

DATA COMMENTARY · APRIL GDP

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Canada's economy grows 0.5%, lifted by oil sands

Jay Zhao-Murray
Chief Economist

THE TAKE

“Today’s report cuts through the brewing recession narratives, showing the economy still has a heartbeat. Much of the gains were temporary, led by oil sands extraction, but the data still showed broadly positive signs for the physical economy.”

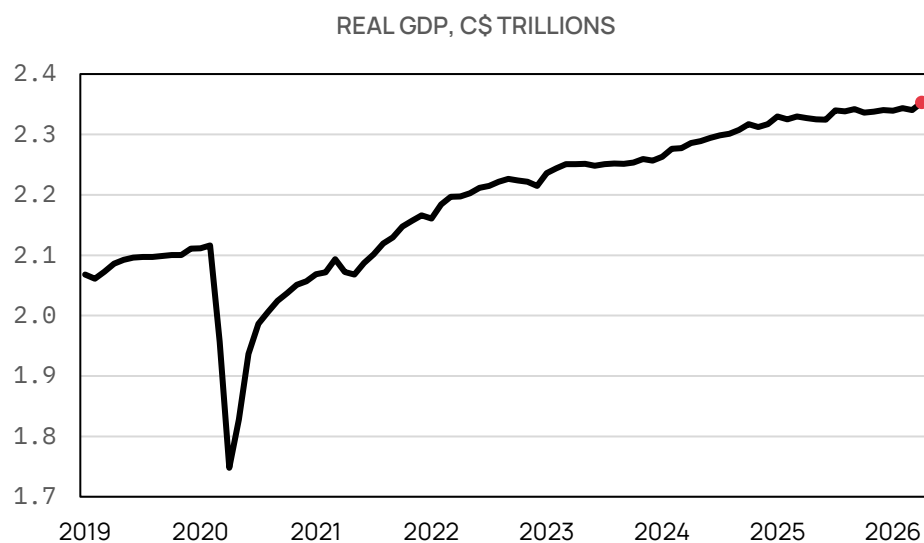
— JAY ZHAO-MURRAY · CHIEF ECONOMIST · SIBLEY CREEK

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Broad growth, concentrated gains

Canada's economy expanded by 0.5% in April, the fastest pace of growth in almost a year. Growth was led by a strong increase in oil and gas extraction as well as support activities in the sector. Still, April's expansion was reasonably broad with 7 in 10 industries posting gains, visible across both goods (+1.2%) and services (+0.3%). Advance tracking for May suggests the bounce fizzled out, with a 0.1% gain pencilled in.

What recession?



Source: Statistics Canada. Seasonally adjusted, chained (2017) dollars.

Oil and gas boost will be temporary

The top-level industry breakdown shows mining, oil and gas (+3.3%) accounting for just over half of the economy's growth in April, but drilling down into the category, mining had no effect—the big driver was oil sands extraction. With last month's quarterly data triggering talk of a technical recession, the lift from oil and gas is a welcome boost for the Canadian economy—but it isn't set to last. High prices and foreign demand for oil (much of which stemming from the US, the last trade report showed) were linked to the conflict in the Middle East, which has calmed in recent weeks. Additionally, much of the boost came from a rebound in synthetic crude following unscheduled maintenance, a one-off effect.

Physical turnaround

Two clearly positive signs were the gains in the manufacturing (+0.6%) and construction (+0.7%) sectors. Manufacturing had been in a three-year recession but bottomed out in January, with the industry up 2% since then. Construction, meanwhile, is starting to reverse following four consecutive months of losses, and expanded in all its subsectors, with residential and non-residential building construction both growing faster than 1% on the month.

Overall, this report shows enough strength to cut down the recession narratives. We'll take some marks off for the fact that gains were so concentrated in one sector, but even without oil and gas, the rest of the economy still did fine. The bigger picture is more tempered. Growth is tracking a 1.1% annual pace—not bad, not good, just mediocre. Canada still faces headwinds from trade uncertainty with the US, and the gains in the oil and gas sector won't last. But mediocre growth and fading global inflation pressures are just the right environment for the central bank to maintain its current interest rate policy.

Contact

Jay Zhao-Murray

Chief Economist

(613) 883-0774

jay@sibleycreek.ca

Thompson Richards

Economist

(819) 328-2809

thompson@sibleycreek.ca

Khoi Pham

Research Analyst

(506) 897-2466

khoi@sibleycreek.ca

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