

CANADA

Disappointing growth in October's real GDP

HIGHLIGHTS

- Real GDP by industry remained practically unchanged (+0.02%) in October.
- Slightly more than half of the major activity sectors saw a rise in production for the month.
- However, many sectors were down in October, including manufacturing (-0.3%), utilities (-1.4%), retailing (-0.4%) and transportation and warehousing (-0.4%).

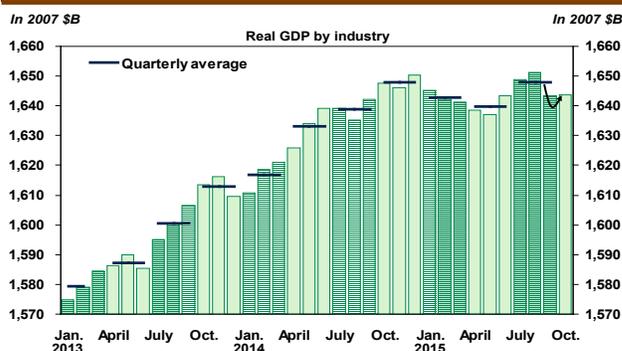
COMMENTS

October's results are disappointing since most forecasters expected production to rise. The main culprit is the oil and gas extraction sector, which suffered a significant drop in September (-4.7%) particularly as a result of maintenance work and temporary difficulties. Production in this sector has not yet fully recovered from its troubles, and the 0.8% increase recorded in October is sharply below expectations. This gives rise to certain worries about the possibility of slowing production in the energy sector in reaction to deteriorating profitability due to falling oil prices.

Weakness in other activity sectors is also worrisome. Clearly, the Canadian economy's foundation is not very solid. In addition, exceptionally mild temperatures in Ontario, Quebec and the Maritimes in November and December will lower the country's energy consumption, which could put the brakes on real GDP's advance in the final months of 2015.

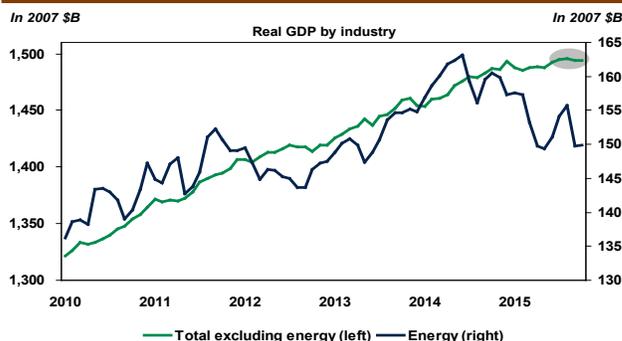
Implications: Considering the fairly weak trend in non-energy sectors and the unfavourable impact of milder temperatures in recent months, we cannot expect a very strong advance in real GDP by industry at the end of 2015. In these conditions, the fourth quarter as a whole should end with practically no change in real GDP, and a slight decrease is even possible. Several temporary factors are impacting the results, and the Bank of Canada will certainly consider this in managing its monetary policy. That said, if exports

The carryover for the fourth quarter is still negative



Sources: Statistics Canada and Desjardins, Economic Studies

Recent weakness in non-energy sector production is worrisome



Sources: Statistics Canada and Desjardins, Economic Studies

do not pick up soon, monetary authorities could be tempted to further lower key rates.

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