

## CANADA

### Real GDP growth came back into positive territory in the summer The third quarter ended on a disappointing note, however

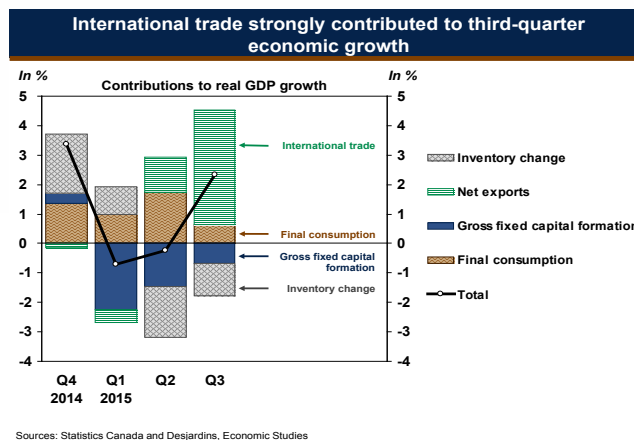
#### HIGHLIGHTS

- Real GDP increased 2.3% (annualized) in the third quarter, marking a return to positive territory after two slight dips in the first half of 2015.
- Domestic demand hardly moved in the third quarter. The increase in household consumption and residential investment was offset by a decrease in non-residential investment as well as public administration consumption and investment.
- International trade was a strong contributor to third-quarter real GDP growth, with exports gaining 9.4% and imports shrinking 2.9%.
- The change in inventories slowed during the quarter, translating into a -1.1% contribution to real GDP.
- Real GDP by industry slipped 0.5% in September, a showing sharply below expectations.

#### COMMENTS

Overall, third-quarter results are fairly consistent with projections. Monthly data on international merchandise trade leaves no doubt about the sharp rise in exports. As usual, this lively growth in exports was accompanied by a slowdown in inventory, as many exporters took advantage of the upswing in demand to shed some inventory. The continued decline in non-residential investment is also no surprise. With oil prices holding steady at very low levels, investment in the energy sector is still suffering greatly.

The surprise mainly stems from the plunge in real GDP by industry in September. The 5.1% contraction that mining extraction as well as oil and natural gas extraction experienced during the month is behind much of the weakness in production. It must be said that the profitability of the energy sector has deteriorated sharply with falling oil prices, seemingly impacting its production level. In addition, temporary difficulties (including forest fires) worsened production's decrease in September. Excluding



the mining and oil sectors, real GDP by industry only dropped 0.1%.

Lastly, it should be noted that Statistics Canada proceeded with a historical revision (back to 1981) of economic accounts data. This translated into slightly higher growth of 2.5% in 2014, instead of 2.4%. In addition, real GDP's advance was sharply upgraded for the fourth quarter of 2014, resulting in a more favourable base effect for 2015.

**Implications:** With the 0.5% slide in real GDP by industry in September, the carryover for the fourth quarter is negative. Even if production growth returns to positive territory in October, the fourth quarter could end with a gain under 1.0%. It is therefore not certain that the Canadian economy is out of the woods, and many roadblocks persist. Under these conditions, we can expect the Bank of Canada to maintain the status quo on key interest rates throughout 2016.

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