

Economics

ECONOMIC FLASH!

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Canadian GDP (Nov, Dec/Q4 adv): Still struggling

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GDP (period/period % chg)	25:Q2	25:Q3	Sep	Oct	Nov	Nov Y/Y
GDP (at basic prices)	-1.0	2.1	0.2	-0.3	0.0	0.6
• Goods-producing	-4.7	4.9	0.5	-0.7	-0.3	0.3
• Services-producing	0.6	0.9	0.1	-0.1	0.1	0.8
• Business	-1.5	2.7	0.3	-0.3	-0.1	0.7
• Non-business	1.7	-0.8	0.1	-0.4	0.4	0.6

Source: Statistics Canada

- The Canadian economy was still struggling to eke out growth towards the end of the fourth quarter, even as some of the temporary factors that drove a contraction in October faded or reversed. The weak underlying momentum leaves GDP tracking slightly below the Bank of Canada's recent MPR projections, albeit likely not by enough at this stage to revive discussion of further interest rate cuts. However, it is clear that rates will need to be held at stimulative levels for a while to drive a recovery amid the still uncertain economic backdrop, and we continue to see no need for hikes back to a more neutral level until well into 2027.
- The flat reading for November was slightly weaker than the advance and consensus estimate (+0.1%) but wasn't a huge surprise given subsequent industry data that showed weakness in the wholesaling sector. A further sharp decline in manufacturing activity (-1.4%) took the level of production in that sector to its lowest since the pandemic year of 2020.
- Offsetting the declines in manufacturing and wholesaling, growth was recorded in sectors including retail, transportation and education. However, the increase in the latter two largely reflected rebounds following a strike-impacted prior month. Even the increase in retailing was flattered somewhat by the ending of an industrial dispute in BC that had negatively impacted alcohol sales in the prior two months
- The advance estimate for December pointed to a 0.1% increase in activity, with Statistics Canada suggesting that this was driven by at least partial recoveries in manufacturing and wholesaling.
- Today's report leaves Q4 GDP showing a slight contraction of 0.5% annualized, which is a little weaker than the Bank's recent MPR projection but not overly concerning given the typical degree of divergence between the industry data and next month's expenditure figures. That said, the still sluggish momentum towards quarter end may be a concern, as monthly growth rates will need to accelerate for the economy to achieve the Bank's near 2% MPR forecast for Q1 (1.8%).

Implications & actions

Re: Economic forecast — It's clear that tariffs and related trade uncertainty continues to drive volatility and general weakness in trade-sensitive areas of the economy such as manufacturing and wholesaling. However, it's also clear that there isn't too much momentum in the rest of the economy either, particularly once the rebounds in education and transportation that were simply the result of strikes ending are excluded. With underlying momentum still too weak to

sustainably reduce slack within the Canadian economy, we continue to think that interest rates will need to be held in stimulative territory throughout this year and into the start of 2027.

Re: Markets — Canadian bond yields were already lower prior to the release, potentially reacting to tariff threats on the aviation sector, and that move was sustained following the somewhat weaker than expected economic data.

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