

September 1, 2015

CANADA

The technical recession has been confirmed! A return to positive territory in the third quarter is likely

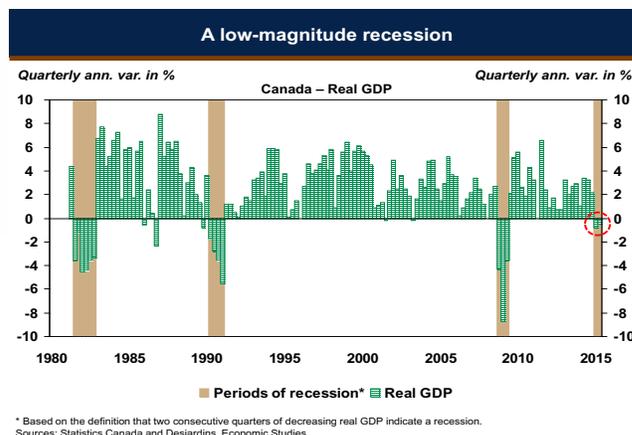
HIGHLIGHTS

- Canadian real GDP fell 0.5% (quarterly annualized) in the second quarter of 2015.
- It marked a second consecutive quarterly decrease, as real GDP slipped 0.8% in the first quarter of 2015.
- Based on the definition routinely used, the Canadian economy is in recession.
- Real GDP's springtime slide once again stems from a major decline in non-residential investment driven by difficulties in the energy sector.
- Slower advances in inventories also contributed negatively to real GDP in the second quarter.
- After some difficulties in the winter, consumption strengthened in the spring.
- The trade balance improved thanks to a small rise in exports and a decrease in imports (influenced by falling non-residential investment).
- Residential investment continued to climb.

COMMENTS

As forecast, it was confirmed this morning that the Canadian economy is in a technical recession. The word recession can trigger much worry; that is why this one is qualified as "technical". The extent of the slide in real GDP in the first two quarters of 2015 is much smaller than the declines observed in the previous periods of recession. This is due to the fact that the Canadian economy's current problems are not widespread. They are especially concentrated in certain sectors, such as energy, mining and manufacturing (affected by falling investment in the resources sector). Furthermore, the problems are concentrated in the oil-producing provinces of Alberta, Saskatchewan and Newfoundland and Labrador. As such, the outlook remains more favourable for the rest of the country.

There are also reasons to be optimistic as to the possibility of a return to positive territory as of the third quarter. Real GDP by industry rose 0.5% in June. This is the first



gain since the beginning of 2015. However, it was not enough to save the second quarter and bring it back into positive territory. Yet, June's rebound creates a more solid foundation for the next quarter. As such, the carryover for the third quarter (assuming zero monthly change in real GDP by industry in July, August and September) is already around +1%.

Implications: Even though the Canadian economy is in a technical recession, the Bank of Canada has reasons to be reassured. For one, the extent of the decline in real GDP is fairly weak. For another, encouraging signs suggest a quick return to positive territory. Under these conditions, monetary authorities will likely decide to hold key interest rates steady at their next meeting on September 9. However, we cannot discard the possibility of a third decrease in the target for the overnight rate later in the year if the expected recovery of the Canadian economy disappoints.

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