

Bank of Canada to wait for NAFTA clarity irrespective of growth data

The Bank of Canada's focus will remain on the direction of the North American Free Trade Agreement irrespective of Friday's Canadian GDP releases



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The Canadian growth story

The Canadian economy leapt from strength to strength throughout 2017, outperforming many of its industrial peers. This momentum is expected to continue into 2018 albeit at a more reasonable pace, with the Bank of Canada forecasting 2018 full-year growth at a sound 2.2%. Despite this, we are expecting a far more moderate end to 2017. We expect December's data (released on Friday) to fall slightly below that of October and November which came in at a decent 3.4% and 3.5% year-on-year, respectively. This follows on from the recent string of weak December data including the shock fall in retail sales (even though on a full year basis sales rose at their fastest rate for 20 years) and weaker manufacturing sales and wholesale trade. However, fourth quarter GDP (also released on Friday) is likely to continue to paint a positive picture.

Bank of Canada to wait for NAFTA clarity

There are several uncertainties weighing down on the Canadian outlook, most notably the North American Free Trade Agreement which resumed its seventh round of talks in Mexico City on Sunday (25-Feb) with a heavy focus on the 'rules of origin' topic. Talks had been expected to wrap up by the end of April, however they could struggle on for longer given the elections in Mexico, Canada and the US this year, prolonging this period of uncertainty.

As for the Bank of Canada, we believe that near-term monetary policy movements will be reliant on the direction of NAFTA and that Friday's figures are unlikely to put any pressure on policymakers to make any sudden changes. Once the NAFTA storm has calmed, we see the Bank continuing its tightening cycle with two interest rate hikes in the second half of the year.

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