Weather and retailing to hamper economic growth in December

Following disappointing results in September (-0.5%) and October (0.0%), real GDP by industry improved 0.3% in November. Unfortunately, this upswing could end in December, when certain temporary factors will likely rein in growth for the month.

December 2015 saw exceptionally mild weather, with the mercury rising above historic averages across the country. Central Canada was particularly affected by the phenomenon, and since this region is particularly dense, the impact on economic growth could be heightened. The effects will be numerous. The need for heating was sharply below the norm; this should translate into weaker output by utilities. According to our estimates, the anticipated decrease in utilities could trim around 0.1% off the monthly change in real GDP by industry in December. Retailing should also be impacted, as certain seasonal expenses were postponed due to the delayed arrival of snow. The lack of snow will also reverberate on snow removal activities and winter recreation. In contrast, warmer temperatures certainly had some positive effects. Construction was one of the sectors most likely to benefit, yet the number of residential housing starts shrank in December. Ultimately, the impact of warmer weather on economic growth should therefore be negative for December.

December will also be characterized by blips in retailing. The seasonal adjustment process struggles to capture the increasing popularity of Black Friday sales, thereby translating into a significant jump in retail sales in November. However, the opposite effect was observed in December, as early shopping has for some years led to a decrease in retail sales. In addition, gift card purchases also contribute to lowering December’s retail sales.

Implications: Barring any surprises, particularly with international trade, real GDP growth by industry will likely be disappointing in December. It is even possible for output to contract again.