

Economics

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Canadian GDP (Nov): Stumbling up to the tariff hurdle

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| GDP (period/period % chg) | 24:Q2 | 24:Q3 | Sep | Oct | Nov | Nov Y/Y |
|---------------------------|-------|-------|------|-----|------|---------|
| GDP (at basic prices) | 2.2 | 1.1 | 0.2 | 0.3 | -0.2 | 1.5 |
| • Goods-producing | 2.6 | -1.4 | -0.1 | 0.9 | -0.6 | -0.2 |
| • Services-producing | 2.0 | 2.0 | 0.3 | 0.2 | -0.1 | 2.2 |
| • Business | 1.9 | 0.5 | 0.3 | 0.4 | -0.3 | 1.1 |
| • Non-business | 3.5 | 3.4 | 0.0 | 0.0 | 0.0 | 3.4 |

Source: Statistics Canada

- Canada is facing a major hurdle from potential US tariffs, and today's data suggests that the economy was already stumbling on the approach to that hurdle. November GDP posted a 0.2% decline, which was a tick worse than the advance estimate, and was essentially only just reversed by a modest gain in December's advance estimate. While work stoppages negatively impacted activity, particularly in transportation, momentum elsewhere seemed quite muted as well and we continue to suspect that the Bank of Canada will need to cut interest rates further to close the current slack in the economy, even if the worst case tariff scenario is avoided.
- Multiple work stoppages impacted activity in the transportation sector, including the postal strike that started mid-month and also some rail and port stoppages. Overall, the 1.3% decline in transportation & warehousing was the largest since a weather impacted December 2022, and commentary for the December 2024 advance estimate suggests that it remained a drag that month as well, with the postal strike continuing.
- The utilities sector posted a 3.6% decline, linked in part to mild weather, while mining, oil & gas contracted by 1.5%. The decline in the latter offset the majority of a large increase seen in the prior month. Manufacturing, wholesale, and retail all posted modest declines. Construction, real estate and food & accommodation saw increases and offered a slight counterbalance.
- The advance estimate for December pointed to 0.2% growth, essentially offsetting the decline in November, although the continued postal strike would have still weighed on activity in the transportation & warehousing sector. Retail trade was cited as a lead contributor to growth during the month, which is of little surprise given the industry data and the boost to sales provided by the GST holiday starting mid-month.
- For Q4 as a whole, the advance estimate points to 1.75% annualized growth, essentially in line with the Bank of Canada's 1.8% MPR forecast albeit largely due to the strong increase seen in October. For 2024, growth of 1.4% is very underwhelming given the strong population and labour force growth seen over the course of the year.

Implications & actions

Re: Economic forecast —Overall, the economy appears to be in reasonable, albeit not great, health and clearly risks to the future outlook have intensified due to the tariff threats. The lack of economic momentum towards the end of last year, and the negative impact of potential tariffs on the future outlook, both lean towards further interest rate cuts from the Bank of Canada.

Re: Markets — Even though Q4 was essentially in line with the Bank of Canada's MPR projection, the weak momentum towards the end of the quarter saw bond yields and the Canadian dollar fall slightly.

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