Economic News
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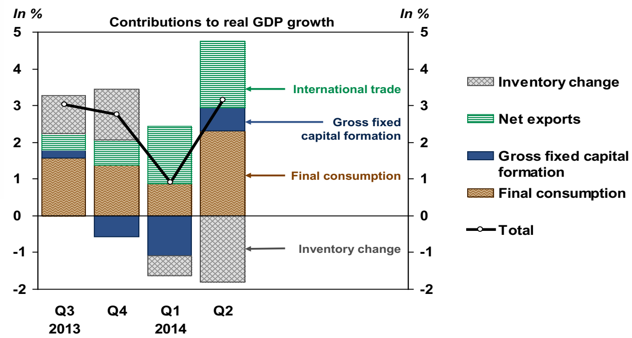
CANADA

Canada's economy picks up steam

HIGHLIGHTS

- Real GDP growth accelerated to 3.1% (quarterly annualized) in the second quarter of 2014, after advancing just 0.9% in the previous quarter.
- Domestic demand returned to positive territory, gaining 3.0%.
- Consumer spending rose 3.0%, thanks in particular to a rebound by household consumption of goods. Consumption by public administrations also went up 1.4%, faster growth than in prior quarters.
- Investment increased 2.8%, putting an end to two straight months of decline. Much of the rise stems from a rebound in residential investment.
- Exports of goods and services jumped 17.8% in the second quarter, while imports advanced 11.1%. The trade balance therefore improved by $7.1B in 2007 dollar, helping push real GDP up 1.8%.
- Stockpiling went from $14.5B to $7.1B, resulting in a 1.8% negative contribution to real GDP.

Growth picked up speed in Q2 2014



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Although the second quarter's real GDP growth was a little faster than expected, the overall picture of Canada's economy is completely consistent with our projections.

As the monthly figures on international merchandise trade showed this spring, Canada managed to capitalize on the rebound in global demand that followed the first-quarter difficulties (especially in the United States). Exports of goods and services surged in the second quarter. However, the upswing in exports came with destocking. The benefits of the improved trade balance were therefore fully offset by a slowdown in inventories.

This means that the bulk of second-quarter growth depends on domestic demand. There were few surprises there, as well. Retail sales showed sustained growth through the entire second quarter, resulting in a lively rise by consumer spending on durable goods, among other things. After struggling at the end of the winter, the number of housing starts advanced 12.3% in Q2. Also, existing home sales rose 9.4% last spring. Under these conditions, the rebound by residential investment recorded in the economic accounts makes a lot of sense. As for non-residential investment, the second-quarter results remain disappointing.

Implications: Prudence is still in order, despite the second quarter's good results. Can exports continue to surge in the next few months? Will Canadian businesses gain enough confidence to pick up the pace on investment? We assume so, but many uncertainties remain. In contrast, everything suggests that the advance in real estate should slow in the coming quarters and that consumption growth will be more in line with income growth, given the high household debt loads.

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