ECONOMIC NEWS

Canada: Growth Could Reach 4% in the First Quarter

HIGHLIGHTS

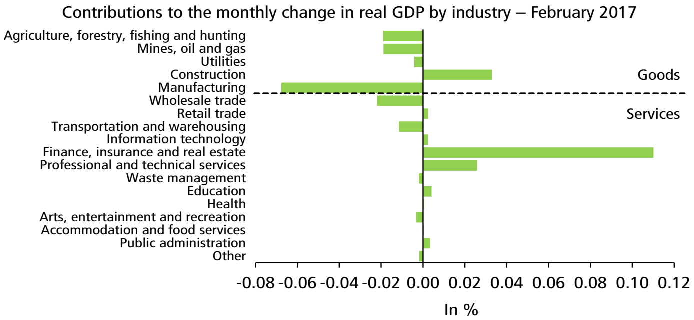
- Real GDP by industry remained unchanged in February.
- The goods sectors declined by 0.3%. Except for a fourth consecutive gain in construction, production was down in all sectors.
- The service sectors were up by 0.2%. Eight of the fifteen main sectors rose in February.

COMMENTS

At first glance, zero growth of real GDP for the month of February is not reassuring. But those results should be looked at in perspective. After the strong rise in real GDP by industry in January (+0.6%), a month ago most analysts expected the pendulum to swing back in February with a slight drop in production. But in fact the economic indicators published since then have been much more positive than we initially thought, and most economists upgraded their forecasts for the real GDP growth by industry for February. The mere fact of not losing part of the January gains is excellent news.

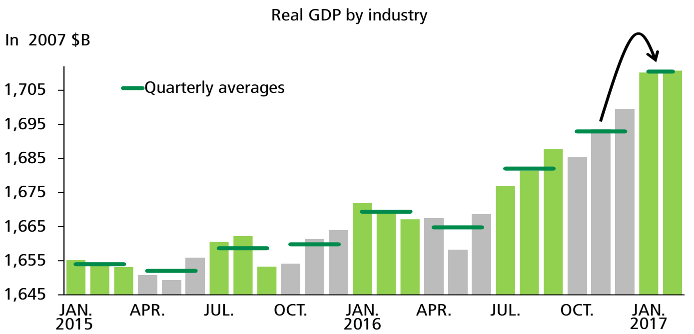
Under the circumstances, the carryover for the first quarter of 2017 (assuming zero growth in March) is very high, slightly over 4%. We will therefore need to revise our economic scenario upwards, since it was based on a gain of around 3.5% for the first quarter. If we assume a 0.1% gain of real GDP by industry for March, the first quarter could show overall growth close to 4.4%.

GRAPH 1
Financial and real estate services and construction offset the decline in manufacturing



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
Growth will likely be very high for the first quarter of 2017



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Even though economic growth is more robust than forecast for the first quarter, we should not expect the Bank of Canada to rush to raise its key rates. Not only has inflation remained relatively weak, but there is much uncertainty about the growth outlook for the coming quarters, mainly due to the surge in U.S. protectionism.

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