



## Daily Economic Update

June 29, 2018

## Canadian April GDP rises modestly

GDP growth in April slowed to 0.1% following solid gains of 0.3% and 0.4% in March and February, respectively. A slowing was anticipated following earlier indications of declining retail sales activity that was confirmed in today's report with this sector dropping 1.3%. The weakness was attributed to adverse weather in April that also weighed on construction activity. Growth in the month was also held back by mining dropping 0.3% reflecting a strike at an iron ore facility and a number of maintenance shutdowns in the oil sands sector. As these transitory factors reverse, our expectation is that growth will strengthen in May. For Q2 as a whole we are assuming annualized GDP growth of 2.2% up from the 1.3% recorded in Q1. The pace of growth over the second half of 2018 is expected to be buffeted by a complete shut-down of a major oil sands producer operations in July due to a transformer malfunction. This could send Q3 growth back down closer to the Q1 growth rate though Q4 activity will likely bounce back with growth rising around 2 1/2%. Annual 2018 growth will be little changed from our current forecast of 2%.

The projected growth this year will be down from the 3.0% recorded in 2017. However, with the economy at capacity a slowing closer to the economy's potential rate of 1.8% is not undesired. Given monetary conditions remain highly stimulative, our expectation is that the Bank of Canada will continue to withdraw stimulus from the system to maintain this lower pace of growth. We expect another 25 basis point hike in the overnight rate in July followed by similar-sized moves the following three quarters raising the overnight rate 100 basis points to 2.25% by mid-2019. The risk of trade protectionism could stall this tightening though recent comments by the Bank of Canada imply material impacts would need to emerge either in terms of specific tariffs or evidence of weakening confidence weighing on business investment.

## Highlights:

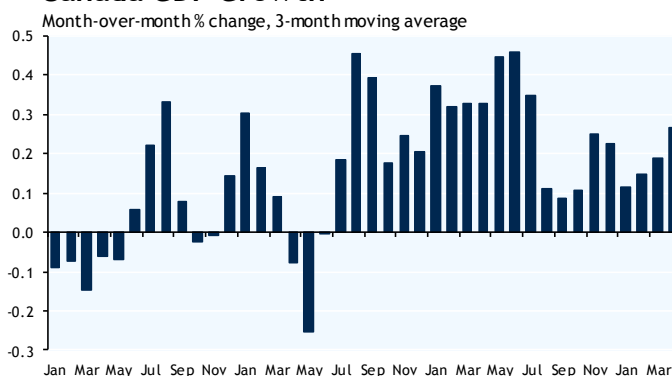
- Canadian April GDP came in slightly stronger than anticipated rising 0.1% relative to expectations of unchanged activity with manufacturing unexpectedly rising 0.8% in the month.
- Service-producing industries showed unchanged activity in the month after rising 0.2% in March.

## Canada Monthly GDP Summary

	m/m % change			y/y %
	Feb-18	Mar-18	Apr-18	Apr-18
GDP	0.4	0.3	0.1	2.5
Goods	1.1	0.6	0.2	4.4
Oil & gas extrac.	2.9	2.4	0.6	10.6
Manufacturing	0.5	0.0	0.8	3.5
Services	0.1	0.2	0.0	1.8

Source: Statistics Canada, RBC Economics Research

## Canada GDP Growth



Source: Statistics Canada, RBC Economics Research

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