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## Canada's economy expands by just 1%, chances of big rate cut jump

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Softwood lumber is processed at Groupe Crete, a sawmill in Chertsey, Quebec, Canada January 17, 2018.  
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OTTAWA, Nov 29 (Reuters) - Canada's economy grew at an annualized rate of just 1% in the third quarter, less than what the Bank of Canada had predicted, prompting currency markets to boost bets for a jumbo rate cut next month.

Friday's data from Statistics Canada were in line with market expectations but less than the 1.5% forecast by the BoC, which has in recent months fretted about sluggish growth.

The boost to the GDP came from an unlikely growth in consumer spending and persistent government expenditure but it failed to offset declines seen in business investments.

GDP per person basis, a measure of standard of living, shrank by 0.4% in the third quarter, its sixth consecutive quarterly decline.

"Living standards are falling, policy is still restrictive, and inflation is at target – there is no convincing argument in the data as to why the Bank of Canada shouldn't keep going at a 50bp pace in December," said Kyle Chapman, FX market analyst at Ballinger Group.

The BoC has reduced borrowing costs by 125 basis points since June to 3.75% as the annual inflation rate fell back toward its 2% target and the bank grew more concerned about a hobbling economy.

The GDP data as well as an employment report due early next month will help the Bank of Canada determine the size of an expected rate cut at its last monetary policy decision of the year on Dec. 11.

Currency markets boosted their bets for a 50-basis-point reduction in interest rates next month to around 44% from 31% before the data were released. They are fully pricing in a 25-basis-point rate cut.

The statistics agency revised the second quarter annualized growth to 2.2% from 2.1%.

Economic growth on a monthly basis came below expectations at 0.1%, Statscan said, and a preliminary estimate showed growth was likely to be 0.1% in October.

Analysts had predicted month-on-month GDP growth in September at 0.3%.

The fourth-quarter number indicates a slower start to the final quarter of the year, which could force the bank to revise its fourth-quarter growth target it projected in October.

The central bank will also have to adjust downward its third-quarter growth projection it announced in October, after already revising it once from its July number.

**TRUMP TARIFF THREAT**

Economists said growth prospects do not seem inspiring in the fourth quarter as well as the start of next year as a looming threat from proposed 25% unilateral tariffs by U.S. President-elect Donald Trump and immigration curbs will gnaw at the GDP pie.

"In this climate of heightened uncertainty, it's hard to imagine business investment or international trade being strong contributors to Canada's growth on a sustained basis over the coming year," said Stephen Tapp, chief economist at the Canadian Chamber of Commerce.

Business investments in machinery and equipments dropped by a whopping 7.8% in the third quarter and was followed by a 0.4% drop in housing renovations and 0.1% drop in new construction.

Exports of goods and services also dropped by 0.3% after a 1.4% decline in the previous quarter, Statscan said.

Household spending grew by 0.9% and was one of the main drivers of the growth along with continued government expenditures, it added.

The Canadian dollar <CAD=> weakened slightly and was trading at C\$1.4028 to the U.S. dollar, or 71.29 U.S. cents, down from \$1.4009, or 71.38 U.S. cents.