

The Canadian economy continues to shed momentum in Q3

FACTS: For Canada as a whole, our proprietary Index of Provincial Economic Momentum (IPEM - see next page for methodology) was flat in August for a second month in a row, mostly because manufacturing sales declined in both months. A cumulative decline in the momentum index was registered in 5 provinces out of 10, 3 of them in the Atlantic region (Newfoundland & Labrador, Prince Edward Island and New Brunswick). In these three provinces, only one economic indicator out of 7 added momentum over these two months, and for New Brunswick, the remaining 6 indicators all declined. The two other provinces where the momentum index declined overall in July and August were located in the Prairies (Manitoba and Alberta). In the case of Alberta, 5 indicators contributed to the index decline. But the decline in the momentum index in these five provinces was offset by a cumulative momentum gain in the three largest provinces (Ontario, Quebec and British Columbia), Nova Scotia and Saskatchewan. For Quebec, Nova Scotia and Saskatchewan, 4 indicators out of 7 contributed to the increase in economic momentum.

OPINION: The Canadian economy continues to shed momentum in Q3. This is consistent with our view that Canadian real GDP will decelerate to an annualized gain somewhat below 2% in Q3, after above-3.5% gains in both Q1 and Q2. That being said, economic momentum remains positive over the last three months overall in Canada, thanks mostly to the three largest provinces (top table and middle chart). British Columbia leads the pack when we consider both consistency in momentum gains since 2014 and the acceleration of momentum gain this year, although Alberta deserves a special mention for its economic recovery so far in 2017 (bottom chart).

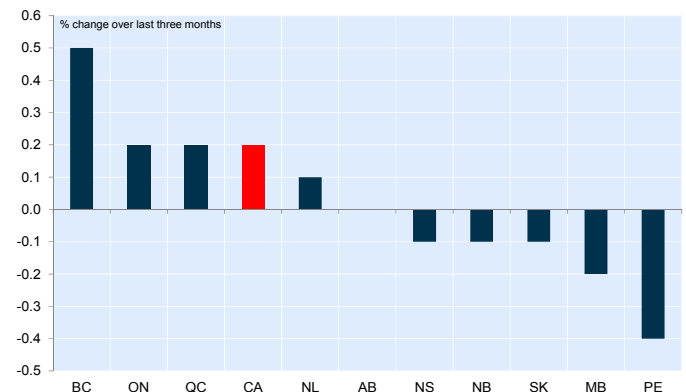
Marc Pinsonneault

INDEX OF PROVINCIAL ECONOMIC MOMENTUM (%)							
Reference month	Monthly growth			Average of last months			
	August 2017	Aug	Jul	Jun	3 Mos	6 Mos	12 Mos
Canada	0.0	0.0	0.5	0.5	0.2	0.2	0.3
Atlantic Provinces							
Newfoundland & Labrador	-1.4	-0.8	2.6	2.6	0.1	-0.2	0.0
Prince Edward Island	-0.4	-2.1	1.2	1.2	-0.4	0.1	0.2
Nova Scotia	-0.7	0.8	-0.4	-0.4	-0.1	0.1	0.3
New Brunswick	-0.6	-0.8	1.1	1.1	-0.1	0.2	0.2
Central Provinces							
Quebec	0.6	-0.3	0.4	0.4	0.2	0.2	0.3
Ontario	0.0	0.2	0.4	0.4	0.2	0.1	0.2
Western Provinces							
Manitoba	0.3	-0.4	-0.5	-0.5	-0.2	0.2	0.3
Saskatchewan	0.5	-0.1	-0.6	-0.6	-0.1	-0.1	0.2
Alberta	-0.4	-0.1	0.7	0.7	0.0	0.3	0.3
British Columbia	-0.1	0.5	0.9	0.9	0.5	0.5	0.5

NBF's calculations using data from Statistics Canada.

3 largest provinces enjoy positive economic momentum over last 3 months

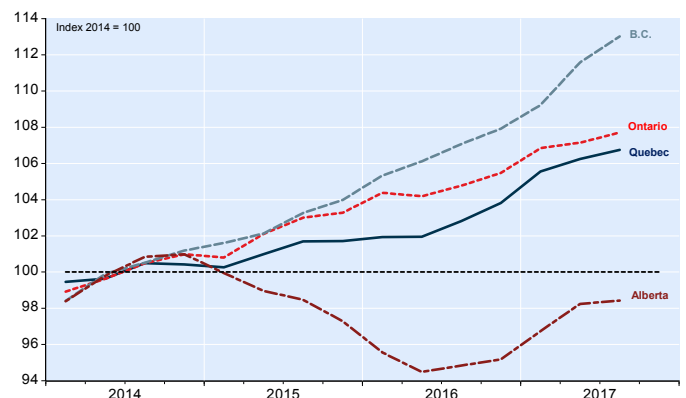
IPEM's average change over the last three months



NBF Economics and Strategy (Calculations from Statistics Canada data)

IPEM for selected provinces

Quarterly level (last observation: Q3 2017 as of July and August)



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

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