Economic News
Desjardins Economic Studies
www.desjardins.com/economics

February 28, 2014

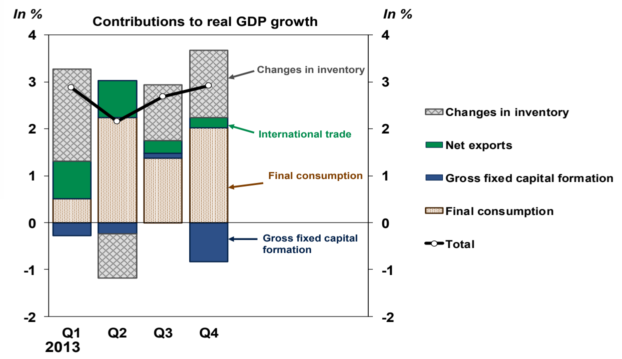
CANADA

Real GDP propelled by consumption and inventories

HIGHLIGHTS

- Real GDP rose by 2.9% (annualized pace) in the fourth quarter of 2013.
- Household consumption made a strong contribution to this increase, with gains of 3.1%. Consumption by public administrations and non-profit institutions (NPI) also advanced.
- Gross fixed capital formation declined by 3.4%. Residential investment (-2.3%), non-residential investment by businesses (-1.3%) and investment by public administrations (-10.4%) all declined for the period.
- Exports rose by 1.7% while imports edged up 0.9%. The trade balance therefore improved, shifting from -$39.2B in 2007 dollars to -$38.3B in 2007 dollars. The gain was recorded under trade of services, however, since the balance of trade in goods once again deteriorated.
- Business inventory accumulation accelerated significantly during the quarter, which made a fairly strong contribution to the real GDP, at 1.4%.
- For 2013 overall, economic growth was 2.0% on average, compared to 1.7% in 2012.

Consumption and inventories made strong contributions to economic growth in Q4 2013



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

The results of the economic accounts were fairly good. Growth not only flirted with 3% in the fourth quarter, the data for Q1 and Q2 were also revised upwards. As such, the real GDP advance was revised from 2.3% to 2.9% for Q1 and from 1.6% to 2.2% for Q2. Growth in the third quarter remained at 2.7%, meaning that 2013 ended with a 2% gain, a better-than-expected result.

That said, there are certain reasons why these results are disappointing. The bulk of growth in the fourth quarter stemmed from consumption and inventories. This type of showing from consumption could be difficult to repeat in the coming quarters since households are increasingly becoming cautious given their high level of debt. With regard to inventories, the increase posted in the fourth quarter is one of the highest since 1981. In such conditions, inventories are highly likely to make a negative contribution in quarters down the line.

Many hopes are turning to international trade and non-residential investment to support growth. Yet the results for Q4 are disappointing on this front. This is raising concerns about the capacity of Canada's economy to sustain the same pace of growth in 2014. The 0.5% decline in real GDP per industry last December left a bitter taste. The carry-over for the first quarter of 2014 is in negative territory. If no exceptional rebound takes place, there is every reason to believe that the first quarter of 2014 will end with real GDP growth of less than 2%.

Implications: The rebalancing of economic growth that everyone has been hoping for has been slow to materialize, and concerns are quite high given the weakness of Canada's economy in December. Prudence is therefore still in order and the Bank of Canada will leave its target overnight rate at 1.00% for several more quarters.

Benoit P. Durocher
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.
Important: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. **Copyright © 2014, Desjardins Group. All rights reserved.**