

ECONOMIC NEWS

Canada: Toward More Modest Growth in the Third Quarter

HIGHLIGHTS

- ▶ Real GDP by industry increased 0.1% in August, in line with our expectations.
- ▶ The July result remained virtually unchanged. However, the June result was revised slightly downward from +0.2% to +0.1%.
- ▶ Goods-producing sectors were up 0.2% in August, putting an end to two consecutive months of declines.
- ▶ Service-producing sectors rose 0.1% during the month. This growth is a little weaker than in previous months due mainly to a 1.3% decrease in wholesale trade. Remember that this drop was preceded by a 1.1% gain in July.

COMMENTS

Overall, the results for August are not so bad. Production was higher in 14 of the 20 main industries. This distribution is similar to the trend observed in recent months, showing growth that is fairly well distributed in the economy. Of course, this does not prevent some industries from continuing to be plagued by chronic problems, especially in the energy sector.

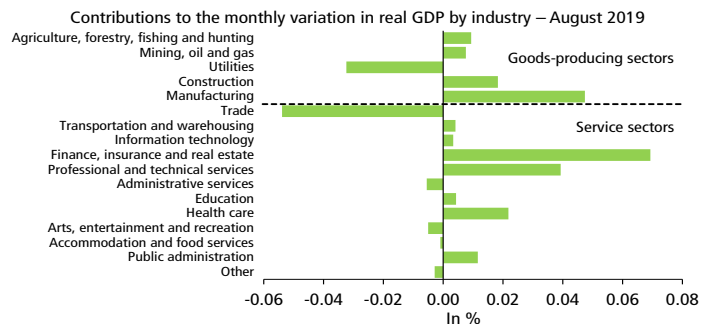
It is nonetheless undeniable that economic growth is returning to a more moderate pace after the strong forward momentum in the spring. The carryover after two months is just 1.2%. Assuming that real GDP by industry will rise about 0.1% in September, the entire third quarter could end with a gain of around 1.3% (annualized). This projection is somewhat weaker than our latest forecast, which called for a 1.7% increase.

IMPLICATIONS

Slower real GDP growth is in line with the slowdown in economic growth expected by the Bank of Canada (BoC) for the second half of 2019. It now remains to be seen whether real GDP

GRAPH 1

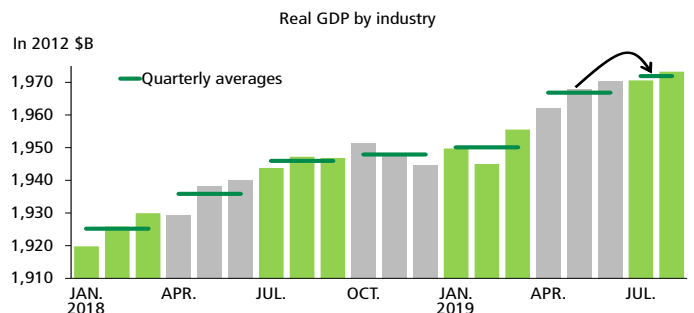
Trade and utilities hampered growth in August



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2

Carryover of just 1.2% after two months for the third quarter



Sources: Statistics Canada and Desjardins, Economic Studies

growth will stabilize in the months to come as predicted. If it does not, the BoC could be under more pressure to order a key interest rate cut.

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