Canada: Growth Remains Lively

HIGHLIGHTS

- Real GDP industry rose by 0.6% in May following increases of 0.2% in April and 0.5% in March.
- Output in the goods sectors jumped 1.6% in May after remaining unchanged in April. GDP for the mining, quarrying, and oil and gas extraction sector jumped by 4.6%. The manufacturing sector regained momentum, with its GDP recording a gain of 1.1% after falling 0.6% in April, while construction shrunk by 0.6%.
- The services sector grew 0.2%. The retail and the financial services sectors stood out, with each recording gains of 0.9%, while the real estate services sector slipped 0.2%.

COMMENTS

This was the 7th consecutive increase in GDP by industry. Once again, growth largely exceeded expectations: the last negative GDP surprise was seen in October 2016. Year-over-year, growth came in at 4.6%, its fastest in approximately 17 years. The Canadian energy sector continues to be lively. Oil and gas sector GDP recorded an increase of 7.6% in May. However, this result was boosted by the faster-than-expected restoration of the Syncrude facility, which was damaged in a fire in March.

GDP for the services sector rose for the 21st month in a row. However, there was also a turning point in real estate services. This is only the second time that the real estate services sector has recorded a decline since August 2012. Given tighter regulations and rising interest rates, the weakness could prove to be persistent. This observation also applies to residential construction, where the GDP fell by 0.8% in May.

IMPLICATIONS

The data on GDP by industry signal that real GDP growth in the second quarter could surpass 3.5%, slightly exceeding the Bank of Canada’s most recent forecast of 3.4%. One has to wonder if this could lead to a second rate increase as early as the next meeting on September 6. We continue to believe that the BoC will want to avoid sending a signal of haste, which could lead to greater currency volatility. Any move that is too sudden could damage business confidence in the export sector, especially as it continues to face uncertainty linked to the renegotiation of NAFTA. Therefore, we maintain our projection of October with respect to the next key interest rate increase.

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