

Daily Economic Update

September 28, 2018

Canada GDP rose 0.2% in July despite oil production disruptions

The upside surprise relative to market expectations for a 0.1% increase was largely accounted for by a smaller-than-assumed drop in nonconventional oil extraction despite transitory production disruptions at a major oil sands producer. A 3.2% decline in oil sands production nonetheless still subtracted about 0.1ppt from the headline increase. Underlying details were about as firm as expected. Manufacturing production jumped 1.2% and wholesale trade rose 1.4%. Activity at real estate brokerages increased for a second straight month. Utilities output jumped 2.1% although that should reverse as temperatures return to normal after an unusually hot summer. A sharp 1.5% pullback in residential construction activity was the main soft spot. Housing starts were down from earlier in the year over the last couple of months but are still running at a relatively solid 200k+level.

With the increase in July, Q3 GDP growth is tracking almost a percentage point above the Bank of Canada's call in July for a 1.5% increase (and our own call for a 1.6% gain) in large part, though, because of a smaller-than-expected transitory decline in oil production. Less of a drag from that factor in Q3 also means less of a rebound in Q4 to leave underlying trends running about as expected — and still looking quite solid. Fears of significant trade disruptions with the U.S. have not gone away but, in the meantime, the economic backdrop still looks clearly strong enough to warrant further Bank of Canada interest rate hikes.

Highlights:

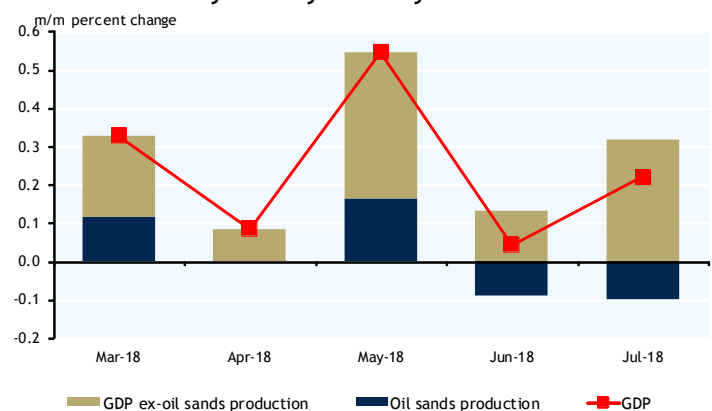
- Canadian GDP rose a stronger-than-expected 0.2% in July as an expected transitory drop in oil sands production proved smaller than feared. Markets expected a 0.1% increase.
- Looking through a transitory dip in oil sands output — as well as a weather-related jump in utilities production — underlying growth continues to look solid.
- International trade concerns remain, but the current economic backdrop also clearly still looks strong enough to warrant further interest rate hikes.

Canada Monthly GDP Summary

| | m/m % change | | | y/y % |
|-------------------|--------------|------------|------------|------------|
| | May-18 | Jun-18 | Jul-18 | Jul-18 |
| GDP | 0.5 | 0.0 | 0.2 | 2.4 |
| Goods | 0.6 | 0.0 | 0.3 | 3.0 |
| Oil & gas extrac. | 2.4 | -1.2 | -1.2 | 6.1 |
| Manufacturing | -0.3 | 0.8 | 1.2 | 2.8 |
| Services | 0.5 | 0.1 | 0.2 | 2.1 |
| Wholesale | 1.5 | -1.2 | 1.4 | 4.4 |
| Retail | 2.1 | -0.3 | -0.1 | 0.8 |

Source: Statistics Canada, RBC Economics Research

Canada Monthly GDP by Industry



Source: Statistics Canada, RBC Economics Research

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