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Canada: Economy took a breather in July

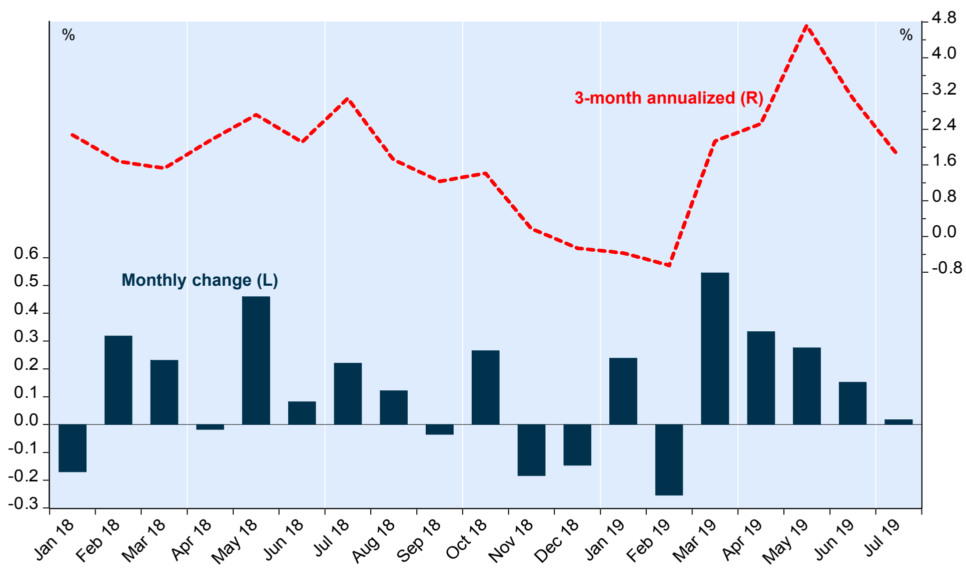
By Krishen Rangasamy

A moderation was always in the cards after Q2's massive and unsustainable growth print. While July's flat GDP was weaker than expected, it's worth noting special factors such as the shutdown of some offshore oil production in Newfoundland and Labrador because of maintenance issues. Also dragging down activity in July were industries such as arts/recreation and info./culture which softened after earlier outsized gains stemming from the run of the Raptors in the NBA playoffs. True, there were also cyclical forces at play in July, such as the manufacturing slump which mimicked the situation worldwide. But the good news is that factory woes are being offset by a resilient services sector which expanded for a fifth consecutive month. Considering the excellent handoff from June and a likely uptick in activity in August, we estimate Canada is on track to grow about 1.5% annualized in Q3, a more than decent performance considering this comes after a massive +3.7% print.

HIGHLIGHTS:

- Canada's real GDP was flat in July, taking the 3-month annualized increase to 1.8% (see left chart).
- Goods sector output fell 0.7% in July due to declines in all sectors except utilities, causing industrial production to drop 0.8%.
- But that was exactly offset by 0.3% increase in services-producing industries. The latter was boosted by most sectors including wholesale (+1.1%), professional services (+0.8%) and real estate (+0.4%), which dwarfed declines in arts/recreation (-0.6%), info./culture (-0.3%), and transportation/warehousing (-0.5%).
- On a year-on-year basis, Canada's GDP was up 1.3% in July, with gains in services (+2.5%) more than offsetting declines in the goods sector (-1.8%) (see right chart).

Canada: Economy took a breather in July
Real GDP by industry



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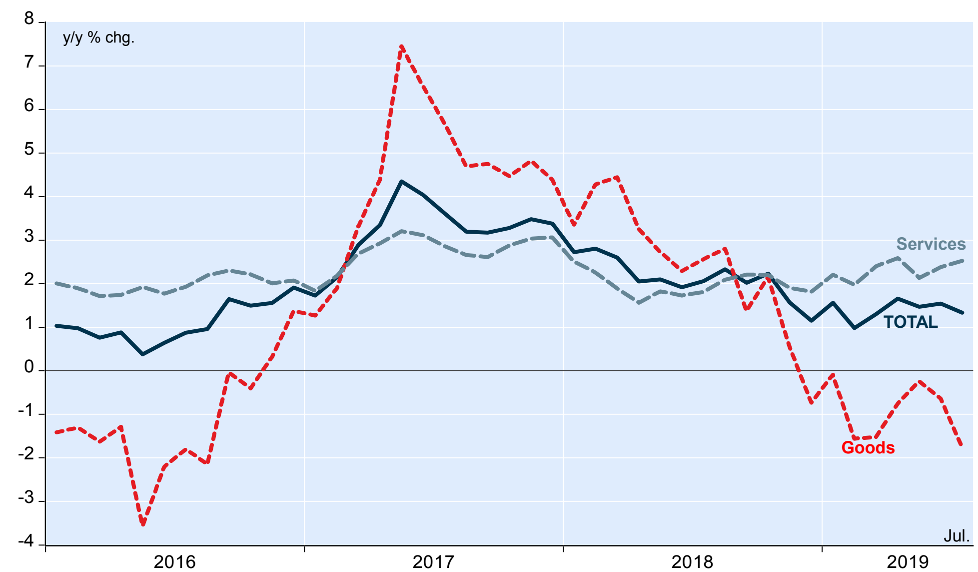
Canada: Services offsetting goods sector slump
Output in goods and services sectors



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Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Krishen Rangasamy
Senior Economist
krishen.rangasamy@nbc.ca

Paul-André Pinsonnault
Senior Fixed Income Economist
paulandre.pinsonnault@nbc.ca

Marc Pinsonneault
Senior Economist
marc.pinsonneault@nbc.ca

Kyle Dahms
Economist
kyle.dahms@nbc.ca

Jocelyn Paquet
Economist
jocelyn.paquet@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Toronto Office

416-869-8598

Warren Lovely
MD & Head of Public Sector Strategy
warren.lovely@nbc.ca

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