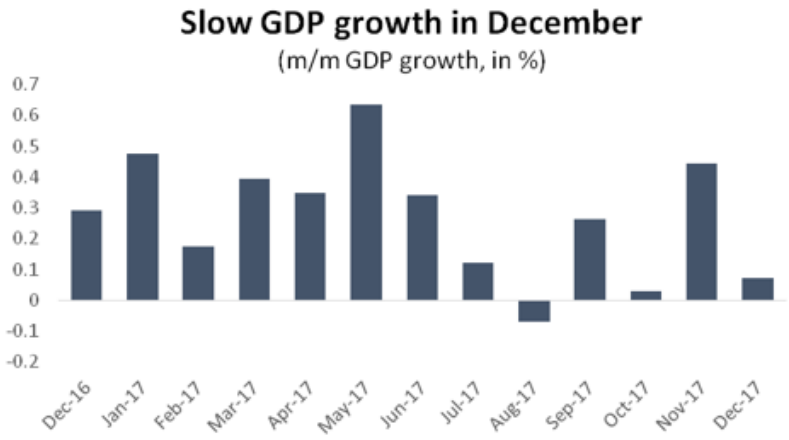
Canadian Fluid Power Association

Association canadienne d'énergie des fluides

Economic Analysis: GDP - December 2017

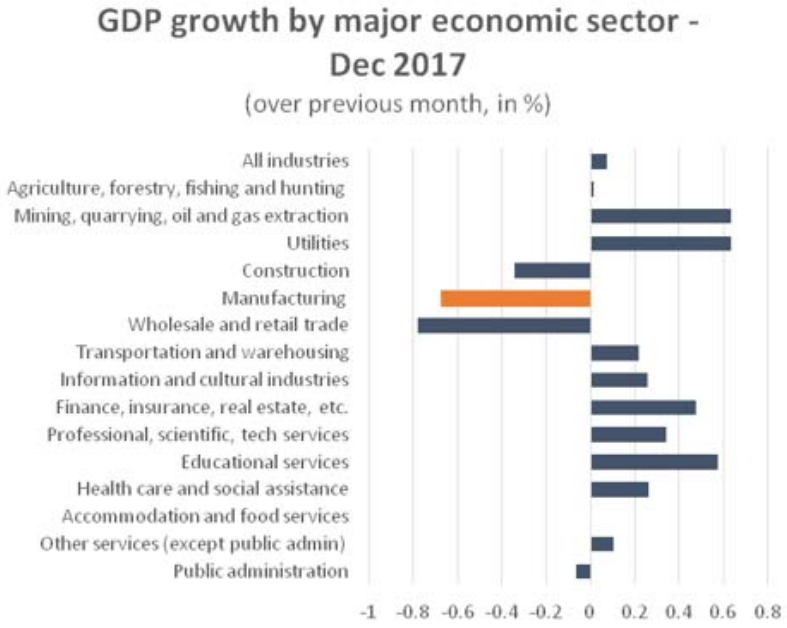
Flat December pushes overall growth down slightly for the year

1. December



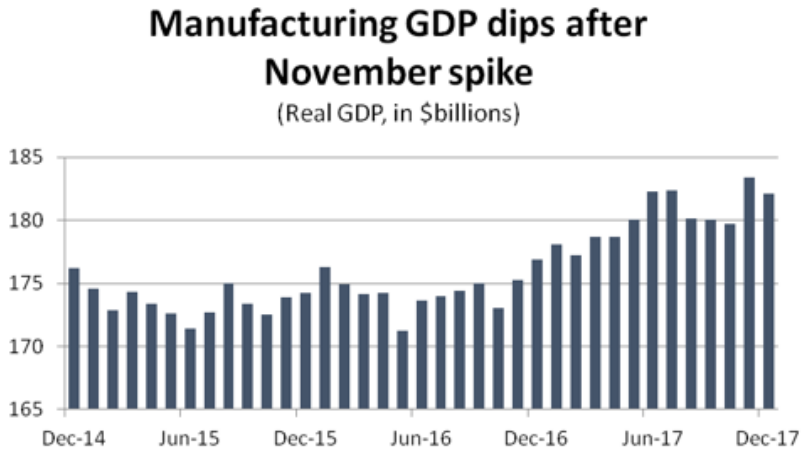
The Canadian economy ended 2017 on a flat note, as weakness in manufacturing, construction and wholesale/retail trade kept overall GDP effectively unchanged from November. All told, the Canadian economy grew by less than 0.1 per cent to close the year, equivalent to an annualized increase of less than 0.9 per cent.

December's GDP numbers are consistent with an overall slowing growth trend since last spring. With the singular exception of November, recent Canadian GDP growth has been tepid compared to the first half of the year. Quarterly and annual figures for the Canadian economy will be discussed further below. The good news is that at the industry level, the weakness was limited to the three sectors mentioned above. In fact, nine of the fifteen major industrial categories recorded solid GDP growth in December. Leading the way were utilities, and energy and mining, both of which expanded by about 0.6 per cent compared to November. There were also notable gains in finance and real estate industries, and in education.

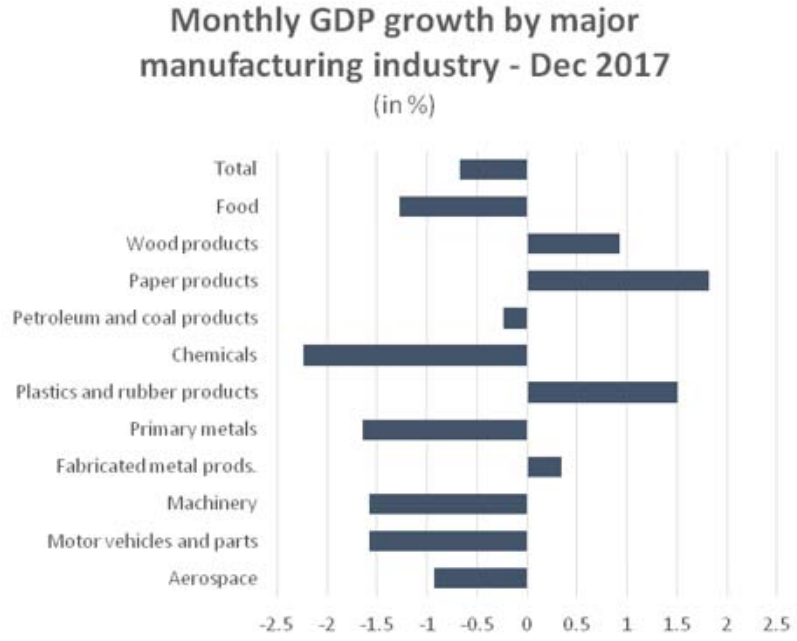


However, those gains were countered by declines in trade, manufacturing and construction. Retail trade GDP fell by about 0.8 per cent, while wholesale activity and manufacturing dropped by about 0.7 per cent each. For its part, construction GDP fell by 0.3 per cent. In fact, were it not for those declines, the Canadian economy would have grown by a healthy 0.36 per cent in December.

Looking at the manufacturing sector more closely, the drop in value-added output in December was not only widespread, but an abrupt reversal after an exceptionally strong November. Led by a return to normal production levels in the auto sector, manufacturing GDP had spiked by nearly 2.1 per cent in November - equivalent to an annual increase of more than 27 per cent. The good news for manufacturing is that the increase in November was so large that the decline of 0.7 per cent the next month was small by comparison; manufacturing GDP in December was still well above October levels.



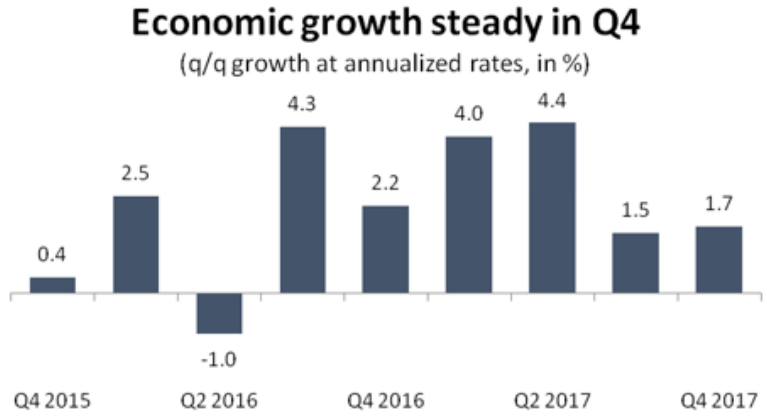
Within manufacturing, seven of the eleven major industries were down to end the year. Chemicals industries led the way in that regard, posting a decline of 2.2 per cent compared to November. That drop was heavily concentrated in pharmaceuticals production, where value added output plunged by more than seven per cent in a single month. There were also steep declines in primary metals, machinery and motor vehicles production to end the year.



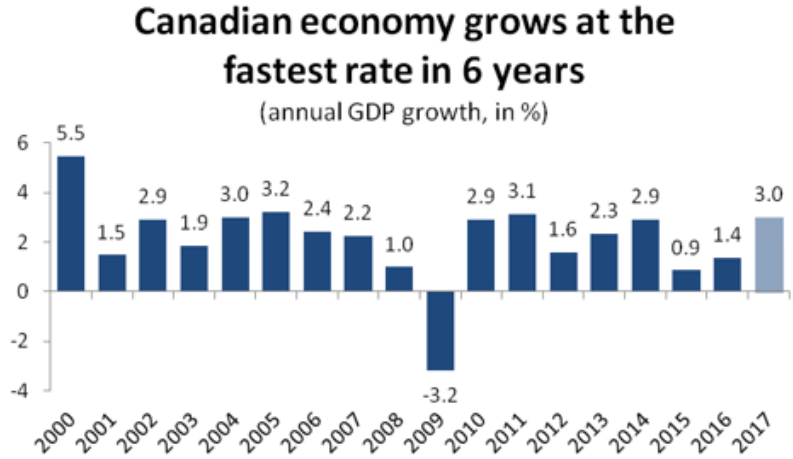
On the positive side, Canada's forestry sector continues to defy the challenges from US trade actions, as both paper and wood products producers once again made solid gains in December. Plastics and rubber producers have also enjoyed strong growth in recent months.

2. 2017 Year-End

The release of December's GDP numbers also means that quarterly and year-end figures for the Canadian economy are also available. GDP growth for the final quarter of 2017 came in at about 1.7 per cent, while third-quarter growth - which was initially estimated to also be 1.7 per cent - was revised down to 1.5 per cent.



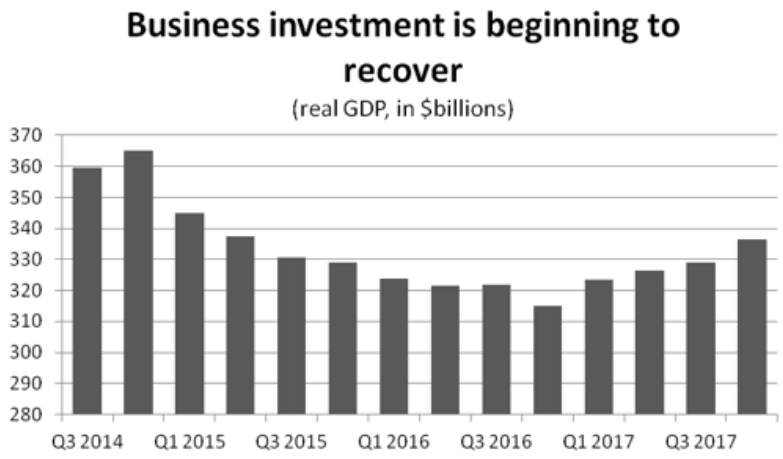
As a result of the downward revision to third-quarter GDP numbers, annual GDP growth for 2017 came in lower than projected by CME - 3.0 per cent compared to our initial forecast of 3.4 per cent. Those numbers could still change in the next three months as additional revisions are made. Even so, annual growth of 3.0 per cent remains a strong performance for the Canadian economy - its best showing since 2011.



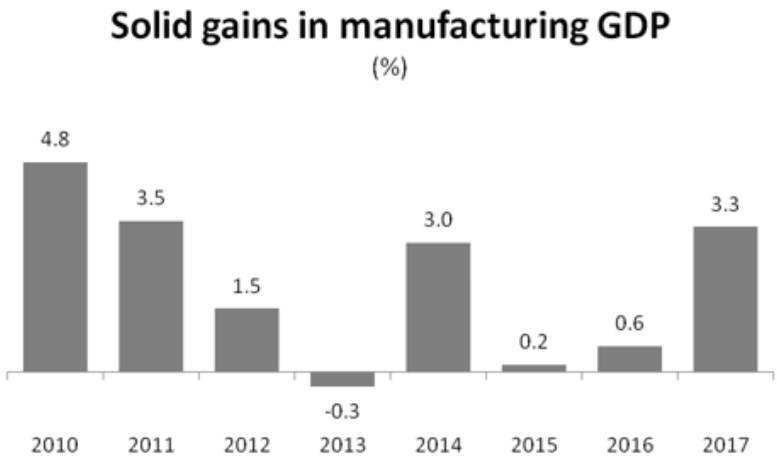
It is also worth noting that Statistics Canada produces several different calculations for GDP growth. Monthly GDP numbers are based on industrial production, whereas the most widely-referenced figures represent GDP calculated on the basis of expenditures (or also revenues). On an industry basis, annual GDP was up by 3.3 per cent compared to 2016.

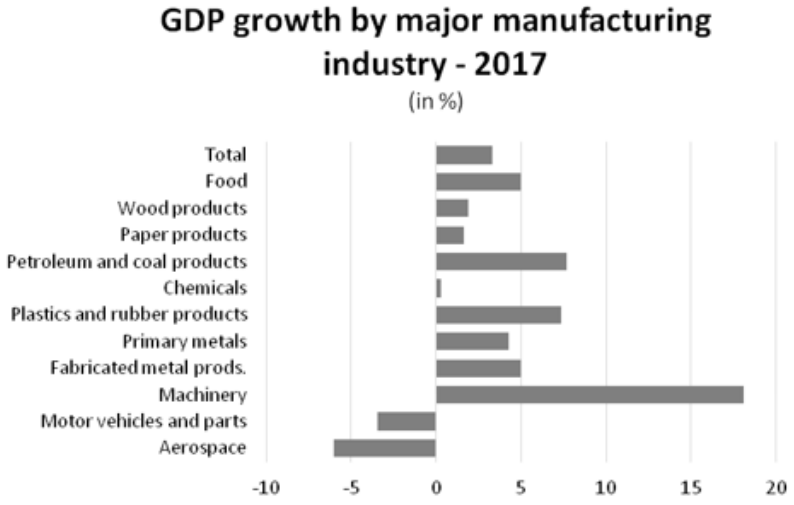
Although fourth-quarter GDP growth was unspectacular at 1.7 per cent, the good news is that growth was weighed down by a significant decline in inventories rather than in actual spending or investment. GDP in inventories fell by more than 18 per cent in Q4, dampening the impact of solid increases in every other expenditure category.

The best news came in business investment which has finally begun to turn around after nearly two years of steady decline following the collapse in oil prices. Business investment rose by 2.2 per cent in the final quarter of 2017, driving it to its highest level since the spring of 2015. Exports also posted strong gains (0.7 per cent), while household spending continued to make steady increases (0.5 per cent).



It was also a good year for manufacturing in 2017. Annual GDP in manufacturing was up 3.3 per cent compared to 2016 - its fastest pace of growth since 2011 when the sector was still recovering from the impact of the financial crisis.





The runaway growth leader within manufacturing was the machinery sector where value-added output soared by more than 18 per cent. There were also strong gains in petroleum refining (7.7 per cent) and in plastics and rubber product output (7.3 per cent). On the negative side, transportation equipment industries had a rough year in 2017. Motor vehicles and parts GDP fell by 3.4 per cent, while aerospace activity was down by 6.0 per cent.