ECONOMIC NEWS

Canada: Weaker than Expected Real GDP Growth in the Second Quarter

By Mikhael Deutsch-Heng, Macroeconomist

HIGHLIGHTS

- Real GDP fell 1.1% (annualized) in the second quarter, well below consensus expectations for a 2.5% annualized gain.
- This weak reading is largely due to a 15.0% decline in exports of goods and services, which dragged down the quarterly annualized variation by 4.8 percentage points. In other words, if exports had been flat, real GDP would have been up 3.7% instead of down 1.1%.
- Investment in residential structures (-12.4%) and government investment (-7.7%) were also disappointing. But investment in non-residential structures, machinery and equipment (+12.1%) and intellectual property products (+3.3%) posted solid growth.
- Household spending, which accounts for slightly more than half of GDP, edged up just 0.2%.
- Real GDP by industry grew 0.7% in June, but Statistics Canada's preliminary result for July shows a 0.4% decline.

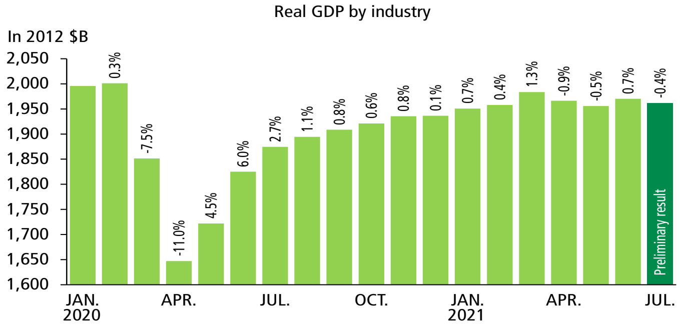
COMMENTS

The Canadian economy severely underperformed in the second quarter. Though much of the 1.1% contraction was due to a steep decline in exports, most other GDP components posted relatively weak numbers as well, as public health restrictions remained in place in most provinces.

Slowing home sales weighed heavily on growth. The drop in investment in residential structures was due entirely to home ownership transfer costs (-54.2%), while new construction (+13.5%) and renovation (+9.9%) rose sharply once again. Overall investment in residential structures could continue to hold back growth in the third quarter, while home sales should continue to moderate.

GRAPH

Despite the reopening of the economy, preliminary results show that real GDP fell 0.4% in July



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

In addition to the disappointing second quarter figures, the preliminary result for July also grabbed our attention. If it proves accurate, it could signal to the Bank of Canada (BoC) that the output gap is closing later than expected. However, the July slowdown could easily be offset by stronger GDP growth in subsequent months. Inflation also remains very high. We therefore don't think today's number will prevent the BoC from continuing to cut back its asset purchases in October.