

## Quick Hit – Headline numbers can be deceiving

By Taylor Schleich / Warren Lovely

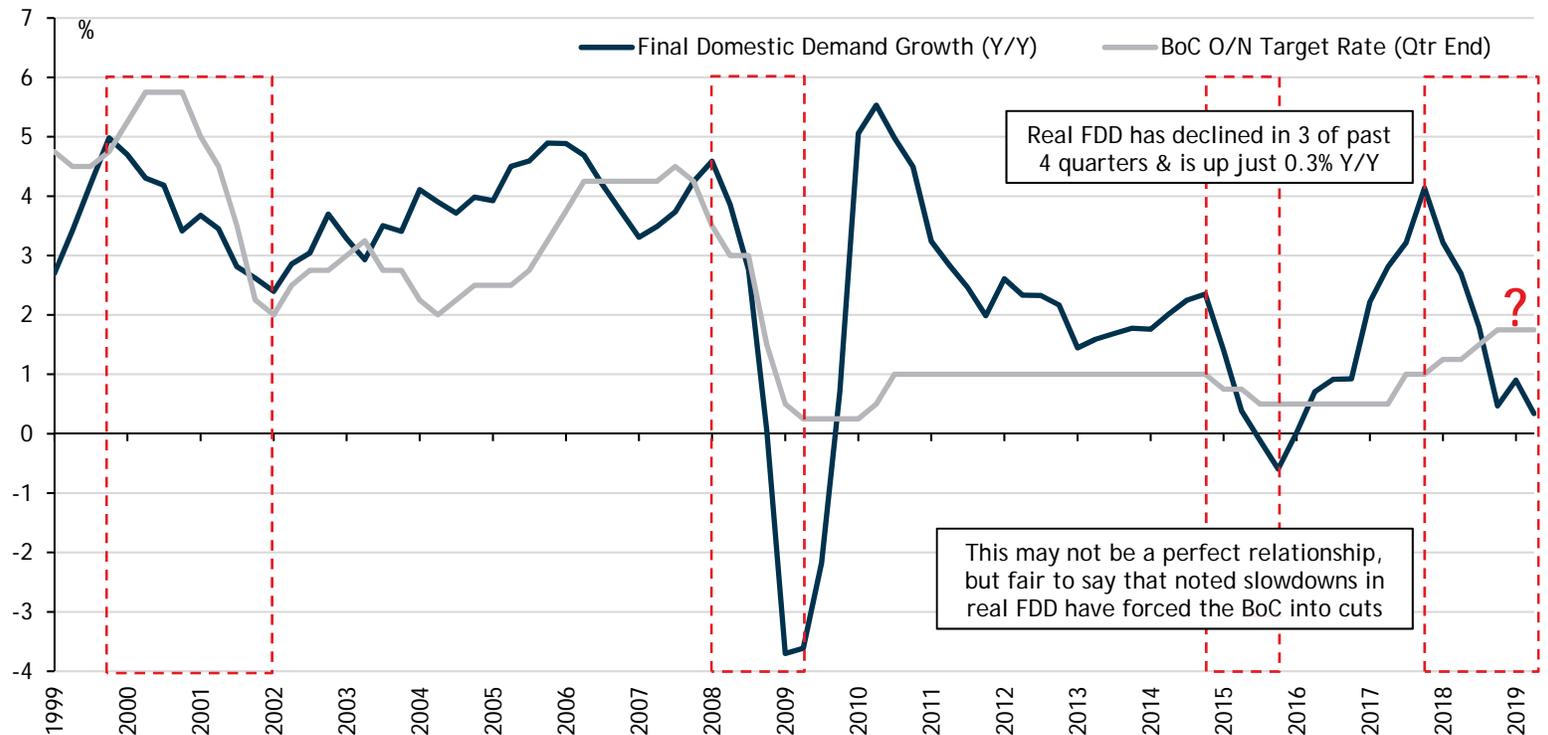
After what were two uninspired quarters of growth in Canada in 2018:Q4 and 2019:Q1, today's quarterly GDP release was seemingly a sight for sore eyes as the Canadian economy reportedly grew at a red-hot 3.7% annualized pace. That makes Canada something of an aberration among a slowing global economy roiled in turmoil, right? *Well, not so fast.*

While a headline growth print with a consensus-topping three-handle looks great at first glance, under the hood there are some unsightly blemishes that could materially impact the Bank of Canada's reaction function. Case in point, real final domestic demand, which contracted in Q2 (-0.7%) for the third time in the last four quarters. On a year-over-year basis, this translates to a growth rate of just 0.3%—a far cry from 4% pace the economy was humming along at a year and a half ago (Chart 1). Historically, the Bank of Canada hasn't allowed this measure to slow considerably without providing some monetary accommodation. Indeed, over the last twenty years, there have been four prior instances of real FDD decelerating by more than 2%-pts over a two-year period and in three of those cases, the Bank cut rates by at least 50 bps. The one exception? Well that occurred shortly after the 2008-09 recession when the overnight rate was sitting at just 1%.

This latest occurrence of a major FDD slowdown suggests that the domestic economy is having trouble maintaining traction. Further, it would be unwise to expect Q2's 5.5% contribution to growth from trade to be sustained in future quarters given the global trade backdrop and technical factors (i.e. adverse weather and oil curtailments in Q1) that boosted the Q2 print. All that to say, the Bank has some valid justification for pivoting to a dovish policy stance moving forward, especially with overall global risk sentiment eroding and a heretofore sterling labour market losing some momentum. We don't foresee any changes to the overnight rate at next week's meeting, but the governing council's policy statement should provide much more clarity on the Bank's view of recent developments after what's felt like an eternity of no forward guidance.

### Chart 1: Looking through Canada's Q2 GDP bounce?... Real final domestic demand looks pretty soft

Real final domestic demand year-over-year growth and end-of-quarter Bank of Canada overnight target rate over the last 20 years



Source: NBF, Bloomberg, StatCan

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