Whether the Weather or Not

There has been much discussion of the impact of the recent extreme winter weather on various economic indicators. For example, this factor has been cited as contributing to Canadian December GDP sinking 0.5% in the month. With below-average temperatures persisting through most of the first quarter of 2014, this has raised some initial concerns about this weakness persisting. However, the recent report of a stronger-than-expected 0.5% rebound in Canadian January GDP implies a possible easing of this downward pressure. The question arises as to how that can be the case with below-average temperatures persisting through the first quarter?

Part of the explanation is that for the adverse weather to have further marked downward pressure on growth, there would need to be an intensification of the adverse weather. For example using one weather metric, there would need to be an increase in the number of days with below-average temperatures relative to what normally occurs in a given month. A continuation of the same duration of below-average winter temperatures would have no impact on growth while a lessening in below-average temperatures could contribute to positive growth with the earlier weakness being partially retraced.

A graph of “average degree heating days” for Canada indicates that in January below average temperatures persisted though not to the same degree as in December. Thus this was likely a factor contributing to the bounce higher in the January GDP growth despite temperatures remaining colder-than-normal.

The graph also shows that in February there was a subsequent increase in below-average temperatures. This could put renewed downward pressure on activity in February with some of January’s improvement being retraced. However, that is not to say that February GDP is expected to drop another 0.5%. Below-average temperatures were not the sole weather-related factor weighing on activity in December. Heavy precipitation in the form of both snow and ice fell on many parts of the country over the final two weekends prior to the Christmas holidays. This contributed to significant power outages in many parts of the country. The absence of these additional restraining factors suggests to us a more modest downward impact from the weather in February. At the moment we are assuming February GDP will be flat to up a minimal 0.1%. This projected moderation in growth is also a reflection of the fact that some of the strength in January GDP reflected a sizeable build in manufacturing inventories that are likely to be rundown in February. Some offset is expected from a number of services categories that are expected to continue to show trend increases in the month. Further weather-restrained activity in February...
and the fact that the jump in January GDP still only just retraced a sizeable drop in December points to a slowing in average annualized growth in Q1 to 1.2%, down from the 2.9% recorded in Q4.

It remains the case that most weather-related weakness in Q1 will ultimately be temporary with activity just delayed until the weather returns to more seasonal normals. We have assumed that the improvement, and resulting pickup in quarterly GDP growth, will largely occur in the second quarter of this year when we expect GDP growth to strengthen to a 3.4% pace.