Canadian economy expands 1.3%

HEATHER SCOFFIELD

Globe and Mail Update

December 1, 2008 at 8:42 AM EST

OTTAWA — The Canadian economy expanded by 1.3 per cent in the third quarter, despite continuing declines in the export sector and rapidly fading personal spending by consumers.

The expansion of the country's gross domestic product was fuelled mainly by a surge in oil and gas production in July, as well as a rise in construction activity in the quarter.

Economists had been forecasting modest third-quarter growth of about 1 per cent, so the official number was somewhat stronger than expectations.

The Canadian growth of 1.3 per cent, at annualized rates, stood in stark contrast to the 0.5 per cent contraction seen in the United States in the same quarter, and was the strongest quarter of the year. But economists, as well as the Bank of Canada, believe growth has dropped off sharply since then.

“The bounce-back should be fleeting, as the recent dramatic deterioration in U.S. and global economic activity may mean that Canadian gross domestic product in the coming quarters will be non-existent,” said Millan Mulraine, economics strategist at TD Securities.

“While this quarter's performance will mean that the Canadian economy has avoided a technical recession this year, it is unlikely to be as lucky next year.”

Real gross domestic product increased 0.3 per cent in the third quarter at a quarterly growth rate, and edged up 0.1 per cent in September from a month earlier.

For the quarter, output in the mining, oil and gas sector grew 1.4 per cent from the second quarter, at quarterly rates, leading to a 0.5 per cent pickup in growth on the goods side of the economy. It's the first growth for goods in more than a year.

The services side of the economy expanded 0.4 per cent.

The trade sector added to growth in the quarter, but mainly because imports declined 1.6 per cent, outpacing the 1.4 per cent drop in exports. Indeed, exports of goods and services saw their fifth consecutive quarterly decrease, leaving volumes 5.8 per cent lower than in the second quarter of 2007.

Personal spending eked out 0.2 per cent growth in the quarter, but this was a sharp deceleration from previous quarters and the weakest such growth since the fourth quarter of 2003, Statscan said. Canadians turned their backs on motor vehicle purchases in particular.

Overall, final domestic demand has dropped off steeply over the past year, and grew only 0.l per cent in the third quarter. That compared to quarterly growth rates of more than 1 per cent frequently seen last year.

Domestic demand, which measures economic activity within Canada and excludes the trade sector, has been the key driver of the Canadian economy as the U.S. and global economies slow.

The domestic deceleration is evident in the steep deceleration in the country's income. Gross domestic income was 1.6 per cent in the second quarter at quarterly rates, when oil prices were sky-high and the dollar was strong. But that sank to just 0.1 per cent growth in the third quarter.