3 Disturbing Numbers About Canada's Economy

Description

The gloomy outlook for Canada's economy is keeping investors awake at night. Every day, there are headlines predicting yet another economic crisis as growth stalls, household debt rises, and the commodities slump bites harder. The second quarter of this year was certainly not great for Canada because of stalled economic growth and the emergence of three worrying indicators.

Now what?

Firstly, activity in Canada's manufacturing sector continues to decline.

Royal Bank of Canada's Purchasing Managers Index, a measure of manufacturing activity, contracted for August 2016 by almost five points compared to the previous month to be 52.3 points, which was below market expectations.

While this number is above the 50-point threshold, indicating that manufacturing activity is expanding, it highlights that industrial output for August fell significantly compared with the previous month.

Secondly, GDP continues to decline.

Canada's second-quarter GDP plunged by 0.9%–its largest decline since the global financial crisis in 2009. This can be attributed to the oil slump and a decline in activity in the energy patch because of May's Fort McMurray fires. The fires forced a number of oil sands producers to suspend operations at their facilities in the area, causing oil production for May and June to fall significantly.

You see, the extraction of crude and bitumen is responsible for generating roughly 8% of Canada's GDP, and petroleum exports are its single largest export by value. The decline in oil output saw oil exports plunge by almost 10%, causing total exports for the quarter to decline by 5.5%.

If anything, this highlights the importance of the energy patch to Canada's economy and the contribution of major oil sands operators such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). After the fires, Suncor ramped up production at a number of its operations to make up for the shortfall in output; surprisingly, it now expects 2016 production to be 10% higher than what was projected in its February forecast.

Any increase in oil output as a whole will have a positive effect on third- and fourth-quarter GDP.

Finally, for the first time ever, Canada's household debt now exceeds GDP.

According to Statistics Canada, household debt during the second quarter grew to be a staggering 100.5% of GDP. This record level of debt is putting the economy at risk by making households extremely vulnerable to external economic shocks. One of the biggest concerns is how a rate hike would impact Canada's households and the fallout this would have for the financial system because of the major banks' dependence on mortgages and personal lending.

One phenomenon now being witnessed is a significant uptick in credit card debt because of tighter underwriting standards for mortgages.

This becomes apparent when examining fiscal third-quarter results for Canada's major banks. For the quarter, **Toronto-Dominion Bank's** (TSX:TD)(NYSE:TD) credit card debt was up by 15% year over year, whereas **Bank of Nova Scotia's** (TSX:BNS)(NYSE:BNS) rose by 10%. This is worrying because this type of debt is unsecured and is the most likely to experience a high volume of defaults should households fall into financial difficulty.

So what?

It is difficult to predict if there will be any relief for Canada's economy over the remainder of 2016 and into 2017. Crude remains weak, and there are signs that Canada's red-hot property market is starting to cool. Even the Organisation for Economic Co-operation and Development recently slashed its forecast for Canada, expecting the economy to grow at a lower rate than it did in 2015.

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