

ECONOMIC NEWS

Canada: Real GDP Temporarily Stumbles in July

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HIGHLIGHTS

- ▶ Real GDP by industry fell 0.1% in July, in line with our forecast.
- ▶ June's gain was revised to +0.6% instead of +0.7% as initially estimated.
- ▶ Only 7 of the 20 main industries retreated in July. Agriculture, forestry, and hunting and fishing fell 5.5% while utilities were down 4.9%. Wholesaling (-1.9%) and retail trade (-1.1%) also dropped significantly.
- ▶ Statistics Canada's preliminary results indicate that real GDP by industry gained 0.7% in August.

COMMENTS

With the real GDP increase in June and the one expected in August by the preliminary result, it is surprising to see that real GDP had lost ground in July. This slide can be largely explained by temporary factors. For example, difficult weather conditions, with a drought in western Canada, contributed to a sharp drop in crop production. In contrast, cooler than normal temperatures in central and eastern Canada drove down the need for air conditioning and reined in utilities' output.

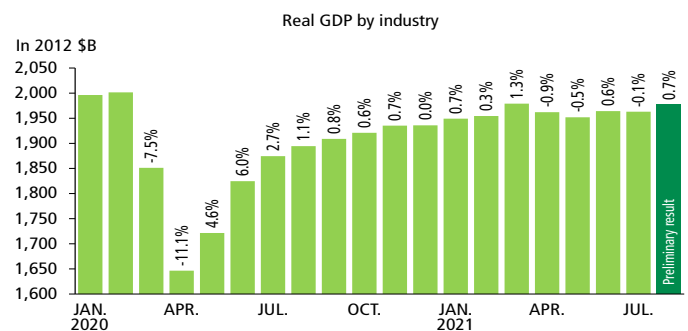
Moreover, the lifting of certain public health measures triggered an upheaval among economic sectors. For example, a substitution effect reduced retail spending to the benefit of accommodation and food services, as well as arts, entertainment and recreation.

IMPLICATIONS

Our current economic scenario calls for real GDP growth of around 4.0% (quarterly annualized) in the third quarter. However, taking into account the slight downgrade in June and the preliminary results for August, the risks tied to this forecast are slightly tilted to the downside. The situation will become clearer with the release of economic indicators in the coming weeks.

GRAPH 1

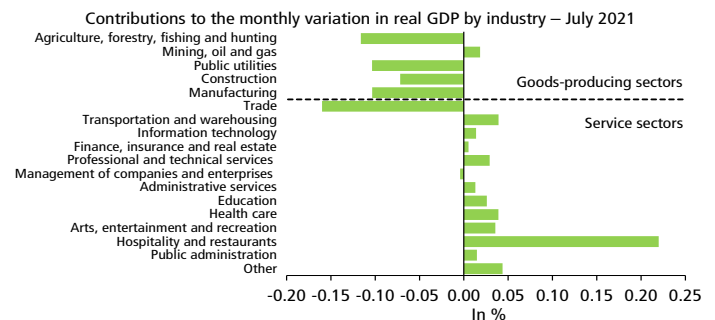
Canada's economy should continue to recover in August



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2

Trade and most goods-producing sectors slowed economic growth in July



Sources: Statistics Canada and Desjardins, Economic Studies