Growth poised to rebound sharply in July

Canada’s economy grappled with many temporary difficulties last June. The floods in Alberta, the strike by construction workers in Quebec and the underperforming automobile industry in Ontario all contributed to the sharp 0.5% decline in real GDP per industry in June.

The gradual return to normal, however, paved the way for a major comeback by most economic indicators in July. For example, manufacturing sales posted a 1.7% advance, wholesale sales were up 1.5% and the value of building permits surged by 20.7%. These results suggest that real GDP per industry jumped in July.

Bottom line, our estimates show that real GDP per industry could post growth of 0.9% in July. If this diagnostic proves accurate, it means that Canada’s economy capitalized on the strongest monthly advance seen since March 2004. This recovery will allow the real GDP per industry to reach $1.582B in 2007 dollars, a similar level to that which we would have seen if not for the jolts of the last few months (in other words, had monthly growth remained stable at 0.2% in June and July).

The third quarter is clearly off to a roaring start, with a carryover (assuming that no monthly increase is posted in August and September) that could reach around 2.5% (annualized). Unless another about-face occurs, the third quarter could easily post growth between 3% and 4% (annualized), which is considerably higher than current expectations.

Implications: Despite the wild monthly fluctuations, the underlying trend in the Canadian economy remains essentially the same, with some relatively modest growth. On one hand, international trade continues to reap the benefits of the recovery in demand both globally and south of the border. On the other, domestic demand, the biggest driver of growth these past few years, is showing signs of petering out. This fits very well with the Bank of Canada’s current scenario, which forecast major swings in the second and third quarters. In these conditions, the monetary authorities should not dwell for too long on the real GDP per industry posted in July.

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