Economic News
Desjardins Economic Studies
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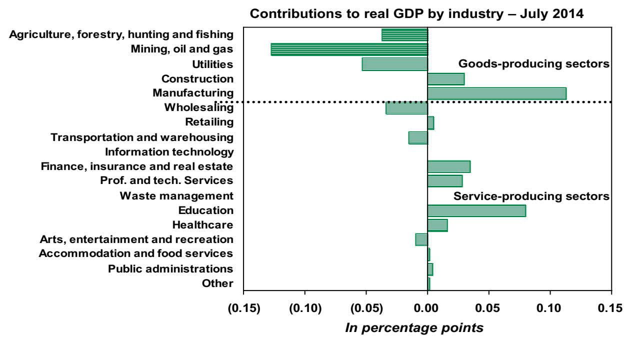
CANADA

Disappointing start to the third quarter

HIGHLIGHTS

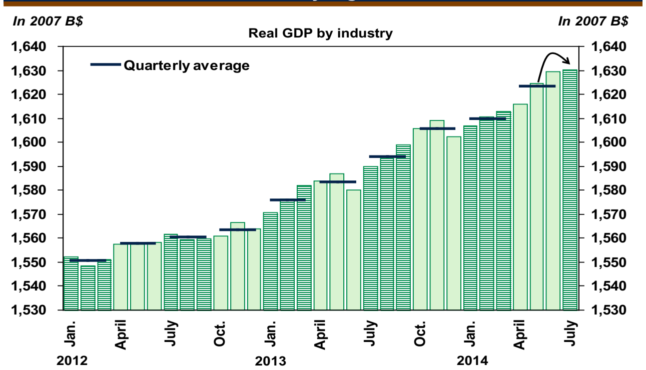
- Real GDP by industry barely changed in July following a 0.3% rise in June.
- The goods-producing sectors were down 0.2% during the month. Substantial drops were recorded in mining and oil extraction (-1.5%), utilities (-2.3%) and agriculture, forestry, hunting and fishing (-2.4%). That said, the manufacturing sector was up 1.0%, its third consecutive monthly gain.
- The service-producing sectors grew 0.2% in July. Increases across most industries were partially offset by a dip in wholesale trade, transportation and warehousing, as well as in arts, entertainment and recreation.

Natural resources and utilities hamper economic growth in July



Sources: Statistics Canada and Desjardins, Economic Studies

Despite weakness in July, the carryover for the third quarter is fairly high



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

July's real GDP by industry results are sharply below expectations, as most forecasters were calling for a 0.3% gain. Unseasonably cooler temperatures in July drove down the need for air conditioning, translating into a significant decrease in utilities' output. The mining, oil and gas extraction sector also retreated sharply. However, this follows major gains in June. Excluding these two factors, real GDP by industry would have posted 0.2% growth for the month, a result closer to expectations.

There are still some positive signs in today's results, however. Manufacturing continued its upward trend, benefitting from a lower Canadian dollar and more robust foreign demand. All service sectors were also up, delivering a sixteenth monthly gain since the beginning of 2013.

Implications: Weakness in the Canadian economy in July means it will be very difficult to close the third quarter with growth of around 3.3% (quarterly annualized), which is the target set in our most recent economic scenario. In fact, real GDP growth in the third quarter will likely not exceed 3%. That said, real GDP growth will continue to be sharply higher than the Canadian economy's growth potential of 1.9% according to the Bank of Canada.

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