



Daily Economic Update

January 31, 2018

Canadian GDP bounced back in November

GDP rose 0.4% in November after a surprisingly weak flat reading in October. Nonconventional oil extraction bounced back 3.7% to reverse a 3.4% decline in October that was reportedly the result of transitory maintenance shutdowns. A 1.8% surge in manufacturing output also reflected a retracement of earlier weakness as shutdowns of some motor vehicle and chemical production in earlier months ended. Increases outside of those two components were generally more modest but widespread. Statistics Canada noted 17 of 20 industries posted increases in November. Yes, uncertainties remain about the outcome of NAFTA renegotiations and that could have significant implications in particular for the manufacturing sector that accounted for a big chunk of November's GDP growth. Looking through monthly volatility, though, the GDP numbers add to the evidence that the Canadian economy as a whole continues to grow at an 'above-potential' pace even as it increasingly looks to be operating at or beyond its long-run capacity. With inflation still remaining well-behaved, the Bank of Canada can continue to be cautious about raising interest rates, particularly in light of elevated household debt levels. Absent a downside surprise on near-term growth or an unexpectedly 'bad' outcome from NAFTA negotiations, though, we expect the central bank will continue to ease off on the accelerator in terms of monetary policy and look for gradual interest rate hikes to continue this year.

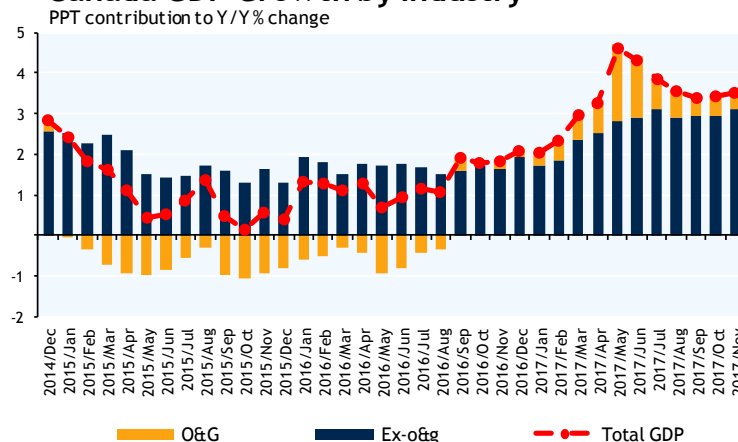
Highlights:

- Canadian GDP rose 0.4% in November — bouncing back after the weaker-than-expected flat reading in October.
- Growth in the mining and manufacturing sectors benefited from the end of earlier transitory shutdowns but gains were also widespread, if more modest, outside of those sectors.
- The November GDP gain is consistent with the economy growing at a 1.9% pace (annualized) in Q4 — down from the outsized mid-2016 to mid-2017 pace but still above most estimates of the economy's long-run run rate.

Canada Monthly GDP Summary				
	m/m % change			y/y %
	Sep-17	Oct-17	Nov-17	Nov-17
GDP	0.2	0.0	0.4	3.5
Goods	0.4	-0.5	0.8	4.1
Oil & gas extrac.	1.6	-0.6	1.6	3.2
Manufacturing	-0.3	0.2	1.8	4.6
Services	0.1	0.2	0.3	3.2

Source: Statistics Canada, RBC Economics Research

Canada GDP Growth by Industry



Source: Statistics Canada, RBC Economics Research

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