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Canadian GDP: Where's the output for all those jobs?

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GDP (period/period % chg)	21:Q1[1]	21:Q2[1]	Juny	Jul	Aug	**Aug Y/Y**
GDP (at basic prices)	6.4	-0.1	0.7	-0.1	0.4	4.1
• Goods-producing	9.8	-0.5	1.0	-1.4	-0.1	2.9
• Services-producing	5.2	0.1	0.6	0.4	0.6	4.6
• Business	6.0	-0.6	0.8	-0.2	0.5	3.8
• Non-business	8.1	2.2	0.4	0.4	0.0	5.4

Source: Statistics Canada

- It was service with a smile driving Canadian GDP gains in August, but despite those gains for face-to-face activities, the overall picture for the third quarter won't leave too many smiles for economic optimists. The 0.4% monthly gain in GDP by industry in August, coupled with Statistics Canada's flash estimate for essentially no growth in September, puts GDP by industry tracking just under a 2% annualized pace. While that can differ from the more closely watched GDP by expenditure figures in the national accounts, it suggests that the Bank of Canada's new 5.5% projection for the latter is too high, marking its second consecutive quarterly disappointment, and might even challenge our 3.5% projection a bit. Moreover, it still leaves us wondering how Canada is registering so many job gains without nearly enough to show for it in economic output, which could signal softer hiring ahead.
- As expected, liberalized access to high touch services drove the story for GDP gains in August, with big gains for restaurants, hotels, and live sports and entertainment. These sectors still have a long road ahead of them to get back to trend, and likely stalled out a bit later in the summer as the Delta wave grew and Canadians became a bit more cautious. Still, looking out into 2022, vaccines, and vaccine requirements that help people feel safe at these venues, could continue to propel further service sector gains.
- August's disappointments came on the goods side, with drought and fires hampering agriculture and forestry, more than offsetting a modest comeback for manufacturing after a big prior month decline (and ahead of renewed declines in September) Softer oil and gas output stood in the way of growth in mining, while weaker homebuilding left construction flat on the month.
- September's flat reading for the advance flash GDP figure contrasted with the strong gain in total hours worked that month, but captured the earlier reported weakness in manufacturing and retail sales. This isn't entirely a demand story, because it's picking up the impacts of global supply chain bottlenecks on the ability of the goods sector to meet orders. It’s a reminder that the supply bottlenecks are both raising inflation and impeding growth at the same time, but underscores our view that we could enjoy both better growth, and softer inflation over the course of 2022 if the source of these bottlenecks - in many cases disruptions caused by Covid outbreaks abroad - begins to heal.

Implications & actions

Re: Economic forecast — In Q2, these GDP by industry data, which were essentially flat from Q1, showed about 1% better annualized growth versus the GDP by expenditure figures which declined at a 1.1% pace. While we don't

[1] Annualized.

automatically make up such gaps in the subsequent quarter, it’s a reminder that Q3 GDP on an expenditure basis might still come in close to our existing 3.5% forecast. But it would likely take an upward revision in the monthly figures for August and September to reach the Bank of Canada's 5.5% projection, and as a result, is at least a bit of evidence that market pricing for a rate hike as early as January is too aggressive.

Re: Markets — the Canadian dollar was a touch weaker on the news, but two year Canada yields didn't sustain much of a reaction, likely because markets see the Bank of Canada as more fixated on inflation these days rather than growth indicators.