Canada: Economic Growth Slows, but Domestic Demand Remains Robust

HIGHLIGHTS
- Real GDP rose 1.7% (annualized) in Q3 2017.
- Domestic demand remained very robust for the third quarter in a row, and was up 3.7%.
- Household consumer spending increased 4.0%. Gross fixed capital formation rose 3.5%, with the slight drop in residential investment (-1.4%) being offset by an increase in non-residential business investments (+3.7%).
- Exports were hard hit this summer, posting a decline of 10.2%. Imports were only 0.2% lower during the same period, which pushed the trade balance way down. That shaved 3.2% off the quarterly real GDP change for Q3.

COMMENTS
Overall, third quarter results are consistent with expectations. Monthly figures on international trade left no doubt that exports struggled over the summer. Given the strength of domestic demand, economic growth would have been very strong without the slump in the trade balance.

Since there was no way of keeping up with the pace of Canadian economic growth in the first half of 2017, the summer slowdown came as a relief. The 1.7% increase in Q3 is not really so bad, since the Bank of Canada estimates the growth of output potential to be around 1.3% for 2017.

IMPLICATIONS
According to the most recent information, Canada’s international trade could pick up strength in Q4, especially in the automobile industry. If domestic demand stays strong, we will have all the factors for strong economic growth through the end of 2017.

However, that is far from a given. Retail trade has slowed significantly in recent months, which could translate into lower household consumer spending in Q4. However, that could be partially offset by a comeback in residential investment, at least judging by recent sales of existing properties. Bottom line: real GDP growth will likely hover around 2% for Q4 2017.

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