Canada: Lack of Change in Real GDP Hits Like a Cold Shower

HIGHLIGHTS

- Real GDP by industry barely changed in October. This was disappointing as the consensus forecast called for a 0.2% increase.

- The goods sectors posted a decline of 0.4%, primarily due to a significant drop in the mining, oil and natural gas sector, as well as the utilities sector.

- The service sectors advanced 0.2%. Wholesale and retail sales performed particularly well.

COMMENTS

The drop in production in the mining, oil and natural gas sector was a significant drag on economic growth in October. That said, the difficulties appear to be more widespread as nearly half of the other industries also saw a decrease over the course of the month. The decline in utilities, which was undoubtedly due to the exceptionally mild weather for this time of year, also strongly tipped the scale. If the mining, oil and natural gas sector and the utilities sector are excluded, the real GDP by industry climbed by about 0.1% in October.

The third quarter clearly began on a sour note. The annualized carryover for the period is currently close to zero. If there is any hope of the third quarter ending with a gain of around 2%, the real GDP by industry will need to rebound significantly in November and December. However, this could be difficult judging by the number of total hours worked in the Canadian economy, which shrank 0.7% in November.

IMPLICATIONS

After a several strong results by other economic indicators, including a rise in the total inflation rate, the weak real GDP in October hit like a cold shower. This has revived uncertainty over the exact timing of the next key interest rate hike.

Bank of Canada leaders are puzzling over this after clearly indicating that the next key interest rate increases would hinge on economic results. We should keep in mind that our current scenario includes a 25-basis point increase in the first quarter of 2018.

Benoit P. Durocher, Senior Economist

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

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document’s authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2017, Desjardins Group. All rights reserved.