

Canadian GDP Growth: Rained Out

Canadian real GDP unexpectedly fell 0.1% in May following a 0.4% advance in April (unrevised), in a bit of a shocker. The setback was the fourth decline in the past six months, and leaves output up a meagre 0.6% in the past year, far below the economy's 10-year trend of 3.0%. Despite the soggy May result, Q2 GDP is still on track for modest growth—of less than 1% a.r.—after the 0.3% drop in Q1, keeping the economy narrowly away from the brink of a technical recession. Still, all the surprises in May and recent months have been to the downside, vividly showing how output is struggling to grow.

In May, the big downside drag was from a 1.2% drop in mining and oil & gas extraction. Coal mining output fell 2.8% while oil & gas was off 0.8%. The mining and oil & gas sector has posted the second biggest drop in output over the past year (after manufacturing), despite the surge in commodity prices over that period. This is a great example of how the GDP figures can be extremely misleading in how the economy is faring during a time when relative prices are changing rapidly.

Besides mining, almost all goods-producing components were down, except for (ironically) manufacturing (+0.1%). Construction (-0.4%), utilities (-1.3%) and farming, forestry & fishing (-0.9%) were all down. Services were disappointing as well at flat, with wholesale trade off 0.3% (despite initial reports that it was up 0.7%), while finance & real estate and transportation were both down 0.1%. Even so, the deep underlying split between services and goods-producing industries remains prominent in the yearly growth trends (+2.6% versus -3.5%).

	(month/month % change)			(% change : a.r.)	
	May	Apr	Mar	3-month	12-month
Total GDP	-0.1	0.4	-0.2	0.5	0.6
Goods Producing	-0.5	0.4	-1.0	-4.2	-3.5
Service Producing	0.0	0.4	0.2	2.8	2.6
Manufacturing	0.1	1.7	-2.2	-1.8	-5.5
Construction	-0.4	-0.5	-0.5	-5.4	0.4
Mining	-1.2	-0.6	-0.4	-8.4	-3.7
Retail	0.1	0.7	0.2	3.9	2.5
Wholesale	-0.3	1.8	-1.2	1.4	3.0
Finance	-0.1	0.3	0.5	2.8	2.8
Transportation	-0.1	0.7	0.8	5.8	1.5
Government	0.1	0.2	0.2	2.3	2.4

The Bottom Line: Overall, this result is a clear disappointment, especially since almost all preliminary indications for the month pointed to modest growth. The widespread nature of the weakness underlines the fact the economy is swimming upstream. The Bank of Canada was expecting lacklustre growth in the next few quarters (1.3% in Q3, and 1.8% in Q4) and, with little forward momentum, the economy will do well to even hit those modest projections.

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