Canada growth preview: Oil to weigh on October figure

A weak third quarter and continued problems in Canada's oil industry leave the near-term growth outlook shaky, but we don't expect a material turn for the worse. We still expect positive growth in October and a robust manufacturing sector should help keep growth on track

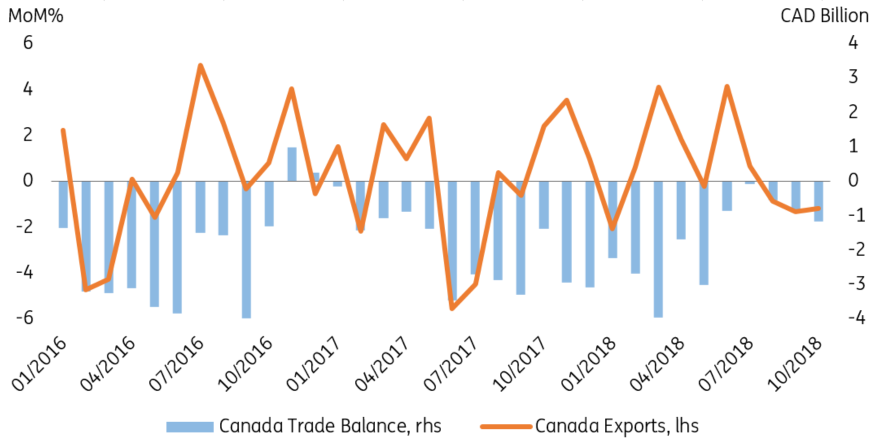
Source: Shutterstock

The pace of Canadian growth unexpectedly slowed in September and brought a pretty disappointing end to the third quarter, as the economy grew only 2.0%. Things look slightly better for October though; we're forecasting +0.1% month-on-month. This should see an annual figure of 2.1%, which supports our view that Canada will undergo a mild slowdown next year.

Medium-term growth outlook lowered in response to oil industry issues

Though our October forecast is still for decent growth, it could be better if it weren't for transportation constraints and inventory build-ups in Canada's oil industry weighing on both oil extraction and exports. A glimpse of this can be seen in Canada's trade data: The trade deficit widened to CAD1.17 billion in October - largely driven by a 1.2% fall in exports.

Widening of trade deficit is fuelled by a fall in exports



Source: Macrobond

Until planned projects get underway, we see this theme sticking around for some time. Alberta has recently curbed oil production to support the price of Western Canada Select (WCS), which has been trading at a deep discount to other benchmark oil prices. While the cuts have helped reduce the discount, the production cuts mean we've lowered our growth outlook in the medium term.

The manufacturing sector should help keep growth numbers healthy

Going forward, Canada's robust manufacturing sector should prop up growth. The manufacturing PMI ticked up to 54.9 in November (from 53.9 the previous month), which is likely a lagged effect of a United-States-Mexico-Canada-Agreement sentiment boost. This reassures us that, despite the materially weaker outlook for the energy sector, manufacturing should remain strong in response to solid levels of both domestic and foreign demand.

The central bank still has the green light to hike

Our 2018 growth estimate has been revised down to 2.5% due to a worse-than-expected third quarter, but don't let that take the shine off things. This print is still solid, and with the central bank's three main core inflation measures still averaging 1.9% in November, the Bank of Canada will likely carry on tightening policy rates throughout next year (here's four reasons why they'll keep hiking in 2019).

2.5% 2018 Growth

Revised Lower