CANADA

Forest fires generate a pullback in the Canadian economy

HIGHLIGHTS

- Real GDP by industry fell by 0.6% in May.
- The goods sectors tumbled by 2.8%, and all the main sub-components lost ground during the month.
- The service sectors posted 0.3% growth in May.
- According to Statistics Canada, if we exclude the non-conventional oil extraction industry, real GDP dipped slightly, by 0.1%, in May. There is little evidence that the forest fires in the Fort McMurray area have had any significant effect on other industries across the country. Consequently, the direct effect of the forest fires on real GDP is estimated at -0.5%.

COMMENTS

As expected, the production problems related to the forest fires in the Fort McMurray area were a big drag on the Canadian economy in May. Obviously, the impact is substantial not only in the non-conventional oil extraction industry, which plummeted by 21.6% during the month, but also in the manufacturing of oil products and coal, which plunged by 13.2%. That said, the slump in real GDP was also exacerbated by significant declines in construction (-0.7%), utilities (-1.8%) and in several manufacturing sectors that bear little relation to oil production or the forest fires. Clearly, the difficulties that beset the Canadian economy in May were not limited just to the effects of the fires in Alberta.

Implications: As oil production gradually returns to normal, we should see a rebound in real GDP by industry not only in June, but also in July, when production levels will have regained all the ground that was lost. If we also factor in slight growth in the other activity sectors, we can expect the month of June to end up with a real GDP gain of around 0.5%. Based on these assumptions, the second quarter as a whole could wind up with a contraction between -1.2% and -1.6%. Even though this prediction is slightly more negative than the Bank of Canada’s latest forecast (-1.0%), the monetary authorities are unlikely to react to this pullback in the Canadian economy. All the attention will be focused on the scope of the rally that is expected in the third quarter.

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