Growth picks up in early 2013

HIGHLIGHTS

- Real GDP by industry rose 0.3% in February, beating expectations.
- January’s growth was also revised upwards, from 0.2% to 0.3%.
- Goods production expanded 0.9% in February. Manufacturing (+0.8%), along with mining, oil and gas extraction, posted particularly strong growth (+2.2%) for the month. All the other goods-producing industries also grew.
- The output of the service industries edged up 0.1% in February, with gains recorded by 9 out of the 15 industries.

COMMENTS

This morning brought a nice surprise, with the Canadian economy expanding at a faster-than-expected pace since the beginning of the year. Mining, oil and gas extraction has grown 2.7% since the end of 2012. Not only did oil production continue its recovery from a tough 2012, but mining is rebounding very nicely, with a cumulative increase of 10.6% since last September.

In February, the overall output of the mining, oil and gas extraction industry surpassed its historic high of September 2011. The recovery that inflated the results of the last few months appears to have run its course and this industry’s growth potential could slow going forward, particularly since demand for commodities is being held back by global economic difficulties.

Growth is much more stable on the services side, with an average monthly gain of 0.1% over the last six months. This modest growth is consistent with expectations regarding the Canadian economy, which is running into some headwinds.

Implications: The rebound observed in some industries inflated economic growth in early 2013 more than expected. It would, however, be surprising to see the nation’s GDP continue growing at such a fast clip in the months ahead. First, because the losses posted by some industries appear to have been recouped. Second, because all signs point to continued soft domestic demand, particularly in the housing market, which is weakening. And third, because international trade will continue to struggle due to a difficult global economic environment and recent signs pointing to a slowing U.S. economy.

While it may be too much to hope for such robust growth going forward, January’s and February’s gains still provide a good head start for the first quarter of 2013. Based on our estimates, real GDP will end the first quarter with a gain of somewhere between 2.0% and 2.5%, considerably more than the 1% rise initially forecast.

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