Canadian economy rebounds with fastest growth in two years

By David Parkinson
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Canada posted its strongest economic growth in more than two years in the third quarter, as a rebound in exports helped the economy bounce back strongly from its second-quarter slump.

Statistics Canada reported Wednesday that real gross domestic product rose at an annualized rate of 3.5 per cent in the quarter ended Sept. 30, the fastest quarter-over-quarter pace since the 2014 second quarter. It's a sharp reversal from the second quarter, when GDP declined at a revised 1.3-per-cent annualized rate.

Economists had widely expected the strong third-quarter recovery, as prior economic indicators had suggested that activity had returned to normal following the wildfires that had dramatically slowed Alberta's energy sector, and exports had rebounded from their second-quarter weakness. The result was roughly in line with their average estimate of 3.4 per cent.

The statistical agency also reported that September GDP rose 0.3 per cent month-over-month, beating economists' average estimate of 0.1 per cent.

In addition to the strong third-quarter result, Statscan also revised upward its GDP figures from the first half of the year. The second-quarter decline was revised to a drop of 1.3 per cent annualized from the originally reported 1.6 per cent, and first-quarter growth was revised to 2.7 per cent from 2.5 per cent.

"What's encouraging about today's figures are the upward revisions to the first half, and the surprisingly solid performance by the economy at the end of the quarter, presaging respectable growth in the fourth quarter as well," said Douglas Porter, chief economist at Bank of Montreal, in a research note.

Statscan said exports of goods and services surged at an annualized pace of 8.9 per cent in the quarter, a reversal from the 14.8-per-cent decline in the second quarter. The key driver was a sharp turnaround in energy exports, which jumped 6.1 per cent quarter-over-quarter – nearly 25 per cent annualized – as shipments roared back following the second-quarter slump brought on by the wildfires.

Meanwhile, household consumption grew at an annualized rate of 2.6 per cent, showing encouraging strength in consumer demand. Economists cited the federal government's Canada Child Benefit, which increased payments to low– and middle-income families beginning in July, as a key catalyst for the quarter's consumption growth.

But that was partly offset by weaker residential investment, down 5.5 per cent annualized, as the country's housing sector has showed signs of cooling, especially in the previously red-hot Vancouver market, where a new tax on foreign buyers came into effect during the quarter.

Business investment remained a sore spot in the economy, as business gross fixed capital formation fell 0.5 per cent quarter-over-quarter (2.1 per cent annualized), its eighth consecutive decline. Investment in machinery and equipment – a key indicator of business expansion – fell 3.2 per cent quarter-over-quarter.

In September, the economy saw widespread growth, led by resource extraction, as oil and gas production surged 3.8 per cent, its fourth straight increase. Construction (up 0.7 per cent) and manufacturing (up 0.5 per cent) also posted solid gains, while retail trade rose 0.1 per cent. But wholesale trade offset some of that strength, down 1.3 per cent, amid weakness in machinery and equipment sales – another sign of continued weak business investment.

Some economists said that the stronger-than-anticipated third-quarter result, and especially the better-than-expected growth in September, may justify upward revisions to economic forecasts. The Bank of Canada's official forecasts, last updated in October, call for an annualized growth pace of just 1.5 per cent in the fourth quarter, and annual growth of 1.1 per cent in 2016 and 2 per cent in 2017.

"For the first time in ages, this sets the stage for broad-based upward revisions to Canada's overall GDP growth rate, for both 2016 and perhaps 2017," Mr. Porter argued.

But others are less convinced.

"The bulk of the gain both in the quarterly and monthly figures can be attributed to one-offs," argued Toronto-Dominion Bank economist Brian DePratto in a research note. "Absent the post-wildfire resumption of energy production, the quarter would have likely been much weaker.

"Business investment, which had been expected to 'bottom out,' instead continued its decline," he said, noting that if it hadn't been for the one-time delivery of a $3-billion module for the Hebron offshore oil project in September, the third-quarter investment figures would look even worse.

"The 0.3-per-cent monthly number notwithstanding, momentum heading into the end of the year appears soft, as GDP excluding energy gained just 0.1 per cent in September," he said. "Only a marginal improvement in the rate of growth is expected in 2017."