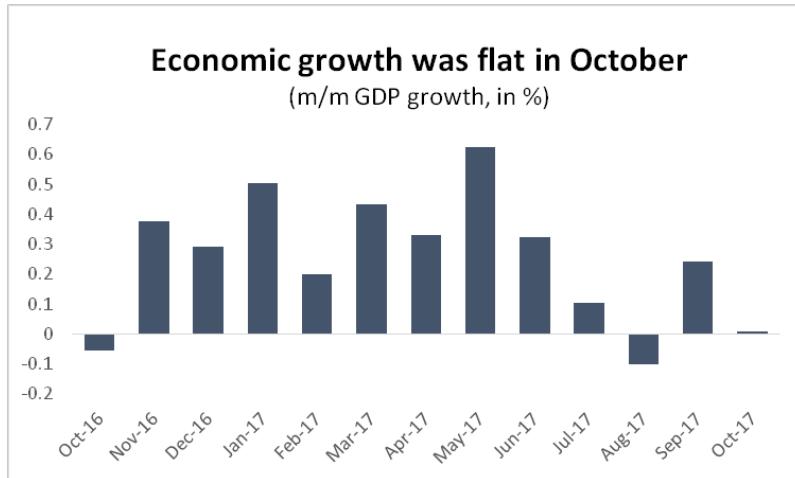




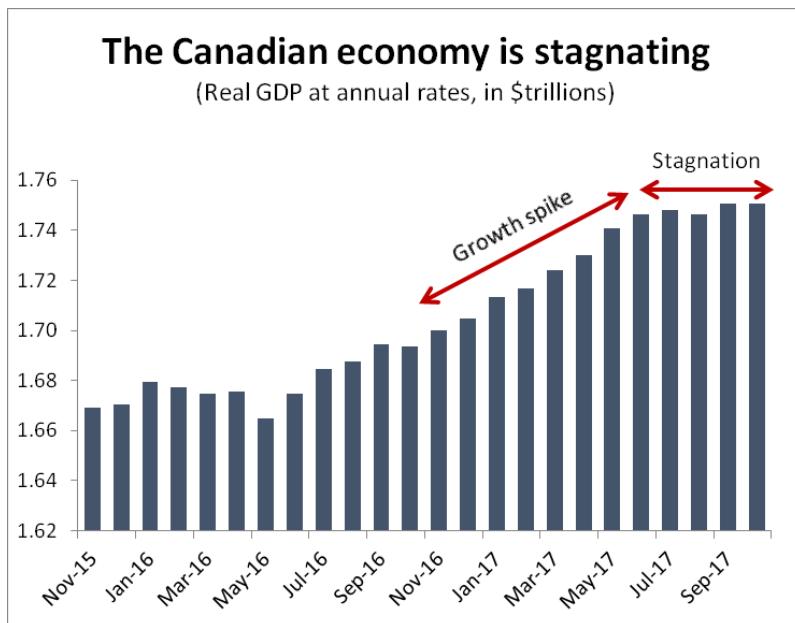
Manufacturing GDP Analysis - October 2017

Canadian economy stagnates in October on weakness in resources and motor vehicles production

The Canadian economy began the fourth quarter on a flat note as GDP in October was essentially unchanged from September's levels. A decline in value-added output in natural resources and motor vehicles production were the main factors behind the poor showing.



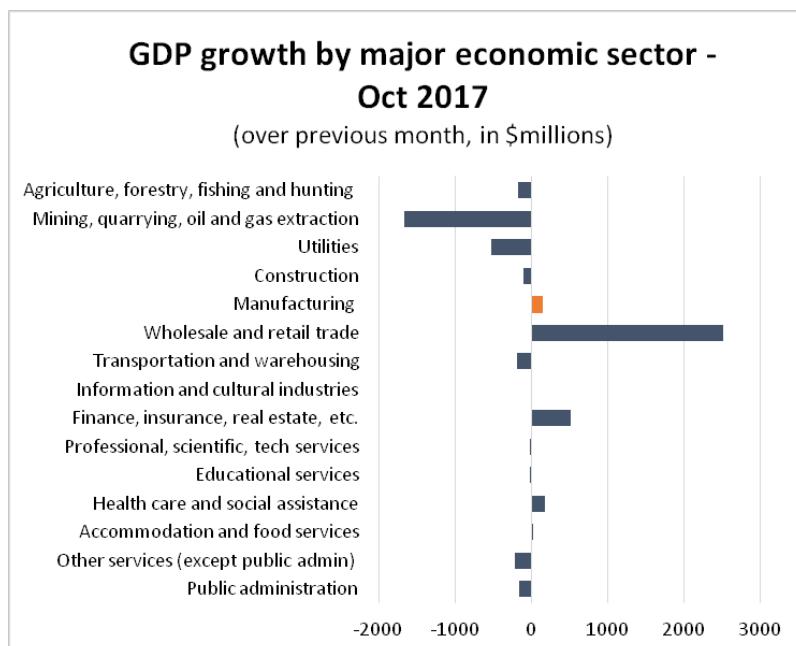
While Canadians have grown accustomed to hearing about how Canada has the strongest economy in the G-7, as noted here in past months, that perception is outdated – relying on the momentum created by a brief but impressive surge in economic activity from about November 2016 to May of this year. Since June, Canadian GDP has grown by an annualized rate of just 0.8 per cent. That amounts to effectively negative growth on a per capita basis.



Even so, the momentum from earlier in the year means that, on a year-over-year basis, the economy still looks like it is doing well. Through 10 months, GDP is tracking 3.3 per cent higher than it was over the same period in 2016. In 2017,

Canada will likely post its best economic performance in about six years. However, that pace of growth will slow dramatically next year unless the economy begins to show signs of new growth in the coming months.

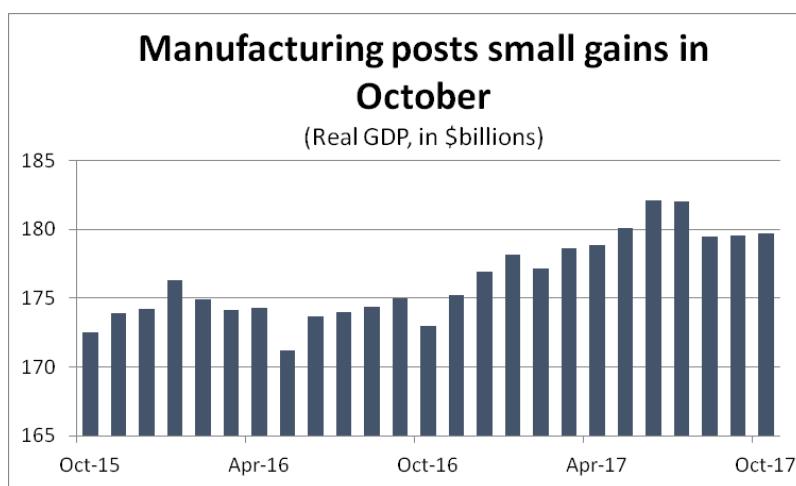
As noted above, a decline in natural resources and motor vehicles production were a drag on the economy in October. GDP in mining and energy fell by nearly \$1.7 billion (about 1.1 per cent). Electricity and natural gas distribution drove GDP in utilities lower (\$519 million, or 1.3 per cent), and agriculture GDP fell by 0.6 per cent (\$172 million). Meanwhile, the auto strike in Ontario that ended in October impacted vehicle and parts production that month, contributing to a 3.5 per cent decline in value-added output in that sector (\$592 million).



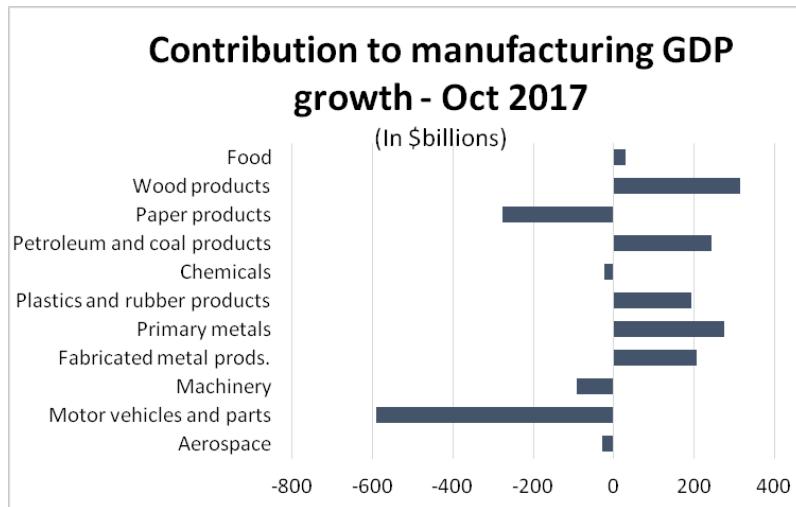
Those losses were largely offset by a spike in wholesale and retail trade activity. The \$2.5 billion increase (a 1.3 per cent increase over September) in those industries represented another good month for one of Canada's primary economic growth drivers in 2017. GDP in wholesale and retail trade in October was 6.6 per cent higher than it was in the same month last year.

Elsewhere, GDP growth was relatively flat in October. There were modest gains in finance, insurance and real estate, health care and manufacturing; and modest losses in transportation and warehousing, construction and the public service.

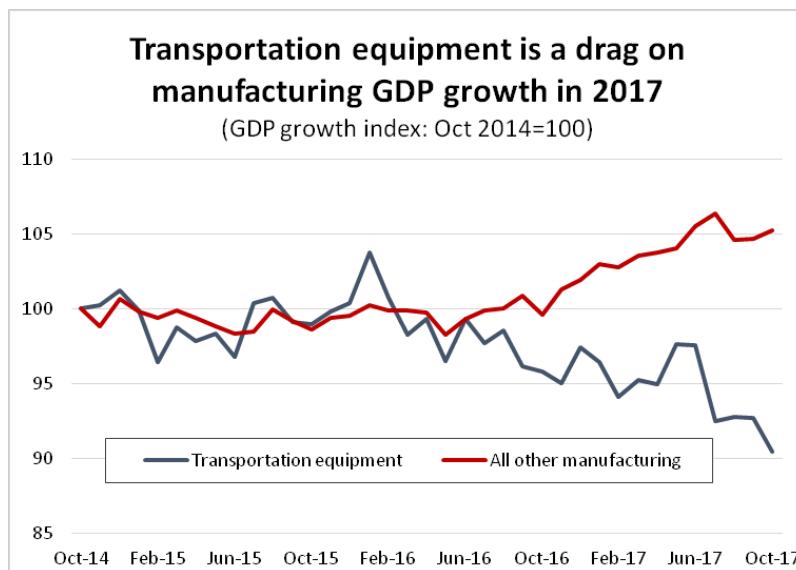
In spite of the drag of motor vehicles production, the manufacturing sector eked out modest gains in October, with GDP rising by about 0.1 per cent (\$141 million) compared to the previous month. Like the Canadian economy as a whole, manufacturing had enjoyed a mini-boom earlier in the year, but has been more or less flat in recent months. Manufacturing GDP in October was an impressive 3.9 per cent higher than it was 12 months earlier, but is basically unchanged since August and 1.3 per cent below its June peak.



Within the sector, results were mixed with six of the 11 major industries recording gains and five showing losses. As noted above, the biggest drag on growth was the auto sector, where GDP was down by \$592 million compared to September. There were also a notable decline in paper production (\$277 million), and smaller losses in machinery, chemicals and aerospace.



In fact, it is worth noting that transportation equipment in general has been a weak spot on an otherwise robust manufacturing sector through much of 2017. GDP in transportation equipment industries is 5.6 per cent lower than it was 12 months earlier, while in all manufacturing industries, it has risen at the same 5.6 per cent rate.



There were impressive gains in most other major manufacturing industries in October. Wood products GDP was up \$314 million (3.2 per cent). Primary metals GDP was \$274 million higher (1.9 per cent), and petroleum and coal refining GDP increased by \$242 million (3.5 per cent). Businesses in fabricated metals, as well as plastics and rubber products, also enjoyed strong growth in October.