

Booming economy in first half

Real GDP (Q2)

Latest: 4.5% (actual); 3.7% (expected);

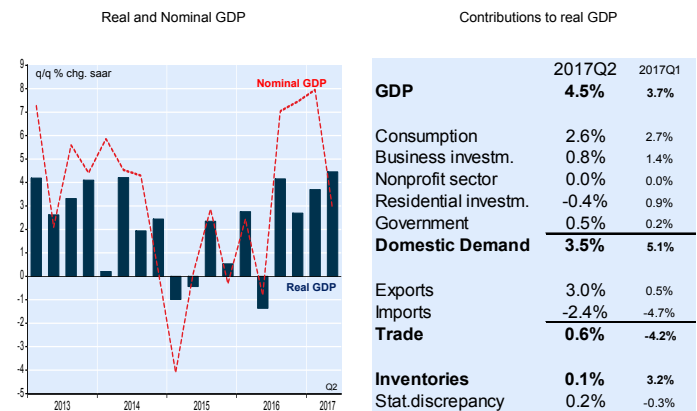
Previous: 3.7% (unrevised)

FACTS: Canada's GDP expanded a consensus-topping 4.5% annualized in the second quarter of 2017 (top chart). Trade contributed to growth as exports rose faster than imports. That was complemented by continued strength in domestic demand — healthy gains for consumption spending (thanks to real disposable incomes surging 6.6% annualized), government expenditures and business investment more than offset drag from residential investment. Inventories also contributed to growth again. Nominal GDP grew 2.9% annualized (i.e. lower than real GDP growth) which means that the GDP deflator was negative for the first time since 2016. Monthly GDP data showed output increasing 0.3% in June. That was due to a 0.5% jump for goods sector output which was complemented by a 0.2% increase in services-producing industries. Looking at Q2 as a whole, oil & gas were the major drivers of growth in the goods sector, while retailing led services-producing industries (middle chart).

OPINION: Another quarter of solid growth for Canada, which means that the economy grew a stunning 4% annualized in the first half of the year. One has to go back to the second half of 2011 to see such a strong semester of growth. And it could have been even stronger had Canadians not saved as much — recall that the savings rate jumped three ticks to 4.6%. The 6.6% annualized increase in real disposable incomes, the biggest increase in 7 years (bottom chart), explains the consumption and savings surge. The latter will help support spending in the second half of the year. The solid handoff from June (month in which GDP grew 0.3% unannualized) suggests a decent Q3 as well. Even then, we expect a moderation in Q3 GDP growth after the blistering pace set in the first half of 2017 because the torrid pace of employment creation seen in the first semester and related gains in household incomes are unlikely to be repeated so soon. The housing wealth effect is also expected to fade as home price gains soften after the first half surge in prices. Despite the expected moderation in the second half, consumption spending and housing will both end up as major contributors to this year's GDP growth, the latter also boosted by exports and inventory rebuilding after last year's destocking. The stronger-than-expected first half of the year prompts us to upgrade our Canadian GDP growth forecast for 2017 to 3.0%.

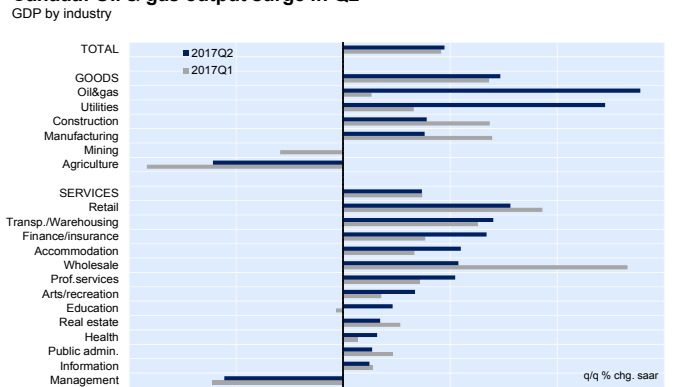
Krishen Rangasamy

Canada: Economic boom in first half of 2017



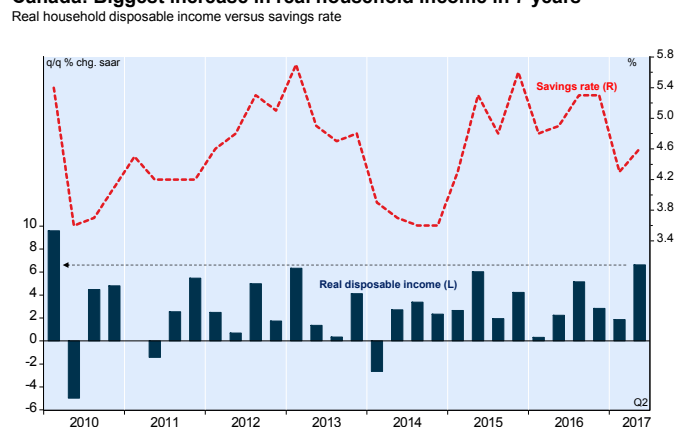
NBF Economics and Strategy (data via Statistics Canada)

Canada: Oil & gas output surge in Q2



NBF Economics and Strategy (data via Statistics Canada)

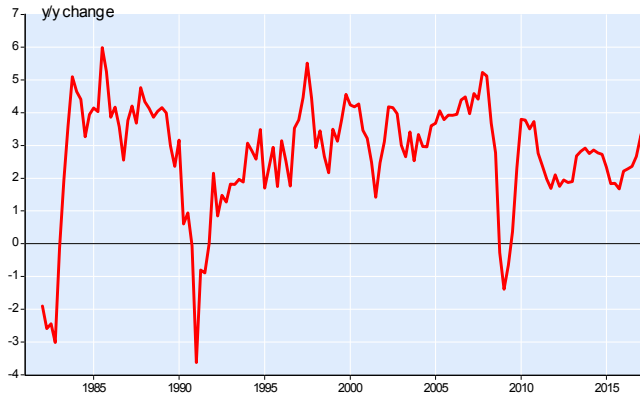
Canada: Biggest increase in real household income in 7 years



NBF Economics and Strategy (data via Statistics Canada)

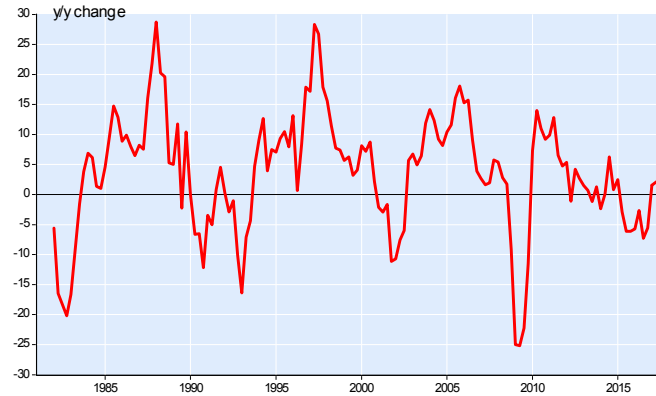
Consumption

Real consumer expenditures



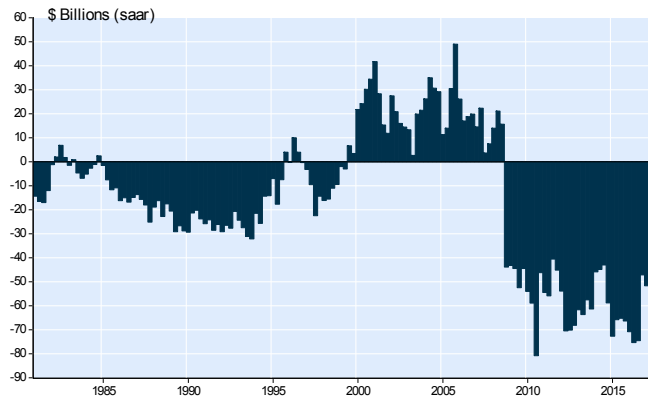
Business Investment

Real investment in machinery and equipment



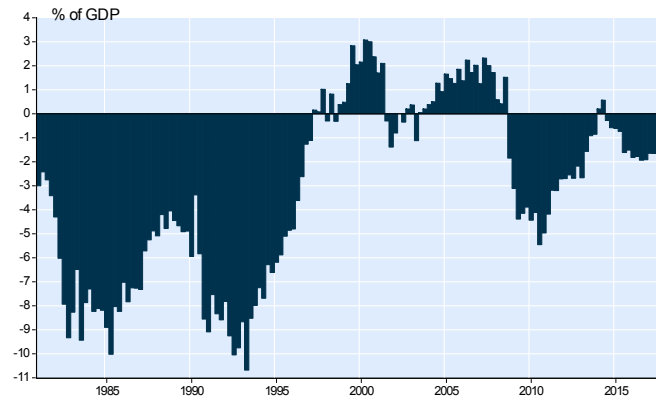
Current account

Balance on the current account



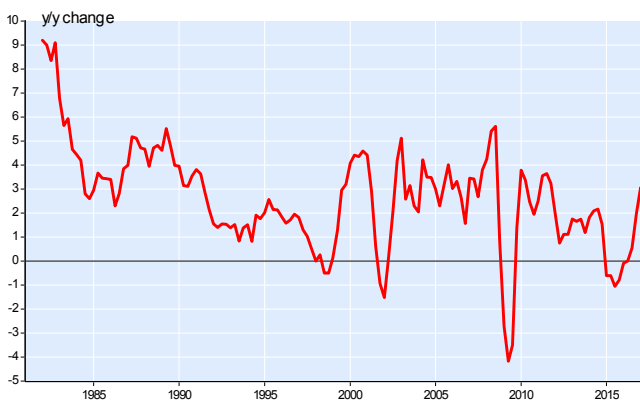
Government

Net lending as a share of GDP



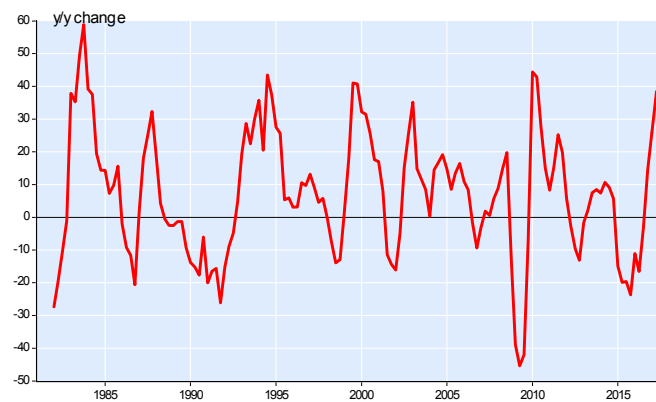
Inflation

GDP deflator (chain-weighted)



Profits

Corporate profits before tax



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