

CANADA

Real GDP rebounds in the third quarter

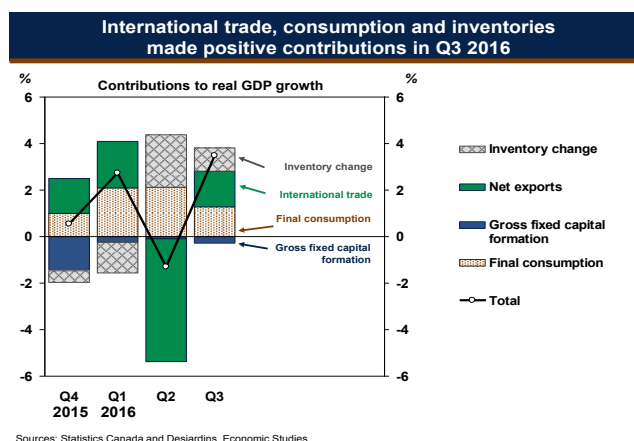
HIGHLIGHTS

- Real GDP grew 3.5% (quarterly annualized) in the third quarter of 2016.
- Domestic demand increased 0.9%. The rise in household consumption spending (+2.6%) was partly offset by declines in consumption by public administrations (-1.2%) and residential investment (-5.5%).
- Investment by public administrations advanced 2.6%.
- Non-residential investment increased 3.5% (the first increase since the summer of 2014) due to the positive impact of the purchase of a module from South Korea for the Hebron oil project in Newfoundland and Labrador.
- However, the module inflated imports, which grew 3.3% over the quarter. On the other hand, exports recovered from the previous quarter's problems, gaining 8.9% in the third quarter. The trade balance therefore went from -\$4.7B in 2007 dollars to +2.9B in 2007 dollars.
- Real GDP by industry rose 0.3% in September.

COMMENTS

Canada's economy rebounded as anticipated in the third quarter, after posting a 1.3% decline last spring. The slightly faster than expected growth by household consumption spending, in particular on services, and exports' return to positive territory are among the good news. Note that conditions remain favourable for international trade, with foreign demand trending up and a fairly weak loonie.

The third quarter's strong real GDP growth does feature a few disappointments, however. For one thing, aggregate spending by public administrations (consumption and capital spending) fell 0.6%. Clearly, the positive impacts of the federal government's stimulus plan have not yet made themselves felt. This raises some questions about the scope of the benefits the new public expenditures will actually have on economic growth in 2016 and 2017. For another,



the 5.5% drop in residential investment is bigger than forecast. Given the new restrictive measures introduced by the federal government this fall and the recent upswing by mortgage rates, residential investment may well keep declining for several quarters.

As for real GDP by industry, September's 0.3% increase beat expectations. The carryover for the fourth quarter stands at 1.8% (assuming zero real GDP growth by industry in October, November and December). However, it would be astounding to see no real GDP growth at all in the final months of the year, with the result that the fourth quarter should wrap up with growth of more than 2%.

Implications: Not only are the results for the third quarter satisfactory, but the outlook for the fourth quarter looks better than initially expected. Under these conditions, it will be difficult for the Bank of Canada to announce a key rate cut in the coming months. The most probable option is an ongoing status quo until 2018.

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