Canada: Real GDP Catches its Breath

HIGHLIGHTS

- Real GDP by industry posted a monthly increase of 0.0% in July following rises of 0.6% and 0.3% in May and June, respectively.
- Goods-producing sectors posted a decrease of 0.5%. With the exception of utilities, all other sectors saw a significant decrease.
- The service sectors saw 0.2% growth, a result similar to that of previous months.

COMMENTS

Given the results for other economic indicators, which overall were fairly positive in July, our expectations were relatively high for the monthly change in real GDP by industry. Under these conditions, the near zero growth that was ultimately recorded is disappointing.

It should be noted, however, that the available data represent only a proportion of the entire Canadian economy, which can sometimes lead to this type of surprise. Moreover, a 1.8% drop in production in the oil and gas extraction sector, translating into a -0.1% contribution to the monthly change in real GDP, strongly tipped the scale. Significant negative contributions were also observed in finance and insurance, manufacturing and construction.

IMPLICATIONS

Despite the disappointing start to the third quarter, strong GDP growth in the previous months yielded a considerable advance for the period. Taking into account potential gains of around 0.2% for August and September, the third quarter as a whole could end with growth ranging between 2.0% and 2.5%.

While this is certainly a weaker projection than initially expected, it is nevertheless a very satisfactory result. Note that the Bank of Canada (BoC) estimates potential growth to be 1.0% to 1.6% for 2017.

That being said, the Canadian economy’s break in July opens the door to a potential pause in key interest rate increases in October. However, various other data will be published before the next meeting; this will also influence the BoC leaders’ next decision.

Benoit P. Durocher, Senior Economist