

First output decline this year

Canadian real GDP growth:

August: -0.1 (actual), +0.1% (expected)

Previous: flat (unrevised)

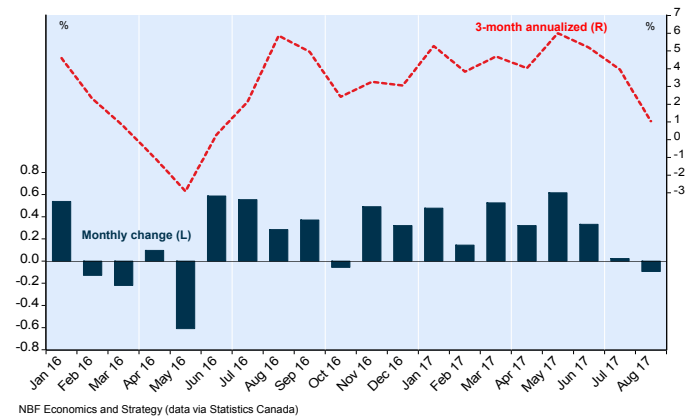
FACTS: Canada's real GDP fell 0.1% August, disappointing consensus which was looking for an increase. Goods producing industries saw a 0.7% drop in output as declines in manufacturing (-1.0%), oil and gas (-1.4%), agriculture, construction, and utilities dwarfed gains in mining (+2.5%). Industrial production fell 0.9% as a result. The services sector's output was up 0.1% as solid gains in arts/entertainment (+0.7%), wholesaling (+0.4%), and professional services (+0.3%) more than offset declines in retailing (-0.4%).

OPINION: August saw the first monthly drop of output this year (top chart). While the majority of broad industries saw gains in August (12 out of 20), the few that experienced declines were significant enough as to lead to an overall drop. A major surprise was the manufacturing sector which showed solid volume gains in the factory shipments report of October 18th, but sharp declines in today's GDP report. Plants reopened after maintenance-related shutdowns, but the auto sector did not see the expected output rebound. The overall decline of Canadian output is disappointing, but there are nonetheless positive storylines including the services sector and the mining sector whose respective output are now at all-time highs (middle chart). The soft overall August results are consistent with our view that Canadian real GDP grew just under 2% annualized in the third quarter (bottom chart). A moderation was always in the cards after an unsustainable output surge in the first half of the year. The deceleration of the economy and still-mild inflation will be welcome by a Bank of Canada intent in delaying interest rate hikes for as long as possible even though, by its own admission, the economy is now operating at capacity.

Krishen Rangasamy

Canada: Economy now taking a breather

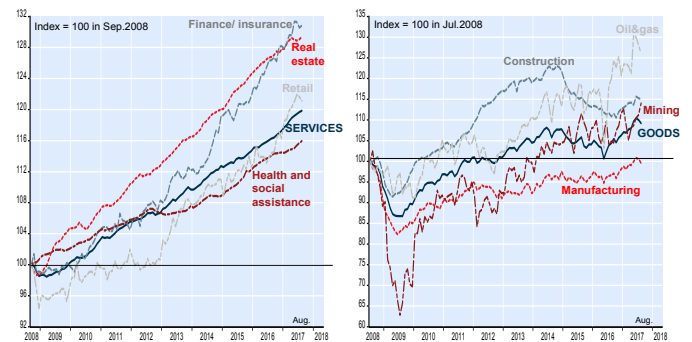
Real GDP by industry



Canada: Services and mining output at all-time highs

Services sector output

Goods sector output



Canada: GDP growth softened in Q3

Real GDP by expenditures versus industry



* Assuming September output up 0.1% and no revisions to prior months
NBF Economics and Strategy (data via Statistics Canada)

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