Canada: Real GDP Records Best Start to the Year Since 2002

HIGHLIGHTS

- Real GDP rose 4.5% (quarterly annualized) in the second quarter. This gain follows a 3.7% increase in the first quarter. Cumulative growth since the beginning of the year is therefore 4.1% (annualized), the kind of performance not seen since 2002.

- Domestic demand has remained strong in the second quarter (+3.5%), posting another exceptional gain in household consumer spending (+4.6%). The rebound in non-residential investments also continued on the back of a 7.4% increase.

- Goods and services exports rose 9.6%, while imports climbed 7.4%. Improvement in the trade balance contributed +0.5% to the annualized quarterly change in real GDP.

COMMENTS

The consensus forecast called for real GDP to increase 3.7% in the second quarter, which is already exceptional considering that growth potential is currently assessed between 1.0% and 1.6% by the Bank of Canada (BoC). This is what makes the 4.5% gain so remarkable.

As is often the case with such good performance, virtually all components made a substantial contribution to economic growth. Moreover, the vitality of consumer spending is astonishing, even though a number of positive factors are obviously at work, such as a strong labour market, higher confidence and good growth in employee wages.

The only dark spot, albeit not really one, is the decline in residential investment (-4.7%). Since such a slowdown is desired, this cannot be much of a complaint. It should help reduce the risk posed by the vitality of the housing market for the country’s financial stability. It now remains to be seen whether this pullback will continue in the next few quarters.

IMPLICATIONS

Considering the strong Canadian economic growth, monetary authorities will likely have to continue to raise their key interest rates in the coming months. While a hike in September is still possible, it is more likely that low inflation will cause the BoC to hold back until October, when the update to its Monetary Policy Report will also be published.

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Graph: Exceptional growth in real GDP in the second quarter of 2017

Contributions to annualized quarterly change in real GDP

Sources: Statistics Canada and Desjardins, Economic Studies

Graph Image

Exceptional growth in real GDP in the second quarter of 2017

Contributions to annualized quarterly change in real GDP

In %

Q3 2016

Q4 2016

Q1 2017

Q2 2017

Net exports

Change in inventories and residual error

Gross fixed capital formation

Consumption

Total

#1 BEST OVERALL FORECASTER - CANADA

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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