

Canada: "V" shaped recovery?

November GDP advances by a greater than expected 0.4% m/m

...it couldn't have been that easy, could it? Yet charting out the month over month GDP looks an awful lot like a "V" shaped recovery....well perhaps sharing some of the traits associated with its cousin the "U".

Canadian GDP for the month of November advanced by a greater than expected 0.4% m/m, running ahead of the median at 0.3% m/m and double our own forecast for 0.2% m/m.

Today's upside surprise brings the BoC forecast for Q4/09 GDP back into focus. In their January MPR, the BoC reiterated their forecast for the economy to grow at 3.3% q/q ann. For the BoC to hit their target, we probably need to see the economy print another 0.4% m/m in December as well. After seeing today's numbers, not necessarily a particular stretch of the imagination. Our own forecast for Q4 at 2.2% q/q is looking a little tired. A forecast we are going to have to have a look at with an eye to potentially revising higher.

Underneath the headlines, GDP growth was supported by those areas of the economy that were largely expected to perform, just the orders of magnitude were larger than believed to be the case. Of particular note, construction, mining - oil and gas extraction, and agriculture all contributed nicely to a 0.6% m/m pickup in goods producing industries. Manufacturing was flat. We had forecast a decline based upon the shipments data. Utilities also contracted by a whopping -1.8% m/m. Thanks Mother. Unseasonably mild winter weather temperatures reduced the demand for heat. Overall, a good deal of the economic upside found in this morning's report came out of the goods producing sector. Which ideally is where one would expect to find the best potential for upside given that it has largely born the brunt of the economic recession.

Service sector activity continues to percolate nicely, churning out 0.4% m/m which as well tracked higher than our forecast for a gain of 0.3% m/m. Significant upside in the services sector was afforded by wholesale trade which advanced by 2.4% m/m. The consumer took a break with retail sales down -0.8% m/m. A rather remarkable burst of strength coming out of the all important FIRES sector (finance, insurance, real estate) that generated a 0.6% m/m spurt. Housing is a big part of this story with a number of the metrics associated with the existing home sales market near to, at or higher than the peak levels reached in 2007. And of course this is being felt in that 1.1% m/m rush in construction activity.

Net, net, November's GDP looks good. That which ailed the economy in November (utilities and retail sales) are expected to rebound once seasonal factors kick in. For the upside, many of the temporary/transitory items that had pulled tight on the reins of the economy in previous months (poor pricing metrics for natural gas, temporary closures in the mining community) seem to have abated. Yet durable goods industries continue to lag, flat on the month of November following October's -0.4% m/m decline. Non-durable manufacturing also lacklustre, rising only 0.1%. This is the ugly underbelly of the economic recovery. While that which negatively affected the commodities corner of the economy has largely begun to recede, despite what looks to be a bang up quarter for the US economy (+5.7% q/q ann.), it has done little to pull the Canadian manufacturing sector out of the mire.

Indeed, for Canada to achieve an across the board recovery, we need to see US economic growth branch out beyond inventory adjustments (+3.39ppt contribution to GDP), and robust growth in exports (net trade actually contributed 0.50ppt to the headline). Moving beyond inventory adjustments on over to increasing personal consumption in the goods category (US

personal consumption added 1.44ppt to the headline US GDP but only 0.61ppt was in the goods category) is a very necessary elixir for the Canadian economy in the medium to longer term. And with still fully 3/4 of our exports destined for the US, Canada appears unlikely to reorient its trade patterns anytime soon.

Overall, of the 6 cylinders, the Canadian economic engine in November was firing on four, bringing one back on line, and continuing to idle the sixth.

Disclosure appendix

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