Economic News

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# CANADA

## Real GDP: The first quarter starts things off on a negative note

### HIGHLIGHTS

- Real GDP by industry dipped by 0.1% in January after a 0.3% rise in December.
- The goods sectors posted an advance of 0.3%. Contractions in construction (-0.4%) and manufacturing (-0.7%) were offset by growth in utilities (+1.4%), mining and energy (+1.4%) and agriculture, forestry, fishing and hunting (+1.9%).
- The service sectors were down by 0.3%. In addition, declines of 2.6% and 1.0% were observed in wholesale trade and retail trade respectively.

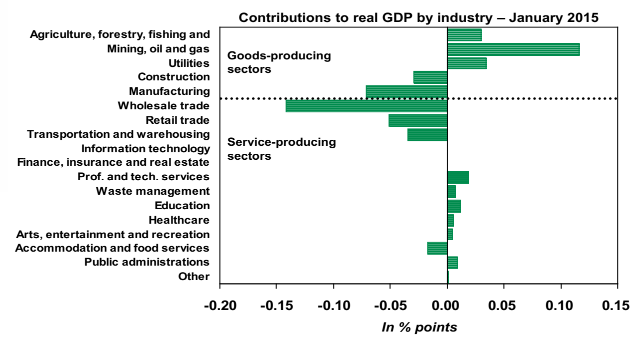
### COMMENTS

In general, January's real GDP by industry reading was in line with expectations. The sharp drop in manufacturing, wholesale and retail sales that occurred in January left no doubt as to the weakness of those sectors. On the other hand, the particularly cold winter in some parts of the country generated an advance in utilities. In addition, oil and gas extraction grew by 2.6%, thus regaining nearly all the ground that had been lost during the previous two months.

**Implications:** Given the January contraction in real GDP by industry, there is a risk that economic growth for the first quarter of 2015 as a whole may be weaker than originally thought. In order for our scenario of 1.0% growth to be realized, real GDP by industry would have to increase by 0.2% in February and in March. That is an ambitious objective, considering the recent challenges of the Canadian economy, but it is achievable given the effect that the rather harsh winter weather that battered Quebec and the Atlantic provinces may have on utilities.

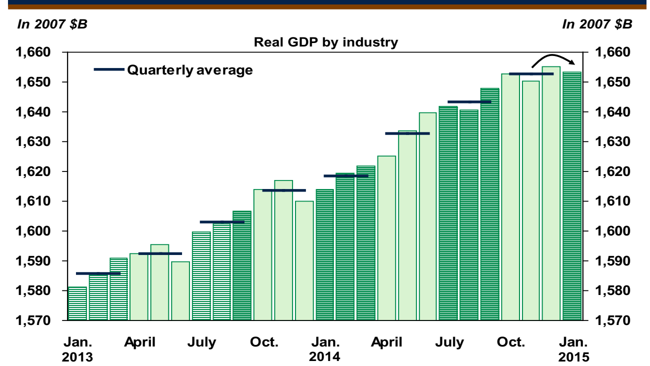
As for the Bank of Canada's (BoC) scenario, which calls for a gain of 1.5% in the first quarter, real GDP by industry would have to grow by an average of 0.3% in February and in March in order for that scenario to pan out. Given the circumstances, we can assert that it will be very difficult to manage such a feat. Therefore, the risk of monetary authorities being disappointed with the first-quarter economic data is quite high. Will this be enough to induce them to lower key interest rates again? It is too soon to say. If our scenario of first-quarter growth around 1% is confirmed, that should be enough to dissuade the BoC from ordering further monetary easing.

Trade and manufacturing sharply curtailed real GDP last January




Sources: Statistics Canada and Desjardins, Economic Studies

The carryover of growth for the first quarter is practically nil




Sources: Statistics Canada and Desjardins, Economic Studies

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