

ECONOMIC NEWS

Canada: Real GDP Rebounds... but Domestic Demand Returns to Negative Territory

HIGHLIGHTS

- ▶ Real GDP rose 3.7% (quarterly annualized) in the second quarter. It is worth noting that the two previous quarters had ended with much weaker increases, that is, 0.3% in the fourth quarter of 2018 and 0.5% in the first quarter of 2019.
- ▶ The main contributor to growth in the second quarter was international trade owing to a 13.4% increase in exports and a 4.0% decrease in imports.
- ▶ It is nonetheless disappointing to see that domestic demand has returned to negative territory (-0.7%). Consumer spending (+1.1%) and residential investment (+5.5%) were certainly up during the period, but that was insufficient to fully offset the negative effects of the sharp drop in business investment in machinery and equipment and in non-residential structures (-16.2%).
- ▶ The spike in exports was coupled with a slowdown in the variation in inventories. This contributed -1.1% to the quarterly variation in real GDP.

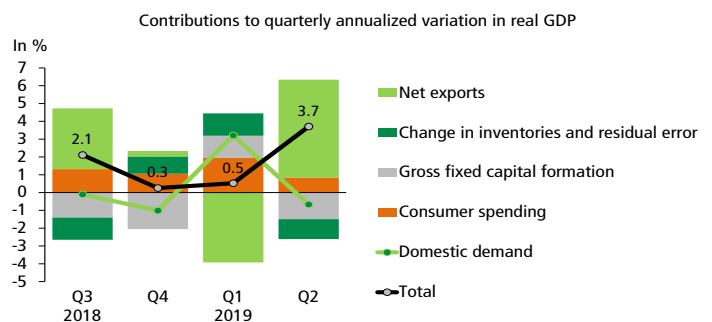
COMMENTS

The second quarter was marked by rather extreme results. On the one hand, international trade benefited from a very substantial increase in exports, as the energy sector returned to normal after the constraints it faced in early 2019. On the other hand, non-residential investment by businesses saw another major decline. The uncertainty associated with the trade war is clearly still affecting Canadian businesses.

Such jolts are making it difficult to get a clear picture of the trend in Canada's economy. To have a better idea, we should exclude the mining and oil and gas extraction sector, which has experienced significant fluctuations in recent months. Without this sector, real GDP growth would have been just 1.5% in the

GRAPH

Second quarter results: a mirror image of the previous quarter



Sources: Statistics Canada and Desjardins, Economic Studies

second quarter, a result similar to that recorded in previous quarters. Although this advance is not exceptional, it cannot be called anemic either.

IMPLICATIONS

With a 3.7% rise in real GDP, there is every indication that the Bank of Canada will again opt for the status quo when it meets next week. However, deep uncertainties remain, which could possibly tip the balance further.

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