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TD Economics

Data Release: Canadian economic growth disappoints in October

- After contracting by 0.5% in September, economic activity in Canada was flat in October, disappointing expectations for an increase in real GDP of 0.2%. Output in both the goods and services-producing sectors were unchanged during the month.
- Within the goods-producing sector, mining, quarrying and oil and gas extraction (+0.7%) bounced back from a 4.7% drop during the month prior. Non-conventional oil extraction (+4.5%) rebounded after production and pipeline difficulties led to a 11% drop in output in September, but is still shy of the levels seen prior to the drop. Providing some offset, the manufacturing (-0.3%), utilities (-1.4%) and construction (-0.1%) industries were all down during the month. The drop in manufacturing output was concentrated in non-durable goods, with durables, such as transportation (+0.6%), computer and electronics (+5.6%) and machinery (+0.9) manufacturing, recording gains – industries that should benefit from a strong U.S. economy.
- Output in the services sector was also mixed, with declines in retail (-0.4%) and wholesale (-0.1%) trade and transportation and warehousing (-0.4%) offset by increases in the public sector (+0.2%).

Key Implications

- Canada's economy has certainly lost some steam, with the fourth quarter kicking off on a soft note. Combined with the large contraction in September that provides a weak handoff, growth during the quarter will be significantly slower than the 2.3% pace recorded in the third quarter. Today's report suggests that growth is likely to come in below our current tracking for 0.9% (annualized) growth in Q4 and below the Bank of Canada's most recent (October) forecast of 1.5%.
- While weakness was spread across several sectors in October, there is reason to believe that economic activity in Canada will pick up in 2016. A significant chunk of the weakness seen over the last couple of months has stemmed from temporary issues in the oil and gas sector. Despite the bounce back in October, non-conventional extraction still has further ground to make up, which should help to buoy overall growth.
- Moreover, the increase in interest rates in the U.S. suggests that the domestic economy Stateside is strong. This, along with the downward pressure that diverging monetary policies in each country will have on the loonie, should bode well for Canada and its ongoing rotation toward export-led growth. Overall, we expect growth to accelerate to 1.7% next year, from a tepid 1.2% pace in 2015.
- This modest but steady growth should keep the Bank of Canada sidelined for some time still. In fact, we don't expect the central bank to begin hiking rates until the final quarter of 2017.

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