

Canada's third-quarter economic growth slows; rate hike next week seen as unlikely

By David Ljunggren

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Canada's economic growth slowed in the third quarter on declines in motor vehicle purchases and housing investment, underpinning market expectations that the Bank of Canada will not hike interest rates next week.

Statistics Canada said on Friday that annualized growth between July and September was 2.0 per cent, down from 2.9 per cent in the second quarter. The pace of growth matched expectations of analysts in a Reuters poll.

In October, the Bank of Canada – which has hiked rates five times since July 2017 – boosted its estimate of third quarter annualized growth to 1.8 per cent from 1.5 per cent.

The central bank says interest rates still need to continue rising, given the strength of the economy. Market analysts though see little chance of improvement in the fourth quarter, given the falling price of oil, one of Canada's main exports.

"I'd be shocked if the bank did anything with the rates next week," said Doug Porter, chief economist at BMO Capital Markets.

Market expectations of an interest rate hike on Dec. 5, as reflected in the overnight index swaps market, stayed steady at 11.24 per cent. Earlier this month, that figure was above 30 per cent.

Although the index showed most market operators believe the bank will tighten again on

Jan 9, Porter said in an interview he believed "it's a closer call than the market is priced for. Today's news reinforces that message."

Adding to the uncertainty was Statscan data showing the economy shrank 0.1 per cent in September from August following seven consecutive months of growth. Analysts in a Reuters poll had predicted a 0.1 per cent increase.

"You do have to start asking questions about if the Bank of Canada is going to be able to throw caution to the wind a bit and lift rates in January," said Andrew Kelvin, senior rates strategist at TD Securities.

The Canadian dollar weakened slightly to \$1.3308, or 75.14 U.S. cents, on the data.

Statscan said that on a non-annualized basis, household spending in the third quarter grew 0.3 per cent, down from 0.6 per cent in the second, as sales of motor vehicles dropped by 1.6 per cent. Total residential investment dipped by 1.5 per cent.

Strength in mining and petroleum refineries, boosted by higher prices and foreign demand, helped underpin growth.

Separately, Statscan said producer prices rose by 0.2 per cent in October from September, thanks largely to increased demand for meat, fish and dairy products.