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TD Economics

Data Release: Canadian economy ekes out growth in April

- Real GDP increased by 0.1% (m/m) in April, meeting market expectations. Declines from previous two months remained unchanged.

- On a positive note, manufacturing output rose 0.4% in April on higher non-durable goods production. Real GDP in nondurable manufacturing rose 0.9% on the month, driven by gains in petroleum and coal products and chemicals manufacturing, with both industries likely encouraged by rising commodity prices from their February lows. Durable goods manufacturing stabilized in April, after declining for two consecutive months. A rise in transportation equipment manufacturing helped offset declines in machinery and wood products.

- Other winners this month included utilities (1.9%), finance and insurance (0.3%), wholesale trade (0.2%), and the public sector (0.2%).

- Despite a rise in oil prices above US$45/bbl throughout the month, oil and gas extraction continued to weigh on growth, falling 2.4% in April. The decline stems from a shutdown at an oil sands upgrader facility during the month. Interestingly, conventional oil & gas activity ticked up in April and appears to have largely stabilized. However, support activities for mining, oil & gas remain near historic lows, likely indicating the sector will remain depressed in the near term.

- A lack of playoffs hockey in Canada negatively impacted growth in April, with a 3.9% decline in the arts, entertainment and recreation sector. Hopefully recent trades by the Montreal Canadians and Edmonton Oilers pay off and provide a boost next year.

Key Implications

- Today's report confirms that after a strong handoff from 2015 and robust expansion in January, which together provided a roaring start to the year, the Canadian economy effectively limped through the subsequent three months with the momentum quickly fading.

- Economic growth will be further hindered in the near term by declines in activity related to the Alberta wildfires which will drag down GDP, particularly in oil extraction, in May and June. This will materialize in a steep contraction in Q2 GDP, of approximately 0.9% despite some help from rising Canadian exports.

- While we expect capacity-absorbing growth to get underway in the second half of this year, helped by a rebound of economic activity related to the wildfire recovery, the Canadian economy remains fragile with growth further restrained by reduced business confidence in light of the recent Brexit decision. All told, economic growth this year is unlikely to exceed a meagre 1.2%.

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