Economic News

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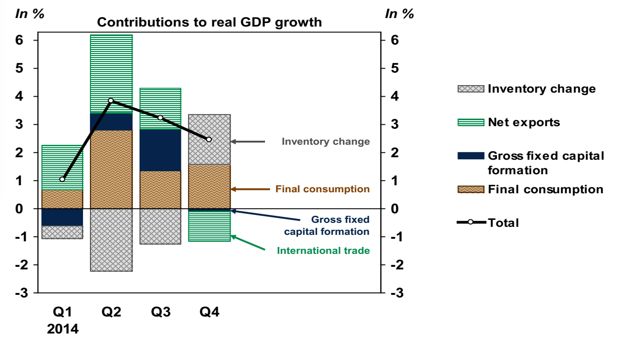
CANADA

Real GDP ends 2014 on a positive note

HIGHLIGHTS

- Real GDP rose 2.4% (quarterly annualized) in the fourth quarter of 2014. This result is the same as our forecast, and slightly beat the consensus forecast.
- Overall for 2014, real GDP rose 2.5%, compared with 2.0% in 2013.
- In the fourth quarter of 2014, consumer spending contributed significantly to real GDP growth.
- Gross fixed capital formation was down slightly during the period. The rise in residential building investment (+1.5%) was offset by a decrease in non-residential investment by businesses (-2.3%).
- Goods and services exports slipped 1.6%, while imports climbed 1.7%. Trade balance deterioration trimmed 1.1% from real GDP's quarterly advance.
- The change in inventories picked up speed over the fourth quarter, leading to a +1.8% contribution to real GDP growth.

Consumption and inventories contributed significantly to fourth quarter growth



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Overall, fourth quarter 2014 results were consistent with expectations. At first glance, a 2.4% gain looks to be very satisfactory, especially following increases of 3.8% in the second quarter (revised from 3.6%) and of 3.2% in the third quarter (revised from 2.8%).

The details of the fourth quarter, however, raise some concerns. On one hand, there is no doubt that the drop in non-residential investment reflects the difficulties in the energy sector due to the major drop in oil prices. Note that the oil and gas sector is responsible for close to 30% of all non-residential investment in the country. The most recent surveys and news suggest that this reduction will continue in the coming quarters.

On the other hand, international trade, which is supposed to be one of the cornerstones of the country's growth, lost ground at the end of 2014. For now, the damage is limited, as businesses significantly added to their inventories. However, there could be an impact on the Canadian economy if exports do not pick up steam at the start of 2015, as businesses will want to liquidate said inventories.

Implications: The fourth quarter results raise several concerns about the adverse effects of lower oil prices on the Canadian economy and the vitality of international trade. In our opinion, this could be enough to convince the Bank of Canada (BoC) to lower its key interest rates again at its next meeting tomorrow. Such an announcement could perhaps pull back the Canadian dollar a bit, giving export growth an additional boost, a not insignificant aspect of the current situation. That said, it is a very uncertain forecast, as most forecasters have pushed back their expectation of an increase in rates following recent comments from the BoC's governor.

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