

And So It Begins...

Canadian real GDP fell 0.1% in October, better than expected (consensus was -0.3%), but likely still marking the start of recession. Unexpected (and unsustainable) strength in oil and gas extraction and forestry and logging offset significant weakness in manufacturing and construction, keeping goods-producing industries flat. Manufacturing is likely to continue suffering with the struggling auto industry and worsening U.S. economy, while the construction sector should also continue to cool with a sharply slowing Canadian housing market.

Services sector activity declined 0.2%, reversing last month's gain. Wholesale trade was the biggest drag, plunging 2.7% (the second such drop in three months) thanks again to a weakening auto sector and softening international trade. Falling home sales also hurt real estate activity. Retail trade posted a surprising decline, contradicting the increase in the monthly report (it was only a week ago!). There were some pockets of strength: arts, entertainment and recreation rose 1.1%, hotels and restaurants gained 0.5%, and the government kicked in some spending with public administration up 0.4%.

Over the past year, GDP is now up only 0.2%. The weakness was centred in manufacturing and wholesale trade. Construction and real estate activity are likely to be significant sources of weakness in 2009. Strength was contained mostly to the public sector, with public administration, education, and health care posting gains of about 3%.

	(month/month % change)			(% change : a.r.)	
	Oct	Sep	Aug	3-month	12-month
Total GDP	-0.1	0.1	-0.5	-2.0	0.2
Goods Producing	0.0	-0.2	-1.2	-5.6	-2.3
Service Producing	-0.2	0.2	-0.1	-0.3	1.3
Manufacturing	-0.7	0.3	-1.5	-7.7	-5.0
Construction	-0.3	-0.5	-0.1	-3.4	1.6
Mining	1.1	-0.8	-2.2	-7.2	-1.5
Retail	-0.1	0.4	0.0	1.1	2.9
Wholesale	-2.7	0.7	-2.9	-18.1	-4.4
Finance	-0.1	0.3	0.0	0.8	1.8
Transportation	0.0	-0.4	-0.6	-4.0	-0.3
Government	0.4	0.4	0.3	4.0	3.4

The Bottom Line: The decline in October GDP likely marks the start of recession in Canada.

Benjamin Reitzes, 416-359-5628