

ECONOMIC NEWS

Canada: The fourth quarter is off to a disappointing start

HIGHLIGHTS

- ▶ Real GDP by industry fell 0.3% in October.
- ▶ Goods sectors are down 1.3%. Among other things, after shooting up for four months, oil and gas extraction retreated 2.5%. Manufacturing also fell 2.0% over the month.
- ▶ The service sectors ticked up 0.1%. Wholesale and retail trade made a substantial contribution to growth.

COMMENTS

October's drop in real GDP is disappointing given that most forecasters had expected close to zero growth for the month. However, the drop results from several one-off factors. For one thing, it is somewhat normal for oil and gas extraction to lose momentum after surging for the last few months. The 1.0% dip by utilities could also be due to the above normal temperatures, which decreased heating needs in October.

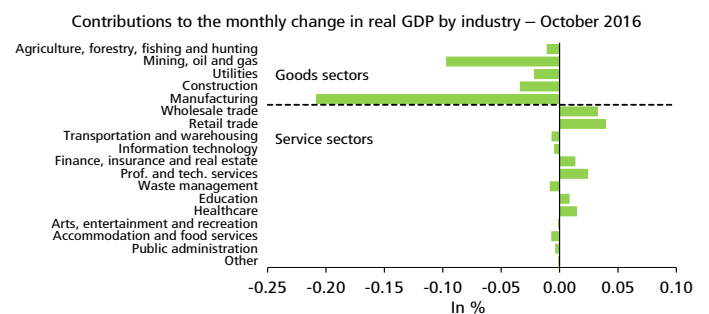
IMPLICATIONS

The Canadian economy's poor performance will have major consequences for fourth-quarter growth. While our scenario calls for growth of just under 3% for the period, it will no doubt be hard to hit 2%. To do that, however, real GDP would have to rebound in November. For now, there is reason to think it will, as hours worked jumped 1.0% that month.

October's disappointing real GDP by industry results remind us of the many uncertainties looming over the Canadian economic outlook. This spotlights the need to keep key interest rates where they are for quite some time to come. Note that our scenario calls for a first increase in the fall of 2018.

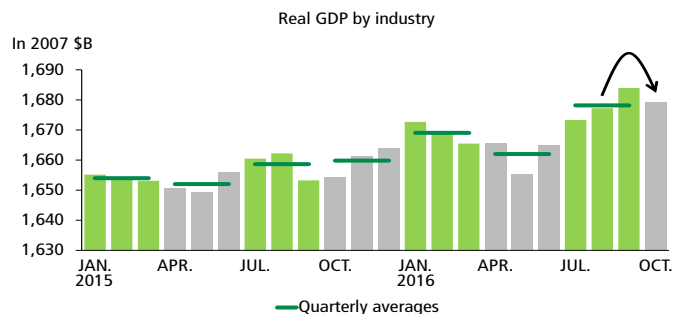
Benoit P. Durocher, Senior Economist

GRAPH 1
Weakness in the goods sectors saps growth



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
The Q4 carryover is much smaller than forecast



Sources: Statistics Canada and Desjardins, Economic Studies

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