Production recovers ground lost in June

HIGHLIGHTS

- Real GDP per industry was up 0.6% in July, after a 0.5% decline in June.
- The goods-producing industries showed a 1.2% gain for the month. In addition, construction (+1.9%), manufacturing (+1.1%), and mining (+3.5%) all posted robust advances.
- The services industries showed a 0.3% advance, with most sectors of activity posting weak growth.

COMMENTS

While slightly above consensus expectations, the uptick in real GDP for July came in a tad below our forecast. Real GDP clearly recovered nicely in July to a level that bested May’s advance, wiping out the loss sustained in June in a single swoop. That said, the average monthly growth for the past two months has clocked in at a meagre 0.06%. This clearly points to a very weak advance while the average for the first five months of 2013 was 0.23%.

All signs suggest that Canada’s economy has not fully recovered from the negative effects caused by the floods in Alberta and the construction labour strike in Quebec in June. For example, construction in the residential sector edged up by only 0.3% in July, after a 1.8% decline in June. Real GDP growth is therefore likely to remain above its historical average in August.

Implications: The carryover in the third quarter is estimated at 1.5%—assuming that real GDP remains flat in August and September. If we assume that real GDP will post growth that is slightly above average in August with moderate growth in September, the third quarter could end up with gains in the area of 2.5% (annualized). This forecast is similar to our most recent economic scenario. It goes without saying that the 3.8% rebound expected by the Bank of Canada in Q3 seems highly unlikely. The real GDP per industry would have to post average growth of 0.57% in August and September to get there. However, the drop that occurred in the second quarter was also much weaker than what the monetary authorities were expecting. For the Bank of Canada, the overall snapshot of Canada’s economy remains essentially the same.

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