HIGHLIGHTS

• Real GDP by industry rose 0.2% in January.
• Output by goods-producing industries advanced 0.4%, primarily thanks to a 1.2% gain in manufacturing.
• For a second consecutive month, energy sector activity is very soft, with zero monthly change in January.
• Production by the service industries increased 0.2%.

COMMENTS

Overall, real GDP growth by industry is essentially in line with expectations. For one thing, the substantial contribution from manufacturing is due to a sizable increase in inventory volumes, as recorded by the monthly survey of manufacturing. If not for the contribution from manufacturing, real GDP growth by industry would have been half as fast, at 0.1%.

However, it would be surprising for manufacturing inventories to keep growing substantially in the coming months. As manufacturing sales in real terms have been fairly disappointing in recent months, the inventory to sales ratio was 1.41 in January, its highest point since the last recession.

In the other industries, January’s weak growth is consistent with the relatively modest economic growth seen in the last few quarters. We can expect this situation to persist for several more months. Domestic demand is short on support, and exports remain hampered by the weakness in global demand.

Implications: Thanks to January’s gain, the first quarter of 2013 starts on a positive note. The carryover is very small, however. Assuming that real GDP by industry increases by a monthly 0.1% in February and March, a realistic target considering the Canadian economy’s current weakness, the first quarter of 2013 could end with growth of around 0.8% (quarterly annualized).