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Economics

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Canadian GDP (July, Aug. adv.): Win some, lose some

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GDP (period/period % chg)	24:Q1[1]	24:Q2[1]	May	June	July	July Y/Y
GDP (at basic prices)	2.2	2.3	0.2	0.0	0.2	1.5
• Goods-producing	-1.0	1.4	0.5	-0.3	0.1	-0.3
• Services-producing	3.3	2.5	0.1	0.2	0.2	2.1
• Business	1.2	1.8	0.1	0.0	0.1	1.1
• Non-business	6.3	4.0	0.5	0.3	0.3	2.8

Source: Statistics Canada

- Canada's July and August advance GDP data was a win some, lose some situation. The 0.2% July reading was two ticks above the advance estimate, but in line with our forecast, yet the advance reading for August pointed to a stall in activity. With some of the lacklustre August performance tied to railway disruptions, September is poised to see a bounce back, but that would still leave GDP for the quarter as a whole tracking around half the pace that the BoC assumed in its last forecast for 2.8% annualized GDP. Our forecast assumes that the BoC will do a couple of 50bps cuts, in December and January, after cutting by 25bps in October, but the timing of the 50bps cuts could get moved up if the September employment data looks weak enough.
- The largest driver of growth in July was a pickup in auto retail sales, following software disruptions that held back activity in the prior month. Public sector output and finance/insurance were the other main drivers of growth on the services side, while goods sectors posted a modest 0.1% advance on utilities and manufacturing output, with utilities demand helped by warmer-than-normal temperatures. Wildfires held back the transportation/warehousing and accommodations sectors, with the former industry hit by further rail disruptions in August, but likely to show a rebound in September. The interest-sensitive construction sector so far hasn't responded to higher interest rates, with both residential and non-residential building dropping in July.
- The advance estimate for no growth in August is in line with the weakness seen in the advance wholesale and manufacturing data released earlier in the week, but September GDP is set to see a rebound from railway disruptions.

Implications & actions

Re: Economic forecast — GDP growth in the third quarter is likely to be closer to 1 1/2%, which is well below the Bank of Canada's forecast, as the economy isn't seeing the lift expected from goods-producing industries. For the Bank of Canada's October announcement, the upcoming employment report will be key in determining whether a 25bp or 50bp cut is necessary, with today's data not enough to sway us from our 25bp call at this point.

Re: Markets — Today's data had no material implications for fixed income markets or the C$, as the upside for July was offset by a downbeat advance August figure, and the September employment report will be more important for policymakers.

[1] Annualized.

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