Economic News
Desjardins Economic Studies
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CANADA

January's growth twice the forecast

HIGHLIGHTS

- Real GDP by industry rose 0.6% in January. The forecast consensus was for 0.3%.
- Goods production advanced 1.2%, due in particular to a 1.9% increase in manufacturing.
- Service production rose 0.4%. The major gains in retailing (+1.5%), transportation and warehousing (+1.4%), and finance and insurance (+0.6%) largely offset the decline recorded in some sectors, including wholesaling (-0.2%).

COMMENTS

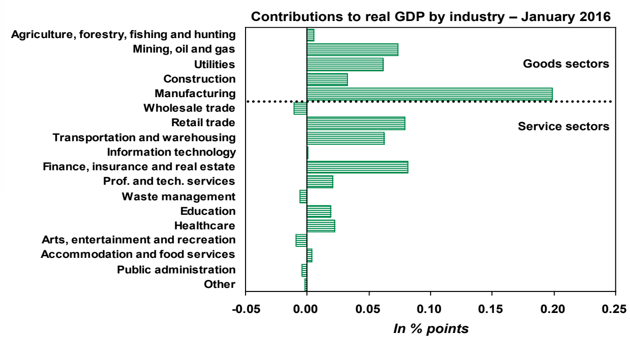
2016 got off to a roaring start with the strongest monthly growth in real GDP by industry since July 2013. Nearly one third of January's growth comes from manufacturing, which added another significant advance to the 1.1% rise posted in December. The benefits of the weaker Canadian dollar and lively U.S. demand seem increasingly apparent. The increase in output in most other sectors is also encouraging, painting a fairly positive picture of Canada's economy.

Does this mean that the problems of recent months are a thing of the past? Not really. It will take some more time for the Canadian economy to finish adjusting to the drop in energy prices. Under these circumstances, the risks of poor performance remain high for the next few months.

That being said, January's strong rise by real GDP by industry means that the starting point for the first quarter of 2016 is much higher than anticipated. The first quarter as a whole could therefore finish with growth of around 3.5% (annualized). If this outlook materializes, average real GDP growth for 2016 could be a little better than the 1.5% we predicted in our latest scenario.

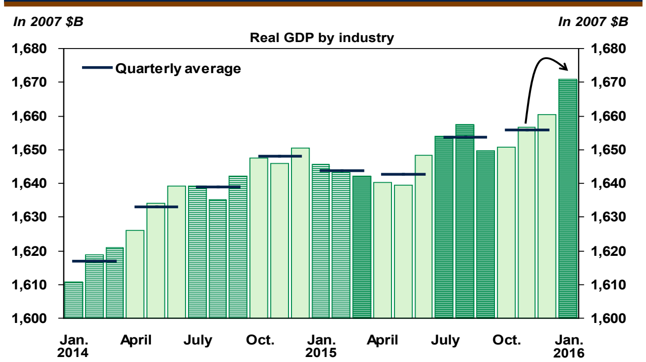
Implications: With results like this on the economic stage, we can rule out another cut to Canadian key interest rates in the coming months. Given the loonie's recent appreciation, however, the Bank of Canada will want to delay the onset of monetary firming as long as possible. This means it will be 2017 before a key rate increase is ordered.

Manufacturing made a big contribution to economic growth in January



Sources: Statistics Canada and Desjardins, Economic Studies

Growth for Q1 2016 could be in the neighbourhood of 3.5%



Sources: Statistics Canada and Desjardins, Economic Studies

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