Economic News

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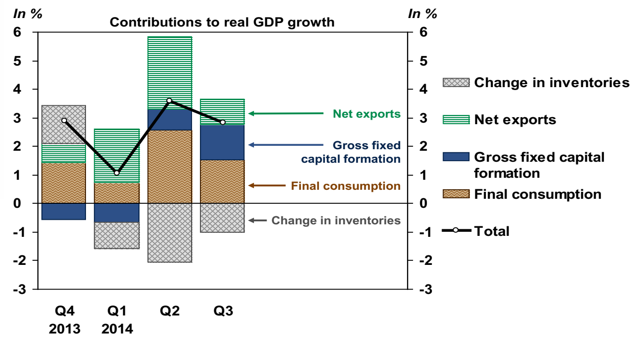
CANADA

Third-quarter economic growth far surpasses expectations

HIGHLIGHTS

- Real GDP grew at an annualized quarterly rate of 2.8% in the third quarter.
- Domestic demand also expanded by 2.8%. Consumer spending rose by 2.8%, thanks in particular to a surge in durable goods. Government consumption expenditures remained anemic, dipping slightly by 0.1%.
- Residential investments climbed 12.5%, after a gain of 11.4% in the previous quarter. Non-residential investments ticked up by just 0.5%.
- Exports of goods and services rose 6.9% while imports were up by 4.0%. The trade balance shot up, from -$19.3B in 2007 dollars to -$15.6B in 2007 dollars, thus making a positive contribution to economic growth.
- Change in inventories slowed considerably during the quarter, resulting in a negative contribution to real GDP (-1.0%).

Domestic demand and international trade again made positive contributions to real GDP last summer



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

A nice surprise this morning, and a jolt for forecasters, as third-quarter real GDP far outstripped the most optimistic forecast from the consensus compiled by the Bloomberg firm. Admittedly, the trend in real GDP by industry in the past few months gave no hint of such an outcome for the third quarter as a whole.

This good news comes on the heels of Statistics Canada's upward revision, at the beginning of this month, to the data of 2011, 2012 and the first quarters of 2014. Clearly, the overall picture of the Canadian economy is rosier than we thought. This raises some questions.

On one hand, growth in consumer spending remains quite strong. This intensifies concerns about high household debt levels. Meanwhile, the savings rate stayed flat at just 3.9% in the third quarter, a very low level from a historical perspective. On the other hand, the housing market is still on the upswing, with homebuilding, renovation spending and sales of existing properties all escalating in the third quarter. Thus, risks of overheating in some parts of the country appear to be increasing.

That said, the scenario of a stronger contribution from non-residential investment to economic growth took a step in the right direction in the third quarter, with healthy growth in machinery and equipment.

Implications: The combined effect of the upward revisions and higher-than-expected growth in the third quarter means that our forecast of 2.3% real GDP growth for the year 2014 will have to be raised, probably to around 2.4%. It will be interesting to see what view the Bank of Canada takes of this state of affairs when it makes its decision next week, especially since inflation has also been stronger than expected in the past few months.

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