



CANADA

Economic growth accelerates slightly

HIGHLIGHTS

- The results of the economic accounts show an increase of 2.7% (quarterly annualized) in real GDP for the third quarter of 2013.
- Domestic demand was up by 1.8%. Household spending rose 2.2%, residential construction advanced 2.4% and non-residential investment increased 2.2%. Government expenditures continued to be weak, increasing by a scant 0.8%.
- Exports of goods and services declined by 2.0%, while imports were trimmed by 1.4%. As such, the trade balance fell from -\$42.4B in 2007 dollars to -\$43.1B in 2007 dollars. The trade balance contributed -0.2% to real GDP.
- Inventory changes ramped up significantly in the third quarter—this component contributed 1.2% to the real GDP.

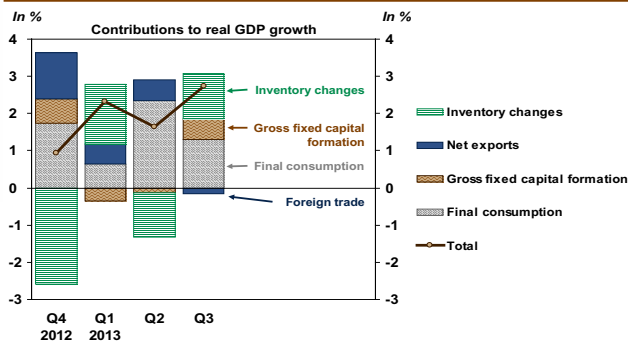
COMMENTS

The results for the economic accounts in the third quarter are generally in line with expectations. That said, the deterioration in the trade balance was not as steep as the monthly data had suggested. However, the increase in domestic demand was also somewhat weaker than expected, especially for government spending, which clearly failed to capitalize on the reconstruction efforts following the floods in Alberta. In the end, the 2.7% increase in real GDP is very close to our most recent forecast (2.6%).

The real GDP advance in the third quarter marks not only a net improvement vs. the 1.6% gain recorded during the previous quarter, it also marks the fastest increase since summer 2011. This upswing does not appear to be based on very solid footing, however. A tad more than 40% of the growth posted in Q3 stems from a build-up in inventory. This situation is obviously unsustainable, meaning that inventories will clearly be contributing less in the coming quarters, possibly even tilting into negative territory.

With regard to the real GDP per industry, September ended with a 0.3% increase, a slightly better than expected result.

Inventories made strong contribution to growth in Q3 2013



Sources: Statistics Canada and Desjardins, Economic Studies

This positive conclusion for the third quarter means that the carry-over for the fourth quarter will be fairly favourable. Assuming that real GDP per industry continued to climb in the fall, growth in the fourth quarter will probably come in above 2%. This projection reinforces our overall forecast for 2013—at 1.7%.

Implications: The overall situation of Canada's economy remains essentially unchanged. One on hand, international trade is still struggling to capitalize on the gradual improvements in global economic conditions. On the other, several components of domestic demand remain anaemic while other imbalances are being absorbed across the country. The outlooks for Canada's real GDP remain moderate, which will prompt the Bank of Canada to maintain the status quo on key interest rates for several more quarters.

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