Canada: Real GDP Back Up in Spring

HIGHLIGHTS

- The results for the economic accounts show that real GDP grew 2.9% (annualized) in Q2.
- Domestic demand was up 2.1% due to increased spending by households, governments and non-profit organizations (+2.4%). Investments also went up (+0.9%) for the sixth quarter in a row.
- As predicted, exports of goods and services ballooned (+12.3%) during that time period. Imports also increased significantly (+6.5%), although not as sharply, which led to a net improvement in the trade balance.
- There was practically no growth in real GDP by industry (+0.02%) in June, after a 0.5% gain in May. In addition, the extraction of oil and gas, affected by temporary setbacks, declined 1.0% in June.

COMMENTS

The Q2 result are in line with our expectations. After inching up only 1.4% in Q1, Canadian real GDP was expected to rebound in the spring and post growth of about 3%. Looking past the spasmodic international trade situation, it is interesting to note that domestic demand is still increasing nicely. The Canadian economy seems to be absorbing interest rate hikes very well up to now.

The outlook for the coming quarters remains favourable, although we should expect real GDP growth to revert to a more sustainable pace, around 2%. The housing market stabilized recently, and non-residential investment will continue to be boosted by the disappearance of excess production capacity. If the North American Free Trade Agreement (NAFTA) negotiations continue to go well, business concerns may also go down a notch.

IMPLICATIONS

All those good results underscore the need to continue with gradual monetary tightening, all the more so since inflation has recently hit the outer limits of the target range (3%). That said, there is no urgency to act and the Bank of Canada may decide to wait until October for its next hike, keeping the pace steady.

A new Monetary Policy Report will be released at the October meeting, but there will be nothing at the September meeting.

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