

## Daily Economic Update

July 31, 2018

### Canadian GDP surprised to the upside in May; growth was broadly-based

It's hard not to like this morning's GDP report. Growth came in above consensus with a 0.5% increase in May—markets were expecting +0.3%. With activity rising month-over-month in 19 of 20 industries it was the most broadly-based gain in more than a decade. Utilities provided the only drag as April's weather-related increase in electricity demand was retraced. Conversely, sectors that were held down by bad weather in the prior month (retail and construction) saw a healthy rebound in May. The other factor that held growth to 0.1% in April was a pullback in non-energy mining, which increased only modestly in May. Across-the-board gains in services sent activity in the sector up 0.5%, matching the best monthly pace in a decade.

When the Bank of Canada released their July MPR just three weeks ago their forecast for 2.8% growth in Q2 looked a bit ambitious. Not so anymore with monthly figures tracking close to a 3% annualized pace. A sting of solid data—last Friday's inflation report was also a bit firmer than expected—might stir more talk of the BoC raising rates again as soon as September. In any case it will put even more attention on Governor Poloz's Jackson Hole comments in late August. For our part we still think the bank will hold off on raising rates until October to keep the pace of tightening gradual. Today's solid growth numbers simply improve our confidence that the overnight rate is set to move higher again this year.

#### Highlights:

- Canadian GDP rose a solid 0.5% in May following April's weather-dampened 0.1% increase.
- Service-producing industries saw across-the-board gains, led by retail, wholesale and arts & entertainment.
- A reversal of April's transitory shutdowns in the oil sands sent non-conventional oil & gas extraction 5% higher.
- The energy sector is set to remain volatile with a full shutdown of one oil sands facility in July. That is expected to hold down Q3 growth (our current forecast +1.6%) before activity rebounds in Q4.

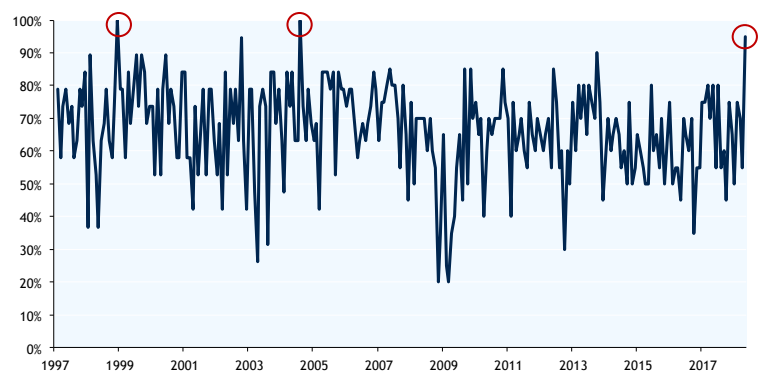
#### Canada Monthly GDP Summary

	m/m % change			y/y %
	Mar-18	Apr-18	May-18	May-18
<b>GDP</b>	<b>0.3</b>	<b>0.1</b>	<b>0.5</b>	<b>2.6</b>
<b>Goods</b>	<b>0.6</b>	<b>0.2</b>	<b>0.6</b>	<b>3.9</b>
Oil & gas extrac.	2.6	1.0	2.5	9.7
Mining ex-oil&gas	0.9	-8.7	0.6	-6.4
<b>Services</b>	<b>0.2</b>	<b>0.0</b>	<b>0.5</b>	<b>2.0</b>
Wholesale	1.1	-0.1	1.4	5.1
Retail	0.7	-1.0	2.0	1.9

Source: Statistics Canada, RBC Economics Research

#### GDP growth was broadly-based in May

% share of 2-digit NAICS industries (currently 20 industries in total) growing month-over-month



Source: Statistics Canada, RBC Economics Research

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