Economic News

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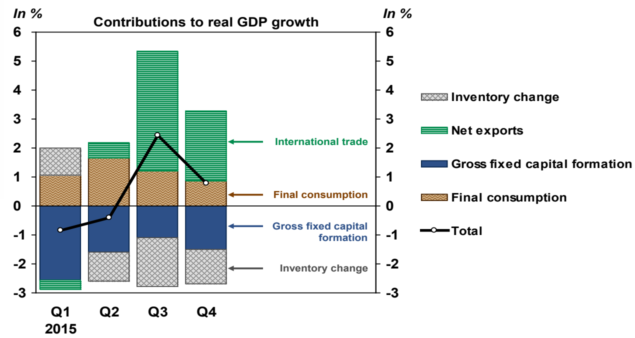
CANADA

Real GDP posts a modest increase in Q4 2015

HIGHLIGHTS

- Real GDP advanced a quarterly annualized 0.8% in the fourth quarter of 2015.
- Domestic demand struggled again, dropping 0.6%. Upticks in household consumption, government expenditures and residential investment were not enough to offset the major decline in non-residential investment.
- Exports of goods and services fell 2.2%, while imports plunged 8.9%. The improvement to the trade balance therefore yielded a 2.4% contribution to real GDP.
- Inventory growth slowed, resulting in a -1.2% contribution to real GDP.
- Real GDP grew 1.2% for 2015 as a whole.

International trade made another contribution to economic growth in the fourth quarter



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

The real GDP growth posted in the fourth quarter of 2015 was a little stronger than anticipated: the consensus forecast called for zero growth for the period. That being said, the makeup of the growth is fairly consistent with expectations.

Non-residential investment saw another sharp plunge due to the impact of the drop by energy and other commodity prices. Although most of the other components edged up, domestic demand lost ground in Q4. Domestic demand has thus retreated by a total of -0.5% over the last year. Clearly, Canada's economy is not in the best of health. Also, last fall's improvement to the trade balance occurred for the wrong reason—a net drop in imports, another symptom of the weakness in domestic demand.

However, we can be a little more optimistic about what comes next. Conditions remain very good for Canadian exports, with the weak loonie and improved U.S. demand. There is therefore reason to think that exports will keep trending up in the coming quarters. Also, the decline in non-residential investment should eventually peter out as energy prices stabilize.

The latest monthly figures on real GDP by industry are also fairly encouraging, as well. November posted a 0.3% rise, which was followed by a gain of almost 0.3% in December. This puts the carryover for the first quarter of 2016 at about 1.0%. Under these circumstances, we can hope that real GDP growth will be able to close in on the 2% mark during the period.

Implications: Overall, economic growth is a little more robust than the Bank of Canada anticipated. The monetary authorities not only projected zero real GDP growth for the fourth quarter, they anticipated a gain of just 1.0% for the first quarter of 2016. Under these conditions, the likelihood of seeing the monetary authorities order another key interest rate cut in the coming months is very low. Rather, we can expect an ongoing status quo for several quarters.

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