Canada's economy contracts on weakest factory output since 2013

By Erik Hertzberg and Josh Wingrove
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Canada's gross domestic product shrank unexpectedly in October as factories suffered their worst month in almost three years, adding to signs the country's outlook is worsening.

Output fell 0.3 per cent, Statistics Canada said Friday in Ottawa. Economists surveyed by Bloomberg expected a flat reading, but widespread declines in goods-producing industries contributed to the largest monthly drop since May.

Manufacturing output was particularly disappointing, falling 2 per cent in the biggest monthly decline since December 2013 and the second worst since the recession. The numbers are "pretty bad," Benjamin Reitzes, senior economist at BMO Capital Markets, said by phone from Toronto. "Underlying growth is still sluggish."

Canada's currency extended declines after the report, falling 0.5 per cent to C$1.3552 against its U.S. counterpart at 9:24 a.m. Toronto time.

The GDP numbers add to recent indicators showing low interest rates and a program of federal government stimulus are so far failing to spur a recovery. Inflation slowed to a 1.2 per cent pace in November from a year earlier, the statistics agency said Thursday, a softer reading than economists forecast, with one measure of core inflation slowing to the lowest level since 1996.

Persistently Weak

Canada is "stuck in a mediocre economic backdrop," David Watt, chief economist at HSBC Bank Canada, said in by e-mail. "Gains in recent months had seemed unsustainable."

Durable and non-durable goods fell 2.1 per cent and 2 per cent respectively. Factory output has been persistently weak, falling 0.2 per cent since October of last year.

Bank of Canada Governor Stephen Poloz had hoped non-energy exports, including manufactured goods, would lead a recovery after the commodity crash of 2014. The central bank, which held rates steady this month after considering a cut in October, has downplayed that narrative in recent reports.

Services grew 0.1 per cent in October, led by real estate and rentals, which were up 0.4 per cent. Agent and broker activity increased 3.6 per cent after declining for five consecutive months.

Retail and wholesale trade also rose, gaining 0.7 per cent and 0.6 per cent respectively.

"The underlying pace of growth remains weak," Brittany Baumann, macro strategist at TD Securities in Toronto, said in a research note. That will likely "keep the Bank of Canada on alert in the new year."