

Economic momentum persists in April

FACTS: For Canada as a whole, our proprietary Index of Provincial Economic Momentum (IPEM - see next page for methodology) increased 0.1% in April, after gains of 0.1% in March and 0.4% in February. If it were not for housing starts decline from an unsustainable level in March, IPEM's gain in April would have been 0.3%. Housing starts were the culprit for April's economic momentum decline in Quebec and for Ontario's gain limited to 0.1%. However, the decline in housing starts was minimal in B.C., where the IPEM surged 1.0% in April on gains in five indicators out of seven. A similar gains diffusion propelled the IPEM 1.5% in Prince-Edward-Island. The biggest advance in April was in Nova Scotia, as the IPEM recouped the ground lost in March. Newfoundland's gain, which interrupted a string of three drops, was due to a surge in wholesale trade. In Alberta, advances in manufacturing sales and average weekly earnings more than offset declines in retail sales and housing starts. Saskatchewan's IPEM drop in April (the second in a row) was due to four indicators, while three indicators contributed to April's drop in Manitoba and New Brunswick.

OPINION: IPEM's reading for April supports our view that Q2 is set for a continuation of economic growth in Canada, albeit at a slower pace than in Q1. That being said, April's drop in housing starts was an expected giveaway from an unsustainable level in March, and in no way is worrisome. IPEM's average growth over the last three months, more representative of the underlying trend, indicates a positive economic momentum in eight provinces out of ten (top table). Ontario was one of the exceptions, as declines in housing starts and average weekly earnings offset gains in retail sales and wholesale trade. In New Brunswick, declines in housing starts, wholesale trade and average weekly earnings offset gains in manufacturing sales and retail sales. B.C. is set to continue in Q2 its remarkable string of steady quarterly gains (middle chart). In fact, the Canadian economy has benefitted from strong showings by each of its three largest provinces since Q2 2016 and from recoveries in the oil-dependent provinces (Alberta, Saskatchewan and Newfoundland). Indeed, all provinces experienced positive economic momentum over the last 12 months (bottom chart).

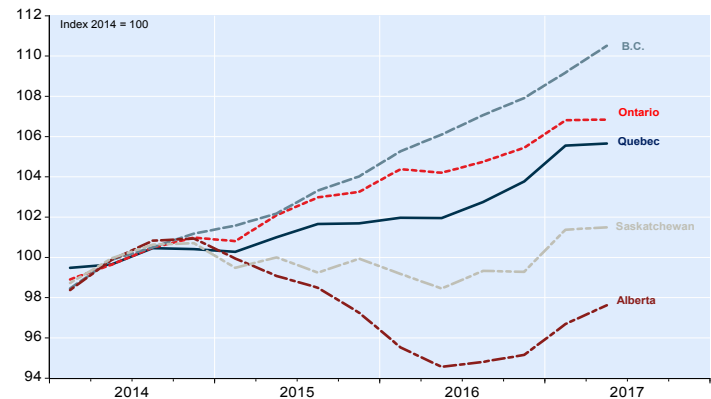
Marc Pinsonneault

Reference month	Monthly growth			Average of last months			
	April 2017	April	Mar	Feb	3 Mos	6 Mos	12 Mos
Canada		0.1	0.1	0.4	0.2	0.3	0.2
Atlantic Provinces							
Newfoundland & Labrador		1.2	-0.3	-0.5	0.2	0.4	0.2
Prince Edward Island		1.5	-0.6	0.9	0.6	0.5	0.4
Nova Scotia		2.4	-2.3	0.6	0.2	0.4	0.2
New Brunswick		-0.5	0.2	0.1	0.0	0.1	0.1
Central Provinces							
Quebec		-0.2	0.3	0.4	0.2	0.4	0.3
Ontario		0.1	-0.2	0.2	0.0	0.3	0.2
Western Provinces							
Manitoba		-0.6	0.2	0.8	0.1	0.3	0.1
Saskatchewan		-0.1	-0.2	1.1	0.3	0.4	0.3
Alberta		0.2	0.8	0.8	0.6	0.4	0.2
British Columbia		1.0	0.0	0.8	0.6	0.5	0.4

NBF's calculations using data from Statistics Canada.

IPEM for selected provinces

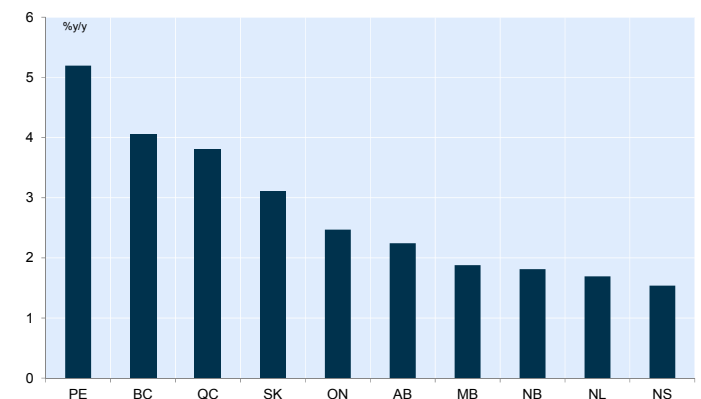
Quarterly level (Q2 2017 = April)



NBF Economics and Strategy (calculations from Statistics Canada data)

All provinces enjoyed positive economic momentum over last year

IPEM's year-over-year growth (3-month moving average)



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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