

ECONOMIC NEWS

Canada: Q2 Could End with Growth around 3%

HIGHLIGHTS

- ▶ Real GDP by industry increased 0.2% in May, in line with our expectations.
- ▶ Goods-producing sectors posted growth of 0.6%. Surges in construction and manufacturing offset the drops in mining and oil and gas extraction.
- ▶ The service sectors advanced 0.1%. Trade (wholesale and retail) lost ground during the month, while most other sectors advanced.

COMMENTS

May's growth in real GDP by industry, combined with the sustained advances recorded in previous months, provides for a relatively strong carryover for the second quarter. Assuming zero monthly change in real GDP by industry in June, our estimates indicate that the second quarter should end with a gain of around 3%. June's performance will of course shift this projection slightly. It is nonetheless clear that second-quarter growth will be much higher than that of the previous quarter, which posted a gain of just 0.4%.

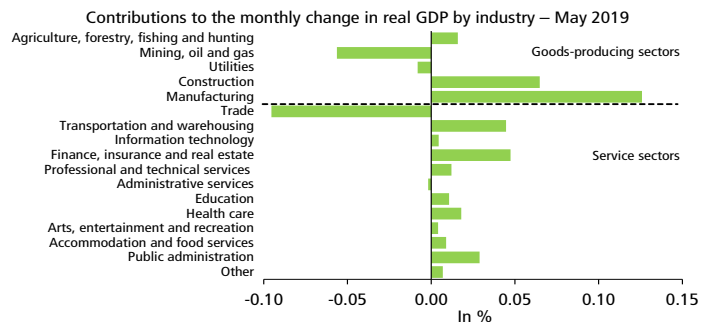
The improvement can be chalked up to oil production getting back to normal after its struggles early in the year. That being said, a number of other sectors are also doing well. May's results are a good example. While oil and gas extraction caught its breath after making substantial gains in previous months, the rest of the economy posted monthly growth of 0.4%.

IMPLICATIONS

Although the Federal Reserve should announce a key interest rate cut this afternoon, it is hard to picture the Bank of Canada following suit given the Canadian economy's solid performance. An extended status quo is much more likely here.

GRAPH 1

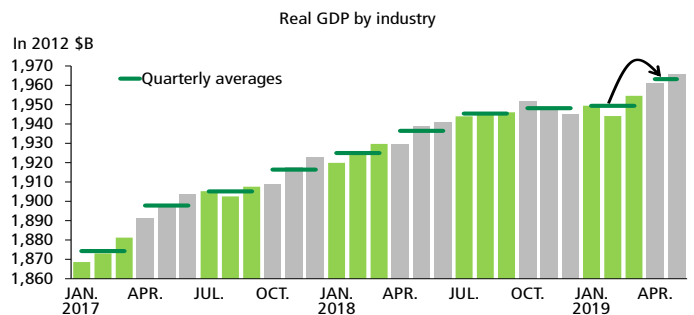
Goods production boosted real GDP growth in May



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2

Growth accelerated in Q2



Sources: Statistics Canada and Desjardins, Economic Studies

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