A temporary decline in real GDP in the spring

**HIGHLIGHTS**

- Real GDP contracted at an annualized quarterly rate of 1.6% in the second quarter of 2016.
- The bulk of that contraction comes from a strong, negative contribution from the trade balance: exports plunged by 16.7%, while imports edged up by 1.1%.
- On the other hand, acceleration in inventory changes made a positive contribution to real GDP growth.
- Consumer spending also contributed positively to real GDP, while drops in durable and semi-durable goods were offset by upturns in non-durable goods and services.
- Non-residential investment lost ground once again in the spring, although the decline was definitely smaller than the drops that were observed in previous quarters.
- Residential investments were up by 1.2% thanks to an increase in the transfer costs associated with sales of existing homes.
- Growth in consumption and government investment is starting to accelerate, with a gain of 4.0% during the quarter.

**COMMENTS**

The limpness of the Canadian economy in the second quarter comes as no surprise. For one thing, exports went through a rough patch during the period, when foreign demand waned to some degree. For another, the energy sector struggled through some very tough times following the forest fires in the Fort McMurray area.

All eyes are now turned to the third quarter, when most forecasters are expecting a rebound. On this point, there is still reason for hope. Despite some fluctuations, the general trend in foreign demand is still upwards; this should enable the export data to move back into positive territory. Furthermore, the return to normal in the unconventional oil extraction industry (mainly the oil sands in the Fort McMurray area) was not totally completed in June. Therefore, July should benefit from a further significant contribution from that industry, and this should boost economic growth.

**Implications:** Since a third-quarter rebound is still likely, the Bank of Canada should not be overly concerned by the real GDP contraction in the second quarter. This argues in favour of the continuation of the status quo in the coming quarters.

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Note to readers: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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