

Economics

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Canadian GDP (Oct, Nov adv): Slipping into reverse again

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GDP (period/period % chg)	25:Q2	25:Q3	Aug	Sep	Oct	Oct Y/Y
GDP (at basic prices)	-1.0	2.1	-0.1	0.2	-0.3	0.4
• Goods-producing	-4.9	5.0	-0.1	0.6	-0.7	0.2
• Services-producing	0.7	0.9	0.0	0.1	-0.2	0.5
• Business	-1.5	2.7	0.0	0.3	-0.3	0.5
• Non-business	1.6	-0.8	-0.1	0.1	-0.4	0.2

Source: Statistics Canada

- The Canadian economy appears to have slipped into reverse again during the fourth quarter, as a decline in activity during October was followed by only a partial recovery in November's advance estimate. However, through the quarterly volatility, growth in the second half of the year still appears slightly higher than the Bank of Canada assumed in October's MPR projection, suggesting that the weakening momentum highlighted today would have to continue into the New Year to reawaken talk of further interest rate cuts. We continue to forecast no change to the Bank's overnight rate in 2026.
- October GDP posted a 0.3% decline, which was in line with the consensus forecast and advance estimate. Some one-off factors contributed to that decline, including strike action by Alberta teachers that drove a 1.8% drop in the education sector. Strike action among postal workers also contributed to a 1.1% decline in transport & warehousing. With those disputes ending, activity in those sectors is expected to rebound in November. While maintenance work at oil sands facilities contributed to lower activity in the mining, oil & gas sector during October, Statistics Canada suggested that the sector continued to struggle in November.
- However, the declines in strike-impacted education and transportation sectors contributed less than half of the overall drop in October GDP. There was also broad-based weakness in some other industries as well, including declines in manufacturing, wholesaling and retailing. The 1.5% drop in manufacturing broadly offset the increase that was recorded in the previous month, and included declines in machinery manufacturing as well as wood products, with the latter coinciding with an escalation of US lumber tariffs.
- The advance estimate for November pointed to only a partial recovery of 0.1%, which would imply a broadly flat reading after accounting for rebounds in strike-impacted sectors. Statistics Canada noted that mining, oil & gas and manufacturing continued to struggle in November. The unimpressive rebound is in contrast to the apparent strength signalled by employment and hours worked in the corresponding Labour Force Survey, suggesting that the labour market data may weaken again ahead.

Implications & actions

Re: Economic forecast — Today's data leaves Q4 GDP tracking a modest contraction of 0.5% annualized, signaling a further increase in slack within the economy which will dampen bets for interest rate hikes in 2026. However, following the upside surprise in headline GDP seen in the third quarter, average growth for the second half of the year is still slightly

better than October's MPR assumptions (1.0% vs 0.75%), and as a result today's data doesn't change our forecast for the Bank of Canada overnight rate to remain steady at its current level for the foreseeable future.

Re: Markets — Canadian bonds appeared to react more to the strong US GDP data released at the same time, with yields rising slightly.

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