0.1	0.2	0.2	0.3	
Western Provinces							
Manitoba	0.3	-0.1	0.3	0.2	0.2	0.3	
Saskatchewan	-0.3	-0.2	0.3	0.0	-0.2	0.1	
Alberta	0.8	0.0	-0.4	0.1	0.2	0.3	
British Columbia	0.4	0.0	-0.1	0.1	0.4	0.5	

NBF's calculations using data from Statistics Canada.

IPEM for four largest provinces

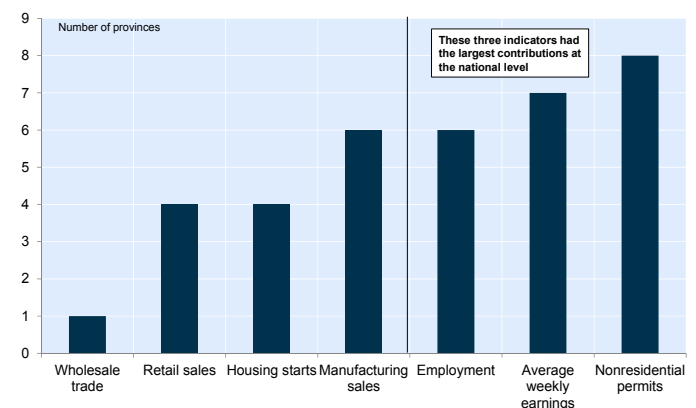
Quarterly average level (Q4 2017 = October)



NBF Economics and Strategy (calculations from Statistics Canada data)

Some indicators with regionally diffused contributions in October

Number of provinces where each economic indicators contributed positively to IPEM in October



NBF Economics and Strategy (data via Statistics Canada)

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.

Normalized symmetrical growth rates for each economic indicator are then summed, and that sum is divided by the sum of of the standard deviations of each indicator. After this process, we obtain a figure which has the dimension of a normal monthly change in a single economic indicator, regardless of the number of economic indicators considered. This figure is then converted from a symmetrical growth rate to a conventional percentage growth rate, the result becoming IPEM's growth rate for the month.

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

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

MD, Public Sector Research and Strategy
warren.lovely@nbc.ca

General – National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein.

Research Analysts – The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents – In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.

U.S. Residents – With respect to the distribution of this report in the United States, National Bank of Canada Financial Inc. (NBCFI) is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC). This report has been prepared in whole or in part by, research analysts employed by non-US affiliates of NBCFI that are not registered as broker/dealers in the US. These non-US research analysts are not registered as associated persons of NBCFI and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA restrictions regarding communications by a research analyst with the subject company, public appearances by research analysts and trading securities held a research analyst account.

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. The analyst responsible for the production of this report certifies that the views expressed herein reflect his or her accurate personal and technical judgment at the moment of publication. Because the views of analysts may differ, members of the National Bank Financial Group may have or may in the future issue reports that are inconsistent with this report, or that reach conclusions different from those in this report. To make further inquiry related to this report, United States residents should contact their NBCFI registered representative.

UK Residents – In respect of the distribution of this report to UK residents, National Bank Financial Inc. has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). National Bank Financial Inc. and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to retail customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. National Bank Financial Inc. is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

National Bank Financial Inc. is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

HK Residents – With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) regulated activity, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including NBF, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright – This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of National Bank Financial.