ECONOMIC NEWS

Canada: A Number of Disruptions Rein in Real GDP in the Fourth Quarter

HIGHLIGHTS

- Real GDP rose a scant 0.3% (annualized) in Q4 of 2019, in line with expectations.
- Domestic demand advanced 0.7%. Consumer spending increased 1.8%, while gross fixed capital formation declined by 3.1%.
- Residential investment continued to climb, recording a third straight quarterly gain (+1.1%). However, non-residential business investment tumbled 6.3%.
- Goods and services exports declined 5.1%, while imports shrank 2.5%. The trade balance thus deteriorated by $4.6B in 2012 dollars for the quarter, resulting in a -0.8% contribution to the annualized quarterly variation in real GDP.
- The variation in inventories accelerated in the quarter, contributing +0.6% to the annualized quarterly variation in real GDP.

COMMENTS

The Canadian economy faced a number of disruptions in the fourth quarter of 2019. A strike by U.S. employees of General Motors affected the Canadian auto industry. A strike by Canadian National employees paralyzed rail transportation in Canada for a number of days. An oil pipeline break in the United States slowed the transportation of oil between Canada and the United States. Last-minute negotiations around the final version of the Canada-U.S.-Mexico Agreement (CUSMA) and global trade tensions fuelled business uncertainty. Adverse conditions would have affected crops as well. That said, the Canadian economy still managed to maintain some strength. Consumer spending continued to rise, thanks in part to sustained income growth. The uptrend in the housing market also continued across the country.

All eyes are now focused on the first quarter of 2020. A number of disruptions will still be present, however. Interruption in rail transportation will negatively impact economic growth. The coronavirus will undoubtedly have a negative impact on the Canadian economy, although the extent of this impact remains unclear. Winter has also been relatively mild thus far, which should result in lower utility production.

IMPLICATIONS

While the Canadian economy is still expected to struggle in early 2020, the vast majority of the problems are temporary. A return to normal should eventually lead to a rebound in the Canadian economy later in the year. That said, the climate of uncertainty has undeniably ticked up a notch in recent days, with cases of the coronavirus spreading outside of China. Canada is obviously not immune to these concerns, and financial markets are anticipating a cut in Canadian key interest rates. More details about the Bank of Canada's intentions will be known following its meeting next week. We nonetheless believe it would be premature to move away from the status quo as soon as next Wednesday's decision.

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