



# Economics Group

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## Exports Pull Canadian Economy Out of Rut in Q3

*A surge in net exports and modest growth in consumer spending helped the Canadian economy overcome the drag from a continued retrenchment in business spending and bust the slump of back-to-back GDP declines.*

### Decent Quarter, Bad Month, Forgettable Year

The Canadian economy expanded at a 2.3 percent annualized rate in the third quarter, which matched consensus expectations. Second quarter growth figures were revised slightly higher; so on balance, the level of GDP is actually a bit higher than expectations. Full-year growth for 2015 is on track to come in somewhere in the neighborhood of 1.5 percent.

On the downside, prospects for building momentum going into the final quarter of the year were dealt a setback: Monthly GDP for September revealed the largest sequential drop since the global recession in 2009.

#### The Good

Canada's largest trading partner is the United States. In fact, the United States was the recipient of 76.8 percent of Canadian exports last year. The steady growth in U.S. domestic demand is underpinning export activity in Canada. While service exports only edged higher, goods exports rose 2.7 percent (not annualized) in the third quarter with the largest gains coming from exports of motor vehicles and parts (up 5.0 percent) and consumer goods (up 8.7 percent).

Canadian consumer spending also contributed 1.0 percentage point to the overall 2.3 percent growth rate in the quarter. Despite the ups and downs for the Canadian economy, consumer spending has been a consistent positive driver of growth for the past several years.

#### The Bad

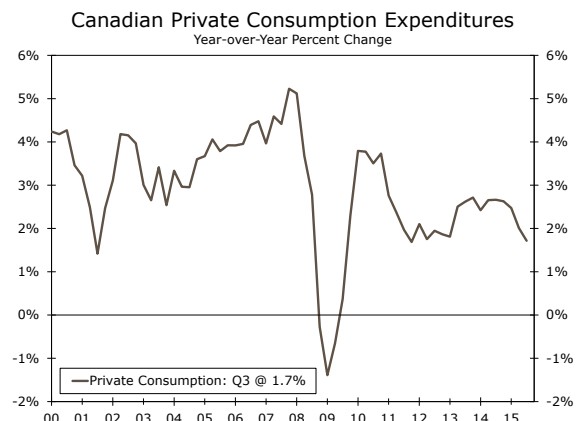
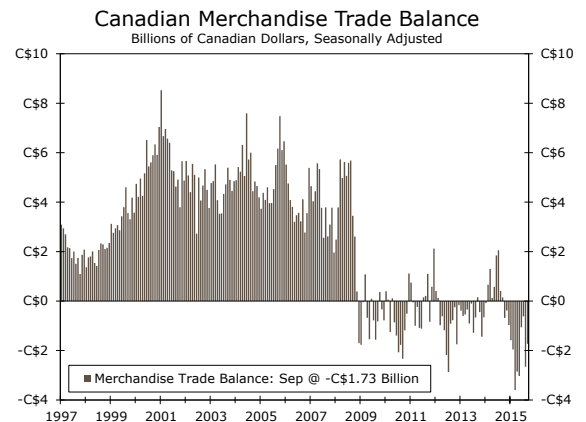
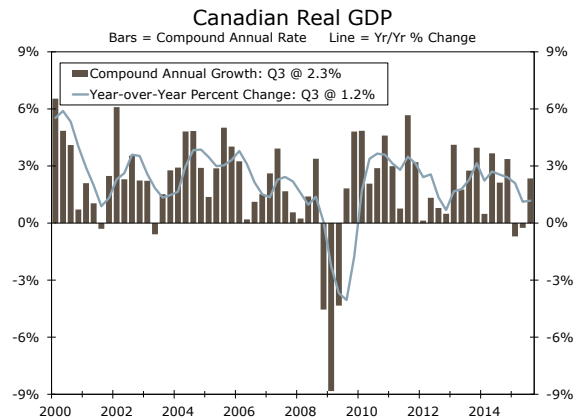
For the third quarter in a row, business spending was a drag on the Canadian economy, subtracting 0.6 percentage points from growth during the most recent period. A sustained firming in oil prices could underpin a lasting turnaround in the trajectory of business spending, but there is little indication of that materializing so far in the fourth quarter.

A slower pace of government spending also held back growth, subtracting 0.3 percentage points. As the new Liberal government takes measures to deliver on campaign promises, government spending should be more supportive of growth in 2016.

#### And the Ugly

The third quarter ended with a thud in September. Monthly GDP figures showed a sequential decline of 0.5 percent in September. That is the largest monthly drop in economic output since the height of the global recession in 2009. Among the goods-producing categories, a 5.1 percent decline in mining and quarrying activity swamped gains in other areas like agriculture and utilities.

Service producing output was more mixed, but here also the shadow of oil could be seen in the 4.0 percent decline in output for the energy sector.



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