Weak exports mask solid Canadian growth story

If exports are stripped out of the third quarter growth figures, the Canadian growth story continues to look strong and we expect two rate hikes next year.

Source: iStock

The figures

At face value, the Canadian economy took a breather in the third quarter after a strong run since the start of the year. At 1.7% (quarter-on-quarter annualised), overall 3Q growth was lower than the second quarter's 4.5% figure. However, the bulk of this slowdown is attributable to exports, which declined by 2.7% QoQ and is the first decline in just over a year. This was led by a decrease in the exports of goods; service exports actually increased. Imports remained largely unchanged.

Once this drag from net trade is stripped out, the picture looks much brighter. Domestic demand grew at 3.7% annualised, only a touch below the rate of growth seen in the first and second quarters.

1.7% 3Q17 GDP growth

Better than expected

What does this mean for the Bank of Canada?

None of this is likely to change the outlook for the Bank of Canada's December meeting next week, where we expect policymakers to keep rates on hold.

The Bank, including its Governor Poloz and Deputy Governor Wilkins, have taken a more cautious approach since the duo implemented two rate hikes over the summer. That said, with growth looking solid, we expect two further rate hikes in the first and third quarter of 2018.

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