

ECONOMIC NEWS

Canada: Solid Growth in Q1 Expected

HIGHLIGHTS

- ▶ Real GDP by industry was up 0.6% in January.
- ▶ The goods industries advanced 1.1% for the month, thanks to major gains in manufacturing (+1.9%), oil and gas extraction and mining (+1.9%). Construction was also up by 0.4%. In contrast, the milder temperatures in January dragged down output by utilities (-1.3%).
- ▶ The services industries benefited from a 0.4% boost due to increases in 12 of the 15 main sectors. What's more, wholesale trade surged 2.4% for the month while retail trade expanded by 1.5%. In both cases, the automobile industry made a strong contribution.

COMMENTS

While most forecasters expected about 0.3% growth in January, the 0.6% increase compiled by Statistics Canada is a nice surprise, especially since output was up in most areas of activity (in 15 of the 20 main industries). This points to an economy that is in pretty good shape.

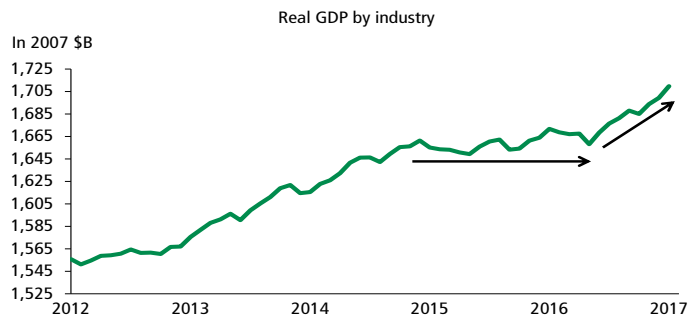
That said, it's clear the contribution of some industries to real GDP in January was unusually high. If we exclude the sizable contribution made by oil and gas extraction and mining, manufacturing, wholesale and retail trade and the negative contribution of public utilities, real GDP growth would have been a scant 0.1% for the month. However, since they represent close to 32% of Canada's overall output, these sectors are key to Canada's economy. Nevertheless, as is often the case, these industries could underperform in February, with certain activities getting back to normal. This could slash real GDP growth by industry in February.

IMPLICATIONS

Canada's economic growth ramped up significantly in mid-2016 and the momentum seems to have carried over to early 2017.

GRAPH 1

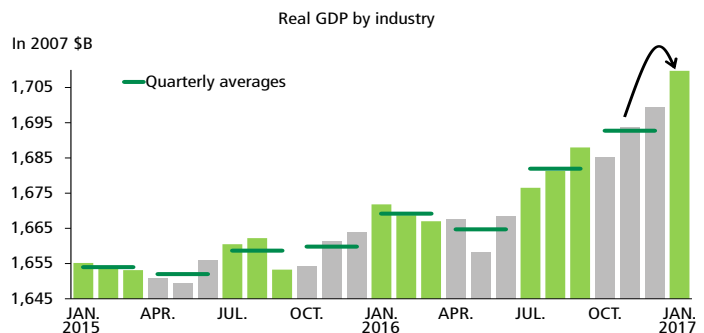
Canada's economy has clearly been on an uptrend since mid-2016



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2

The first quarter of 2017 is off to a very good start



Sources: Statistics Canada and Desjardins, Economic Studies

Even if we consider the possibility of a temporary pullback in February, the first quarter could wrap up with more than 3% growth, blasting past initial estimates.

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