Canada's economy posts 'blow out' growth; dollar jumps

By David Parkinson
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Canada's economy continued its hot streak in May, riding broad-based growth led by a surge in oil output, beating already high market expectations and setting off another wave of buying in the high-flying Canadian dollar.

Statistics Canada reported that Canada's real gross domestic product jumped 0.6 per cent in May from April, on a seasonally adjusted basis – triple the solid 0.2-per-cent growth that economists had predicted. That matched the strongest single-month growth that the economy has posted in the past six years. Compared with 12 months ago, real GDP was up 4.6 per cent – the fastest year-over-year growth in nearly 17 years.

The Canadian dollar surged against its U.S. counterpart in the aftermath of the release; by mid-morning, the currency was trading at 80.49 cents (U.S.), up 0.83 cent. This latest evidence of Canada's economic resurgence bolstered expectations that the Bank of Canada will follow up its mid-July interest-rate hike with further increases in the coming months, a prospect that makes the currency more attractive for foreign investors.

"With this powerful momentum, even if some of it is a passing phase, it will take a lot to knock the Bank of Canada off its gradual tightening path," said Bank of Montreal chief economist Douglas Porter in a research report.

"[The GDP numbers] will obviously reinforce the Bank of Canada's new-found confidence in the economy and hawkish stance on interest rates," said David Madani, senior Canada economist for London-based Capital Economics, in a research note.

The highlight of the May GDP report was a 7.6-per-cent surge in oil and gas extraction. The numbers received a one-time juicing from the ramping-up of output at Syncrude's Mildred Lake oil sands upgrader in northern Alberta, which was shut down by a fire in March.

But the economy also enjoyed strength in many other sectors in May, including manufacturing (up 1.1 per cent month over month), finance and insurance (up 0.9 per cent), retail (up 0.9 per cent) and wholesale trade (up 0.7 per cent). Overall, 13 of 18 sectors posted growth in the month.

On the downside, the real estate services sector suffered a 0.2-per-cent slowdown in the month. Statscan said real estate agent and broker offices slumped 6.3 per cent, as sales in the Greater Toronto Area slowed in the wake of the new provincial housing regulations introduced in late April.

The construction sector declined 0.6 per cent month, hurt by a strike among Quebec construction workers during the month. And the arts and entertainment industry fell 3.5 per cent, largely because several of Canada's National Hockey League teams were eliminated from the Stanley Cup playoffs.

Goods-producing sectors surged 1.6 per cent. Service-producing sectors rose a more modest 0.2 per cent, but it marked their 21st straight monthly increase.

Economists noted that the year-over-year rise of 4.6 per cent was exaggerated by the particularly weak year-earlier comparison, when the economy took a short-term body blow from the Fort McMurray wildfires. In May, 2016, real GDP slumped 0.6 per cent month over month.

Nevertheless, the surprisingly strong May results prompted another round of upgrades to private-sector GDP forecasts. Many economists are now looking at second-quarter GDP growth of about 3.5 per cent annualized –

well above the Bank of Canada's mid-July estimate of 3 per cent, and nearly matching the first quarter's impressive 3.7 per cent pace.

"While the blow-out headline advance no doubt exaggerates the underlying strength in growth, the fact is that every single major surprise for the economy this year has been to the upside," Bank of Montreal's Mr. Porter said. "Today's strong report puts Canada on track for roughly 3 per cent GDP growth this year, more than a percentage point above where consensus expected just six months ago."