

Cdn Economic Momentum Ebbing

Canadian real GDP rose a tepid 0.1% in May, bang on expectations, following an unrevised flat reading in the prior month. Goods-producing industries accounted for all of the increase, up 0.6%. Strength in oil & gas extraction (+3.4%) and agriculture (+1.3%) led the way, though construction fell a hefty 1.6%, as the housing market continues to cool. The services sector contracted for the second consecutive month, thanks almost entirely to a 1.8% plunge in wholesale trade (consistent with earlier reports). There were some positives on the services side, with transportation & warehousing along with recreation up 0.5%.

Despite soft readings in April and May, Q2 real GDP is still on track for growth in the mid-2% annualized range, due to the strength in March. That leaves the Bank of Canada's call for 3% growth from the July MPR in the optimistic camp. Also, unless we get a big pop in June GDP, look for growth to slow further in Q3 (we're looking for 2% a.r.).

	(month/month % change)			(% change : a.r.)	
	May	Apr	Mar	3-month	12-month
Total GDP	0.1	0.0	0.6	3.0	3.8
Goods Producing	0.6	0.1	1.5	9.3	6.3
Service Producing	-0.1	-0.1	0.3	0.4	2.7
Manufacturing	0.1	-0.3	1.7	6.2	8.6
Construction	-1.6	-0.2	0.8	-3.7	4.1
Mining	3.4	1.0	3.1	34.6	7.9
Retail	0.3	-1.8	1.9	1.6	4.7
Wholesale	-1.8	0.5	1.4	0.2	8.3
Finance	-0.1	0.1	0.2	0.9	2.7
Transportation	0.5	-0.2	0.4	2.9	5.8
Government	0.0	0.1	0.0	0.5	2.8

The Bottom Line: While May's modest GDP growth was a step up from the prior month, it's clear that Canada's economic momentum is ebbing. Even so, the details of the report weren't entirely soft, with most sectors seeing modest gains outside of construction and wholesale. While growth and inflation look poised to undershoot the BoC's forecast, we continue to anticipate a 25 bp rate hike in September, though a softening outlook will prompt a pause in the last two meetings of 2010.

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