Heading for growth above 3% in the fourth quarter?

HIGHLIGHTS

- Real GDP by industry increased 0.3% in October, similar to the growth seen in September.
- The goods sectors posted a gain of 0.4% mainly due to a 1.3% increase in manufacturing.
- The service sector expanded 0.3%, with most industries growing during the month. Wholesaling stood out with an increase of 1.4%.

COMMENTS

As suggested by the solid advances posted by several indicators in October, economic growth was fairly robust for the month. It is clear that the Canadian economy has been growing at a relatively faster pace in recent months, suggesting that the benefits of improved overall demand, and particularly, the easing of uncertainties around the globe are increasingly being felt. Manufacturing has in fact been at the core of this improvement for the last two months, posting cumulative growth of 2.5%.

With real GDP by industry up 0.3% in October, the fourth quarter is starting on a positive note. As such, the carryover for the quarter, assuming that real GDP by industry remains constant in November and December, is around 2.6%. Of course it would be very surprising if the final two months of the year did not end up posting growth in real GDP, since the average monthly gain has been 0.25% in 2013. In all probability, fourth quarter growth will surpass the 3% mark, representing a much more optimistic outlook than the last economic scenario, which called for real GDP to grow just 2.3% in the last quarter of 2013.

Implications: Everything suggests that the economy should post above-potential growth in the fourth quarter, helping to further reduce excess capacity in the Canadian economy. This will naturally have repercussions on price trends in the coming quarters. In the meantime, the Bank of Canada will leave its key rates where they are in order to continue stimulating growth across the country.

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