

# After Nine Months of Contraction, Expecting a Recovery

Canadian real GDP fell 0.1% in April, right in line with expectations, and the prior month's 0.3% drop was left unrevised. While matching the mildest decline in the past six months, GDP is still down a hefty 3.0% from year-ago levels—an extremely serious recession by any yardstick. (The deepest year-on-year drop in the early 1990s was 3.2%.) April marks the ninth consecutive monthly decline in GDP, and that streak is likely not over just yet—severe auto production cuts will carve heavily into May GDP, and possibly June as well.

There were no major surprises in the April data (for a change), although a 1.0% decline in manufacturing was weaker than expected. Manufacturing output is now down a towering 13.8% from year-ago levels, with only a 12.6% plunge in wholesale trade in the same ballpark. Goods production fell 0.5% in April, which was actually the shallowest decline in the past six months, while services output was flat.

In a separate release, industrial product prices tumbled 1.1% m/m in May, and are now down a honking 4.3% from year-ago levels. The sizzling Canadian dollar, which had a record 9% rise in May, helped drive industrial prices sharply lower last month, despite a 7% upswing in the CRB. StatsCan notes prices would have risen 0.4% m/m if the C\$ stayed flat, but then pigs would fly if they had wings.

	(month/month % change)			(% change : a.r.)	
	Apr	Mar	Feb	3-month	12-month
<b>Total GDP</b>	-0.1	-0.3	-0.1	-2.1	-3.0
<b>Goods Producing</b>	-0.5	-1.1	-0.6	-8.7	-8.2
<b>Service Producing</b>	0.0	0.0	0.1	0.9	-0.6
<b>Manufacturing</b>	-1.0	-1.1	-0.6	-10.3	-13.8
<b>Construction</b>	-0.1	-0.4	-0.1	-2.3	-3.3
<b>Mining</b>	-0.7	-2.6	-0.8	-15.0	-5.9
<b>Retail</b>	-0.6	0.3	-0.2	-1.8	-3.1
<b>Wholesale</b>	0.5	-0.6	-0.3	-1.7	-12.6
<b>Finance</b>	0.4	0.5	0.4	5.5	1.9
<b>Transportation</b>	0.0	-0.6	0.4	-0.8	-3.8
<b>Government</b>	0.1	0.1	0.0	0.5	2.1

**The Bottom Line:** The mild drop in April GDP reinforces the point that the worst of the declines for the economy are behind, but we have yet to reach the turning point. We look for another drop in May output, and possibly for June as well before the economy begins to grind out some modest growth in July. For all of Q2, we continue to look for a 3% annualized drop in GDP (after the 5.4% dive in Q1), and then something close to flat for Q3.

Douglas Porter, 416-359-4887