

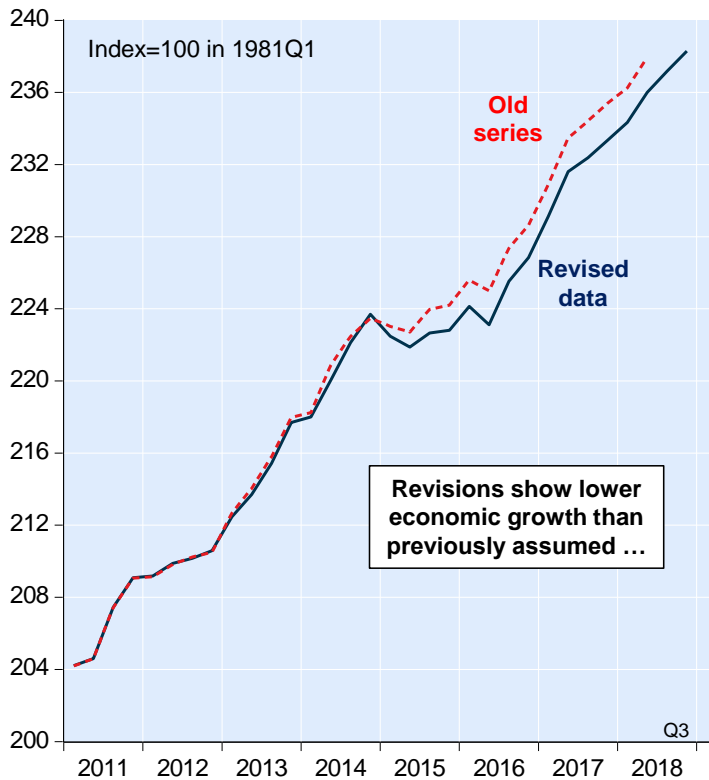
## Canada Watch

By Krishen Rangasamy

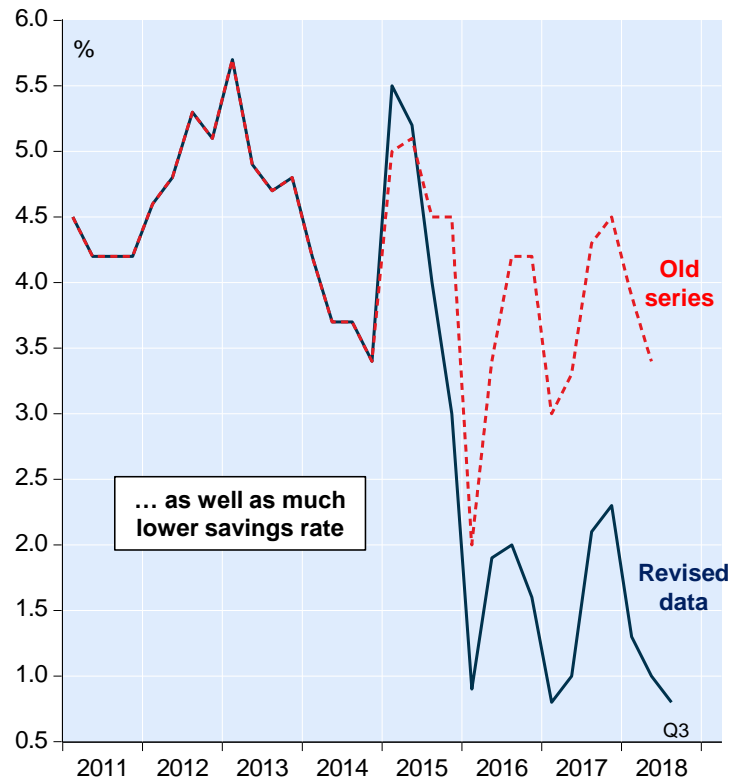
Canada's economic slack may be larger than first thought. While Q3 GDP growth came in slightly better than expected (see this morning's **Economic News**), historic revisions showed downgrades to annual growth rates for 2013, 2015 and 2016. So, unless the Bank of Canada also downgrades its estimate of potential GDP, the output gap at the end of Q3 was worse than the -0.1% it is currently estimating. The household savings rate was also downgraded significantly, with Q2 revised down from 3.4% to just 1.0%. There were no explanations given by Statistics Canada in its release, and we seriously doubt the savings downgrade was all about a change in methodology – if that was the case, you would see the whole curve shift down, not just the 2015–2018 portion. As today's *Hot Charts* show, the savings rate fell further in the third quarter to just 0.8%, not far from all-time lows, as Canadians dipped into their nest egg to compensate for weak real disposable incomes. That, of course, does not bode well for consumption spending going forward, more so considering fading housing wealth effects and rising interest rates. Those downgrades, along with sinking oil prices and enhanced uncertainties with regards to global growth, would justify a return to a more neutral stance by the Bank of Canada after it took a hawkish turn last October. We'll see next week if the central bank seizes that opportunity.

## Could revised data convince Bank of Canada to ditch hawkish tone?

Real Canadian GDP by expenditures



Canadian household savings rate



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