

 **CANADA**

The Canadian economy's rebound disappoints

HIGHLIGHTS

- Real GDP rose by a quarterly annualized 2.4% in the first quarter of 2016, following a gain of just 0.5% in the previous quarter.
- Domestic demand advanced 1.3%. The increases in consumption expenditure (+2.1%) and in residential investment (+11.2%) were partially offset by a decrease in non-residential investment (-9.7%).
- Exports increased 6.9%, while imports grew only 1.3%. The trade balance therefore improved during the quarter, translating into a 1.7% contribution to the quarterly change in real GDP.
- Inventories continued to decline during the quarter.

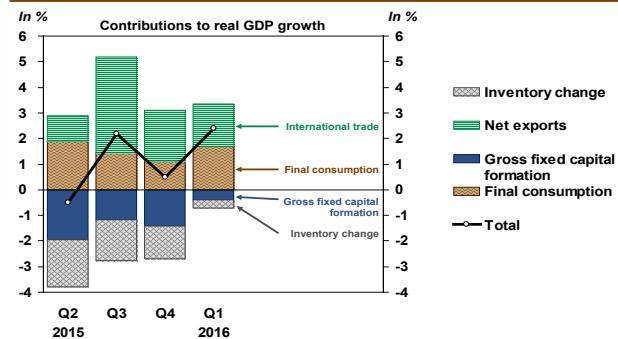
COMMENTS

The 2.4% increase in real GDP observed in the first quarter of 2016 is rather good compared with the results of recent quarters. We still can't help being disappointed though, since expectations were higher. Unfortunately, a revision of the previous data somewhat lessened the carryover for the first quarter of 2016, leading to a lower-than-expected result.

That said, the overall picture for the Canadian economy is as expected. Non-residential investment continued to plummet as downward adjustments to energy prices were ongoing. The other components of domestic demand advanced, and even included the strongest rise in residential investment in four years. International trade also continued to contribute to economic growth, despite a slowdown observed in recent months.

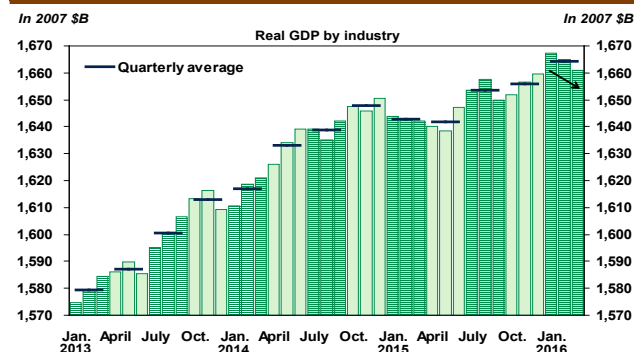
Implications: With the first quarter results behind us, all attention is now focused on the second quarter, but its outlook is very disappointing. For one, the impact of the recent slowing in international trade should be felt, thus, the carryover for real GDP by industry for the second quarter is in negative territory. For another, second quarter real GDP will be negatively impacted by disruptions in oil production

International trade and consumption again contributed to economic growth in the first quarter of 2016



Sources: Statistics Canada and Desjardins, Economic Studies

After an exceptional January, economic growth slowed for the rest of the first quarter of 2016



Sources: Statistics Canada and Desjardins, Economic Studies

associated with Alberta's forest fires. All in all, real GDP will likely contract during the quarter. However, that should be followed by a rebound in the third quarter, when the benefits of a return to activity in the Fort McMurray region will be felt.

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