ECONOMIC NEWS

HIGHLIGHTS

- Real GDP grew by only 0.6% (quarterly annualized) in the fourth quarter of 2012, a pace that is similar to that of the previous quarter (+0.7%). Canada still managed to post the highest economic growth of all the G7 countries in Q4 2012.

- This weak growth is explained by a correction to corporate inventories. This component alone slashed 2.6% from Canada’s real GDP growth in the fourth quarter.

- Domestic demand was fairly lively, with a 2.6% gain. In particular, household consumption (+2.7%), public administration consumption (+1.8%), public administration investments (+5.8%), residential investment (+0.8%), investment in non-residential work (+6.5%), and machinery and equipment (+1.2%), all contributed to increasing domestic demand.

- Exports of goods and services rose by 1.2%, while imports pulled back 1.0%. As a result, the improvement in trade balance helped boost real GDP growth by 0.7% for the quarter.

- Overall, 2012 ended with 1.8% growth, compared with 2.6% for 2011.

COMMENTS

Generally speaking, the increase in real GDP posted in Q4 is in line with expectations. That said, how this growth was distributed within the components is fairly surprising, while domestic demand proved way livelier than expected.

Despite the downtrend noted in the real estate sector in recent months, residential investment was up once again in the fourth quarter. The slowdown by this component has been visible for the past few quarters now, so much so that 2013 could end with a slight pullback by this component.

In spite of the significant difficulties that occurred in the third quarter, government expenditures (consumption and investments) bounced back in the last quarter of 2012. We cannot delude ourselves, however: the outlook remains modest for this component given the budget deficit battles currently being waged by the federal and provincial governments.

Despite the jitters in retail trade, consumer spending posted significant advances in the fourth quarter. The conditions are still favourable considering the uptrend in the labour market and income advances.

Once again, non-residential investment helped boost real GDP at the end of 2012. In light of the projections presented by Statistics Canada on Wednesday, a slowdown is to be expected for this component in 2013.

Implications: Looking beyond the fourth quarter’s results, the outlook for 2013 has darkened for several components of domestic demand. Fortunately, international trade is showing signs of improvement. Corporate inventories have also done some housecleaning, meaning that 2013 could very well start off on a more solid footing.

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