

## CANADA

### Real GDP falls 0.1% in August: the third quarter looks anaemic

#### HIGHLIGHTS

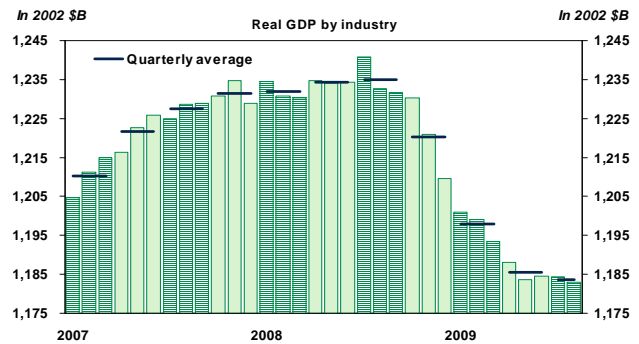
- Real GDP by industry retreated 0.1% in August, following on July's 0.03% contraction.
- Production by goods industries fell 0.7% on a pullback by manufacturing, mining, oil and gas extraction, and agriculture, forestry, hunting and fishing.
- Output by service industries edged up again, rising 0.1%.

#### COMMENTS

August's decline by real GDP by industry is in line with our expectations. Note that recent movement by most of the economic indicators had been pointing to some softness in Canadian output for the month. Clearly, the adjustments underway in Canada's economy are not complete yet. Moreover, the loonie's appreciation since the start of the year is seriously hampering foreign trade growth. Manufacturing output thus fell again in August (-0.7%). The upswing recorded in July by this industry was therefore short-lived. The auto manufacturing sector is of course benefiting from the fact that North America's manufacturers are getting back on their feet, but the industry's monthly 21.0% increase in August was not enough to fully offset the substantial declines noted in other parts of manufacturing.

**Implications:** The combined results for July and August give us a somewhat better idea of how the real GDP performed for the third quarter as a whole. As the table shows, the third quarter's national accounts will probably feature a slight drop in real output if the change in real GDP by industry is less than +0.4% for September. We currently have very little information about how Canada's economy did in September. However, it seems unlikely that September's fluctuation will be high enough to generate growth much better than zero for the entire third quarter. Under these circumstances, the Bank of Canada's projection of a 2.0% increase for the quarter becomes almost impossible to achieve. Our September forecast remains unchanged; it calls for the real GDP to tick down by 0.1% in the third quarter. This means that the Canadian economy can only officially emerge from the recession in the fourth quarter.

#### Real GDP contracts again in August 2009



Sources: Statistics Canada and Desjardins, Economic Studies

#### Real GDP for Q3 of 2009 could be slightly negative

Assumptions regarding the monthly change in real GDP by industry for September	Estimates for the annualized quarterly change in real GDP for Q3 based on the assumptions for September
-0.1%	-0.7%
0.0%	-0.6%
+0.2%	-0.3%
+0.4%	0.0%
+0.8%	+0.5%
+1.2%	+1.0%
+1.6%	+1.5%
+1.9%	+2.0%
+2.3%	+2.5%

Sources: Statistics Canada and Desjardins, Economic Studies

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