

Canada: GDP (oct) disappoints.

That which was taken away in October, gets paid in November.

The Canadian economy expanded by 0.2%*m/m* in October. Barely. Unrounded, the economy grew by just 0.159%. The street median of expectations and our own forecast were looking for a more respectable 0.3%. Manufacturing provided the bulk of the down side surprise. Rather than providing for a significant contribution to GDP, it was instead an albatross around the neck of the economy.

Facts.

Goods producing industries performed poorly, led lower by the decline in manufacturing output. For the forecast we had been looking at manufacturing to have grown by 0.9%*m/m*. A view supported by the rather robust 1.1%*m/m* pick up in manufacturing sales volumes reported earlier.

On the upside, mining, oil and gas extraction outperformed expectations by a wide margin, just not nearly enough to offset the down side associated with the much larger manufacturing category.

Services pretty much performed as expected, growing at an upwardly rounded 0.2%, in line with our forecast at 0.2%*m/m*. Growth in the financial services sector (the largest component of the overall GDP report) came in slightly softer than expected although this was partially offset by a salting of better than expected performances out of some of the other small service sector categories. Transportation also provided some decent upside surprise as the cross border crude oil pipeline disruptions from September were resolved by October.

Implications

What the economy took away in October, it is expected to get paid forward in November. When dissecting the disappointment with manufacturing, we find that durable goods output (+0.8%*m/m*) actually performed largely as we had been led to believe was the case given the robust level of sales. Non-durable goods output however, quite unexpectedly, declined significantly (-2.3%*m/m*) as a result of extended maintenance at refineries curtailed output. This is expected to be a transitory event with production scaling back up in November as the switch over from high grade gasoline production on over to heating distillates along with the seasonal maintenance that goes along with this is completed.

Bottom line.

A transitory bump on what has been a turbulent road to economic recovery. Today's disappointment does not necessarily scotch expectations for a decent pick up in economic activity in Q4/10 vs Q3. Rather, we will look to November's report to make up for the failings of the October numbers.

As it stands, our forecast continues to look for the Canadian economy to grow by 2.7%*q/q* ann, up from Q3's disappointing 1.0%.

Disclosure appendix

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