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TD Economics

Data Release: Canada takes a breather in February

- Economic growth was reported flat in February (0.0%), as gains in the service-producing industries were unable to offset slippage among goods-producers.
- Output in service-producing industries rose 0.2%, led higher by finance and insurance (+0.7%), real estate (+0.5%), and professional services (+0.5%). Offsetting these gains were declines in wholesale trade (-0.4%) and arts and entertainment (-0.5%).
- With 4 of 5 major categories declining, goods output fell 0.3% in February. The biggest contributor was manufacturing (-0.6%), although it should be noted that this comes after three months of solid gains. The sole gainer on the month – construction activity – recorded its fourth straight monthly gain on relatively broad-based strength, with the sector as a whole up 0.5% on the month.

Key Implications

- After the exciting growth figures of recent months, it was perhaps inevitable that the Canadian economy would take a slight breather. While the February figures disappointed expectations somewhat, they were not sufficient to break the recent upward trend – Canada technically managed to eke out the smallest of gains, albeit at the second decimal place.
- Indeed, today's report was in line with our tracking. The momentum heading into the year remains consistent with a solid economic expansion of around 3.4% (Q/Q, annualized) for the first quarter as whole.
- For the Bank of Canada, the start to the year may disappoint their expectations somewhat, but today's GDP report is still consistent with remaining economic slack being absorbed sooner than previously expected. As discussed in yesterday's Dollars and Sense, despite improved momentum, caution will remain the near-term watchword for the Bank of Canada – particularly in light of recent weak inflation figures. That said, healthy economic growth through 2017, and an expected broadening of growth drivers will set the stage for the start of a gradual tightening cycle early next year.

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