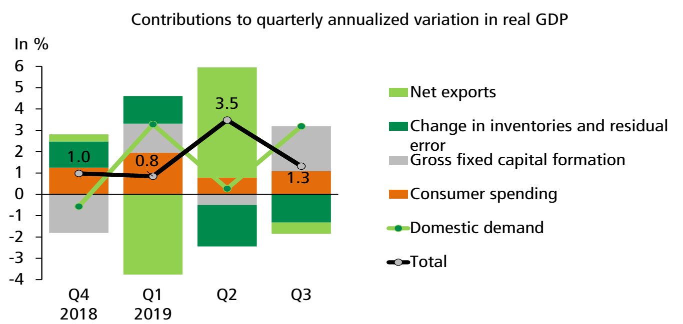
ECONOMIC NEWS

Canada: Encouraging Results Despite Weaker Real GDP Growth in Q3

HIGHLIGHTS

- Real GDP was up 1.3% (annualized) in the third quarter, in line with expectations.
- The results for previous quarters were revised. Real GDP growth was revised upward in the second half of 2018 and in the first quarter of 2019. A slight downward revision is, however, noted for the second quarter of 2019. These changes are more positive overall for growth for 2019 as a whole.
- After remaining essentially anemic in the previous quarter, domestic demand rose 3.2% in Q3. Consumer spending increased 1.4%, whereas gross fixed capital formation jumped 9.9%.
- As expected, residential investment continued its climb in the third quarter. Non-residential business investment was also up, by 9.5%. This is a surprising result given the many uncertainties.
- Goods and services exports dropped 1.5%, while imports grew 0.1%. The deterioration in the trade balance therefore contributed -0.5% to the quarterly annualized variation in real GDP.
- The change in inventories slowed significantly, contributing -1.6% to the quarterly annualized variation in real GDP.

GRAPH
Domestic demand rebounded in the third quarter



Sources: Statistics Canada et Desjardins, Economic Studies

COMMENTS

Generally speaking, the Q3 results are fairly encouraging, as the 3.2% gain in domestic demand is much higher than forecast. That said, real GDP growth is expected to remain moderate in the fourth quarter. The carryover for the final quarter of 2019 is just 0.6%, which is relatively low. We have to wonder whether non-residential business investment will be able to continue on this upward path. Preliminary data on international trade also suggest that the export troubles have continued into the fall.

IMPLICATIONS

With the renewed momentum in domestic demand, it is becoming increasingly difficult to justify the need for a key interest rate cut in Canada, even though uncertainty remains high. Our scenario is still calling for a continuation of the Bank of Canada's status quo in the coming quarters.

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