Canada’s economy is growing at the slowest pace in 60 years and the only thing holding us up is housing

Real estate and financial services now account for 20 per cent of Canada’s economy — and with debt at record levels, that could be a problem

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Bloomberg News

August 2, 2016
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Canada is in the midst of one of its weakest expansions ever, and only the housing boom keeps it from getting worse.

That’s one of the key takeaways from Friday’s GDP report. Two years since oil prices started plunging, Canada’s economy is almost

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makers scrambling to slow price gains that are making homes unaffordable for all but the wealthiest buyers.

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While Bank of Canada policy makers expect a sharp second-half rebound as oil production resumes and exports pick up, some investors are hedging their bets. Swaps trading suggests an almost 30 per cent chance Governor Stephen Poloz will cut interest rates by the October meeting to give the economy another jolt.

At the very least, the economy's lethargy will add urgency to efforts by Prime Minister Justin Trudeau and Finance Minister Bill Morneau to bolster long-term growth ahead of the 2017 budget.

Based on Friday's report, here's what else we know about how Canadian economic output has changed over the past two years:

Stasis

Since May 2014, Canada's economy has expanded 1.2 per cent. That's the slowest two-year pace outside a recession in at least six decades, according to Statistics Canada monthly data back to the early 1960s. Until recently, the country typically mustered growth of least 5 per cent over two years.

Over the past 10 months, Canada's economy has stalled altogether with zero growth. That's mostly due to Alberta wildfires in May shutting down oil production. But there appear to be deeper forces at play. Averaging GDP over three months in order to reduce the effect of the wildfires still produces the same result: the worst two-year expansion outside a recession in decades.

Oil Industry

Output of mining companies, oil and gas producers and their support sectors plunged 14 per cent in May from the same month two years earlier. Averaged over three months, the decline is only 9 per cent. Excluding the May figures, oil production has held up relatively well in volume terms, even with the oil-price drop.

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in the two years through May, according to Bloomberg calculations.

Manufacturing

One of the big economic mysteries for Canadian policy makers has been manufacturing's recent poor performance, in spite of a weaker exchange rate. Manufacturers had their worst month in May since the recession, with factory output down 2.4 per cent.

A big part of that monthly decline is temporary, led by a 13 per cent drop in refinery output because of the oil-supply disruptions. But even averaging over the last three months produces just a 1 per cent gain for manufacturing over two years, which is slower than the rest of the economy. Jobs data shows a similar trend; the sector has lost 30,000 jobs over the past two years.

Real Estate

The biggest contributor to Canadian growth since oil prices began their decline is real estate. The sector was 6.8 per cent larger in May from two years earlier, adding about 0.8 per cent to national GDP over that period. That's pretty much in line with growth rates over the past 15 years for a sector that even escaped the 2008-2009 recession largely unscathed. Real estate has become the country's biggest industry at 12.4 per cent of GDP, or 13.2 per cent if you include leasing.

Financial Services

Another Canadian industry experiencing a boom is finance and insurance. Unlike the real estate sector however, banks have actually been accelerating their pace of growth. Output for this sector is more than 9 per cent over the past 24 months.

Retail

Retailers have been making a comeback after struggling initially to build momentum from the recession, spurred by the same low interest rates driving real estate and financial services. The sector has been the third biggest contributor to growth over the past two years. In May, retail output was 6.2 per cent above levels two years ago, adding around 0.3 per cent to national output over that time.

Public Administration

While governments are still not the biggest contributors to growth, the fact they are adding to it at all marks a change. This partly

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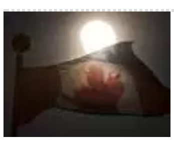
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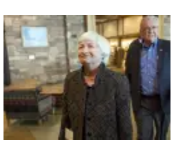
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