

# Canadian GDP: Split Personality

Canadian real GDP slipped 0.1% in August, a shade worse than expectations of a flat reading, and the prior month's unchanged result (which was left unrevised). The decline was largely the result of further contraction in the mining sector, which fell 1.9% in the month as natural gas production pulled back. Real GDP is still down a hefty 4% y/y, though that's an improvement from the 4.6% y/y decline registered in July—note that the comparison got much easier as output began to slide from peak levels in August 2008. This trend will continue to improve as the Canadian economy has found a floor in recent months.

At the sector level, we saw just what we would expect in August—firm domestic activity but softness in sectors reliant on U.S. demand and negatively impacted by the strong loonie. Manufacturing output fell 0.7% (though transportation equipment posted another solid gain thanks to the auto-sector rebound), while wholesale trade was also under pressure, down 0.5%. However, riding the back of a strong housing market, construction (+0.2%) posted its first monthly gain since October 2008, while retail trade (+0.3%) and the government sector (+0.6%) added nicely to growth. All told, goods output remains down a staggering 12.5% y/y while services output is down just 0.2% y/y, highlighting the split personality in the Canadian economy.

	(month/month % change)			(% change : a.r.)	
	Aug	Jul	Jun	3-month	12-month
<b>Total GDP</b>	-0.1	0.0	0.1	-0.2	-4.0
<b>Goods Producing</b>	-0.7	-0.5	-0.6	-6.8	-12.5
<b>Service Producing</b>	0.1	0.2	0.4	2.5	-0.2
<b>Manufacturing</b>	-0.7	0.3	-0.2	-2.3	-14.6
<b>Construction</b>	0.2	-0.2	-0.6	-2.5	-7.6
<b>Mining</b>	-1.9	-1.0	-1.0	-14.7	-15.0
<b>Retail</b>	0.3	-0.1	0.5	2.8	-1.5
<b>Wholesale</b>	-0.5	1.2	1.0	6.7	-6.2
<b>Finance</b>	0.1	0.2	0.7	4.1	2.7
<b>Transportation</b>	0.0	0.2	0.9	4.2	-5.0
<b>Government</b>	0.6	-0.3	0.1	1.8	1.6

**The Bottom Line:** The modest decline in August GDP does not defeat the point that the Canadian economy has turned the corner, and as we saw in the U.S. yesterday, Canada's recession is in the rear view mirror. However, tempering the recovery are those sectors negatively impacted by sluggish U.S. demand and the strong Canadian dollar, and that could pose some downside risk to the Bank of Canada's 2% growth call for Q3.

Robert Kavcic, 416-359-8329