Economic News

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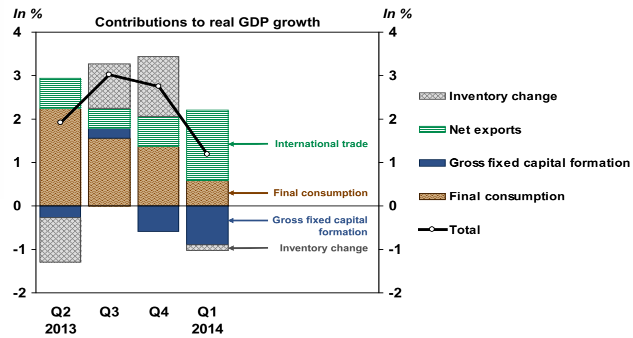
CANADA

Economic growth lower than expected

HIGHLIGHTS

- Real GDP was only up 1.2% (annualized) in the first quarter of 2014.
- Domestic demand slipped 0.3%, the first quarterly decline since the 2008–2009 recession.
- Consumer spending did increase 0.8%, but investment tumbled 3.8% during the quarter. Residential construction fell 6.3%, while investment in non-residential structures and in machinery and equipment slipped 2.0%.
- Government spending and investment were down -0.5% and -4.2%, respectively.
- Exports fell 2.4% and imports retreated 7.2%.
- Stockpiling ticked down from $16.8B to $16.3B, which translated into a small negative contribution to real GDP (-0.1%).

Growth was based on lower imports and consumption in the first quarter of 2014



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

In general, results for the economic accounts for the first quarter of 2014 are disappointing. Not only was real GDP growth sharply below expectations, but the distribution of growth among the components is discouraging. Without the decrease in imports, the first quarter would have instead ended with real GDP down 1.2%. These lower imports are themselves a reflection of the weakness of domestic demand.

Weak domestic demand is also the culmination of a downward trend that started off about a year ago. Households are exhibiting great caution when it comes to their high debt levels, which is hampering their spending. The battle against budget deficits is still being waged within the governments. The real estate market is showing signs of stabilization, and non-residential investment is struggling.

Remember that the main assumption underlying the Canadian economic outlook is based on a larger contribution from exports and non-residential investment to offset the weakness of the other components of domestic demand. Clearly, we are not there yet.

Note, however, that particularly harsh weather conditions experienced last winter muddied the waters in the first quarter. Monthly growth in real GDP by industry was also revised downwards, suggesting that the negative effect was larger than initially thought. That said, Canada is faring better than the United States, where real GDP fell 1.0% in the first quarter. We can only hope that spring will bring some kind of rebound in North American economic activity. Economic figures released to date are encouraging on that front.

Implications: Even though inflation seems to be returning to the median target faster than expected, weak domestic demand, besides the harsh winter, bring to light many challenges that still plague the Canadian economic outlook. Under these conditions, the Bank of Canada should wait until fall 2015 before increasing its target overnight rates.

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