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TD Economics

Data Release: A great start to 2017 for the Canadian economy

- The Canadian economy recorded a third straight monthly expansion with output rising 0.6% month-on-month in January. Growth was fairly widespread, with 15 of the 20 major industries reporting gains.
- The goods producing sectors performed well, up 1.1% as a whole. Output was supported by the manufacturing sector (+1.9%), with a particularly strong performance recorded among durables manufacturers (+2.0%). Mining, quarrying, and oil and gas extraction came back from December's 0.5% contraction, with output growing 1.9% in January.
- Services-producing industries were up by 0.4% month-on-month in aggregate – a 17th straight monthly gain. Particularly strong performances were recorded among wholesalers (+2.4%), and retailers (+1.5%), as the latter more than offset December's pullback. Accommodation and food services also performed well, rising 0.9% to end three months of prior contractions.

Key Implications

- The hits just keep on coming. Although it is still early days and risks abound, signs are pointing to an economy that looks increasingly poised to shake off the setbacks of recent years.
- Indeed, while our initial expectations of first quarter growth were for a repeat of the prior quarter's 2.6% expansion (q/q, annualized), data to date suggest an even healthier start to the year. Incorporating today's data moves our tracking for first quarter GDP growth to 3.4%, putting Canada on track for the strongest yearly start since 2013.
- The recent spate of positive Canadian economic data will likely feed through to the Bank of Canada's forecasts as well. We expect their growth outlook to be revised higher in the next Monetary Policy Report (on April 12th). The upgraded outlook is not expected to be matched by a change in the tone of the accompanying statements however. Rather, the dovish bent that has typified recent communication should remain intact, consistent with Governor Poloz's comments in a Q&A session earlier this week. During a public appearance, the Governor continued to point to sizeable economic slack in the Canadian economy, and also noted that Canada has seen a few 'false starts' in recent years. All told, we remain of the view that the monetary policy interest rate is not likely to be raised from its current 0.50% level until late next year.

Brian DePratto, Senior Economist
416-944-5069

@TD_Economics