

Canada: IPEM confirms a soft patch in Q1

FACTS: Our proprietary Index of Provincial Economic Momentum (IPEM - see next page for methodology) increased 0.2% in March at the national level, on the heels of a 0.1% rise in February. These two consecutive advances recouped most of the ground lost in January, meaning that the IPEM for Canada was flat in Q1 (top table). At the regional level, the IPEM was flat over the quarter in Ontario and Quebec (the two largest provinces). It declined in six provinces (B.C.: -0.1%, Nova Scotia: -0.1%, Newfoundland and Labrador: -0.3%, Manitoba (-0.4%) and New Brunswick (-0.7%). The IPEM rose in only two provinces (Alberta: +0.1% and Prince Edward Island: +0.5%).

OPINION: The flat IPEM in Q1 at the national level confirms that the Canadian economy went through a soft patch at the beginning of the year. Employment and non-residential building permits declined in 6 provinces. In particular, employment declined in the three largest provinces (Ontario, Quebec and B.C.). Retail sales were about flat or contributed negatively in all provinces except Prince Edward Island. Housing starts, manufacturing shipments and wholesale trade contributed positively in only two provinces. Only one indicator out of seven, namely average weekly earnings, contributed positively in half of the provinces. The Q1 weakness is so far an isolated phenomenon. Over the last 6 or 12 months, it is clear that Canada in general, the four largest provinces and most of the other provinces showed a positive economic momentum (top table). On a quarterly average basis, Q1 weakness in B.C. interrupted an impressive run of 20 quarters of IPEM growth, this province having outpaced the other major provinces over the last two years and a half (middle chart). Looking ahead, we do not think that Q1 weakness will persist. For 2018, we forecast that all provinces are going to experience positive economic growth, with the four largest leading the pack (bottom chart).

Marc Pinsonneault

Reference month March 2018	Monthly growth			Average of last months		
	Mar	Feb	Jan	3 Mos	6 Mos	12 Mos
Canada	0.2	0.1	-0.4	0.0	0.2	0.2
Atlantic Provinces						
Newfoundland & Labrador	0.7	-0.6	-1.2	-0.3	0.1	0.1
Prince Edward Island	1.6	0.3	-0.5	0.5	0.7	0.5
Nova Scotia	0.4	-0.2	-0.4	-0.1	0.2	0.4
New Brunswick	-0.1	0.3	-2.4	-0.7	0.0	0.2
Central Provinces						
Quebec	0.2	0.1	-0.3	0.0	0.2	0.3
Ontario	0.1	0.2	-0.2	0.0	0.2	0.2
Western Provinces						
Manitoba	-0.1	-0.5	-0.6	-0.4	-0.1	0.0
Saskatchewan	-0.5	-0.8	0.2	-0.4	0.0	0.0
Alberta	0.6	0.0	-0.2	0.1	0.3	0.2
British Columbia	0.2	-0.2	-0.2	-0.1	0.2	0.3

NBF's calculations using data from Statistics Canada.

IPEM for four largest provinces

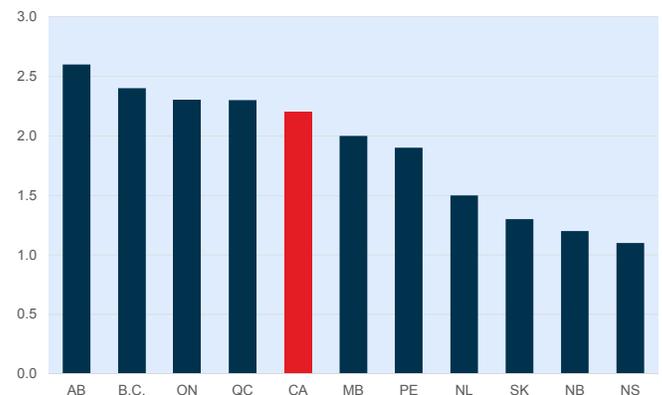
Quarterly average level



NBF Economics and Strategy (calculations from Statistics Canada data)

Economic growth forecast by province, 2018

Real GDP growth



NBF Economics and Strategy economic forecast

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

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IPEM - Index of Provincial Economic Momentum

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