

## Canada: November's output decline confirms economy losing momentum

By Krishen Rangasamy

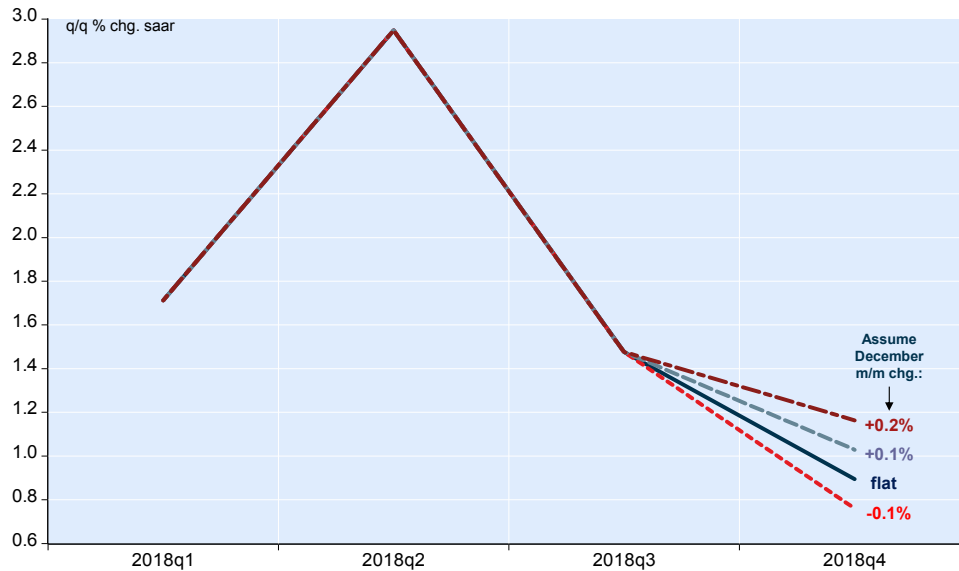
A giveback was always in the cards in November after the prior month's sharp gains for production. The goods sector's weakness was widespread with factories, the oil patch and the construction industry all struggling during the month. Services sector output was flat in part due to retail which was again disappointing. Consumers are evidently under pressure due to rising interest rates, fading housing wealth effects and a low savings rate. We'll have to wait a few more weeks to get Q4 GDP results, but it's becoming clear that Canada's economy lost momentum towards the end of last year. Fourth quarter growth is now tracking around 1% annualized, even if we get a small rebound in December (left chart). The current quarter, i.e. 2019Q1 is unlikely to be any better considering mandated oil production cuts underway and possible negative spillovers from the U.S. government shutdown (which will hurt Q1 U.S. growth). Canada's output gap will therefore remain wide, keeping inflation manageable. As such, the Bank of Canada is likely to delay monetary policy normalization.

### HIGHLIGHTS:

- Canada's real GDP fell 0.1% in November last year, matching consensus expectations. On a year-on-year basis, production was up just 1.7%, the lowest in two years (right chart).
- The goods sector saw output sink 0.3% (third drop in the last four months), erasing the prior month's gains due to declines in oil & gas (-1.6%), manufacturing (-0.5%), and construction (-0.3%), which dwarfed gains in agriculture (+0.2%), utilities (+0.4% thanks to November's cold snap) and mining (+2.3%). As a result, industrial production fell 0.2%.
- Output in services-producing industries was flat as declines in wholesale (-1.1%), finance/insurance (-0.7%), transportation (-0.5%), and retail (-0.3%) were exactly offset by gains elsewhere.

### Canada: Real GDP growth likely softened in Q4

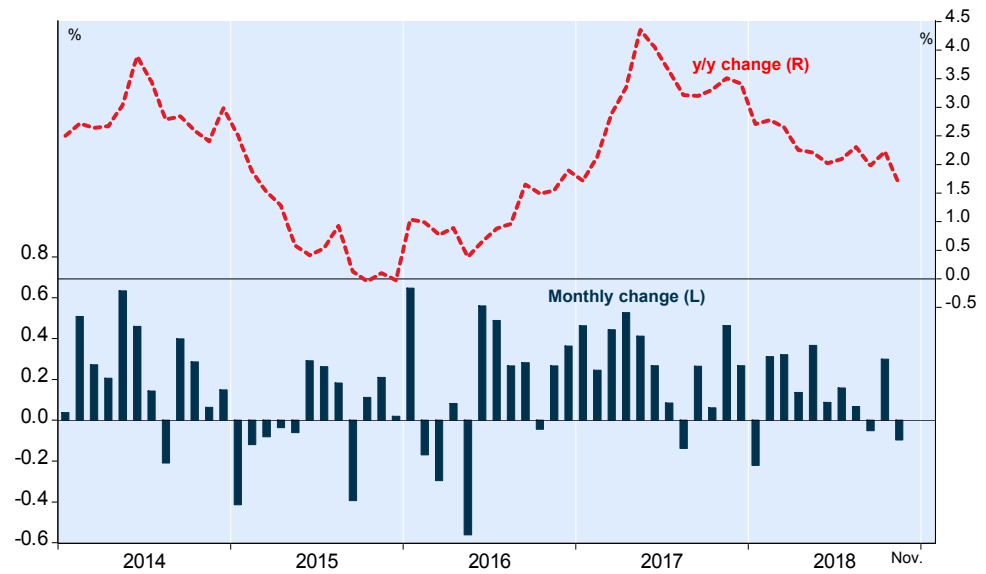
Real GDP by industry



NBF Economics and Strategy (data via Statistics Canada)

### Canada: Production was down in November

Real GDP by industry



NBF Economics and Strategy (data via Statistics Canada)

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