



Economic Flash!

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Canadian GDP for May: Resources to the Rescue

Per/Per % chg	09:Q4*	10:Q1*	Mar	Apr	May	May Y/Y
GDP (at Basic Prices)	5.1	6.0	0.6	0.0	0.1	3.8
Goods-producing	9.4	10.9	1.5	0.1	0.6	6.3
Services-producing	3.4	4.1	0.3	-0.1	-0.1	2.7
Business	5.4	6.8	0.8	0.0	0.1	4.1
Non-business	3.6	2.3	0.0	0.1	0.1	2.4

* annualized

- As expected, May's output growth wasn't stellar, extending the slow start to the second quarter. Resources came to the rescue, with the energy sector in particular providing a lift to the goods-producing industries, more than offsetting a contracting services sector. Despite soft GDP prints for April and May, we're not declaring Q2 a write-off just yet. If, as we expect, the quarter ended with a flourish, that should keep Canada on track towards growth of around 2.6%.
- The goods-producing sector's impressive performance in May (+0.6%) extends recent trends. That sector has outperformed services in every single month this year, helped by improved demand for resources in particular. Output from mining, oil and gas extraction is now up 35% annualized in the last three months. Agriculture/forestry has advanced nearly 11% on a three-month annualized basis. Manufacturing is also on the ascendancy although at a less impressive three-month rate of 6%. The drag from housing turned out to be stronger than we expected in May because it more than offset the anticipated gains in non-residential construction. We continue to expect those two sub-categories of construction to cancel each other over the coming months as weak housing demand is countered with stimulus-related infrastructure projects. Utilities also surprised to the downside. But we expect a sharp rebound in June given the sweltering heat in that month would have raised demand for air-conditioning.
- The services sector which emerged from the recession sooner than the goods sector, has been trading water in recent months, contracting 0.1% in both April and May. As expected, wholesaling, real estate, rental and leasing services were a drag on May GDP, more than offsetting gains in retailing, transportation and warehousing and others. The post-Olympic cutbacks (after massive gains in February) in services-producing industries such as arts, entertainment, recreation, information, culture, accommodation and food services seem to have ended with small gains in those categories in May. Those categories may have grown further in June, helped by Ontario hosting the G8 and G20 summits.

Implications & Actions

Re: Economic Forecast — While Q2 started slowly, it's too early to write off the quarter. The second quarter likely ended with a bang, helped by extra government spending in the build-up to the G8 and G20 summits, and consumers attempting to bring forward purchases before the HST took effect in July in BC and Ontario. We're still on track for a decent growth rate of 2.6% or so for Q2 and a good hand-off from June will also give a lift to Q3 GDP growth. The negative output gap is closing and further Bank of Canada rate hikes are in the cards. We continue to look for two 25 bp moves before the year is out.

Re: Market Impact — The Canadian dollar lost some ground this morning despite the on-consensus GDP report.

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