

## Economics

# ECONOMIC FLASH!

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## Canadian GDP (Aug, Sep & Q3 adv): Slow but steady

**Karyne Charbonneau** [karyne.charbonneau@cibc.com](mailto:karyne.charbonneau@cibc.com) and **Andrew Grantham** [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

GDP (period/period % chg)	22:Q1 <sup>1</sup>	22:Q2 <sup>1</sup>	Jun	Jul	Aug	Aug Y/Y
GDP (at basic prices)	3.7	4.2	0.2	0.1	0.1	4.0
• Goods-producing	7.5	4.7	0.2	0.6	-0.3	4.9
• Services-producing	2.4	4.1	0.1	-0.1	0.3	3.6
• Business	4.2	4.5	0.1	0.0	0.1	4.2
• Non-business	1.7	2.8	0.4	0.4	0.3	2.9

Source: Statistics Canada

- It may have slowed to a crawl, but the good news is that we still have at least some growth in the Canadian economy. August GDP rose by 0.1%, which was slightly better than the advance estimate and the consensus forecast for a flat reading. Meanwhile the advance estimate for September pointed to a matching 0.1% gain. An upward revision for June means that GDP for Q3 as a whole appears to be close to the 1.5% annualized pace predicted by the Bank of Canada in its recent MPR report. While growth was fairly modest in Q3, it will need to slow further in Q4 and early 2023 to help bring inflation back down to target. Although there are lagged impacts still to come from the prior rate hikes, the need for a further deceleration supports the notion that while the Bank of Canada is close to the end of its rate hiking cycle, it isn't done quite yet.
- In August, sources of growth in the economy reversed from July, with the goods sector weighing on growth while service industries rebounded. Mining, oil & gas extraction contracted 1% in the month, mostly as the result of maintenance activity. The sector is therefore expected to have rebounded in September and is mentioned as a source of growth in the advance estimate for that month. There were also pullbacks in manufacturing (-0.8%) and construction (-0.7%). The latter has now contracted for five consecutive months as interest rate hikes weigh heavily on activity in the sector. Partly offsetting those declines were strong advances in agriculture (+3.9%), which continues to benefit from better growing conditions this year, and utilities (+1.5%).
- After declining in July, service-producing industries grew 0.3% in August. As expected, retail sales bounced back with a 1.2% increase on the month, led by sales at gasoline stations and sporting goods stores. After a significant pullback in July, accommodation and food services recouped some of the losses in August (+0.4%), but its recovery, like that of many service sectors impacted by the pandemic, has lost some steam over the summer. Meanwhile, public sectors continued to grow strongly, particularly public administration (0.5%), pushed by an expanding federal government subsector.
- Confirming early signs from last month, there was some further indication within today's industry figures that the largest negative impact on GDP from slower housing resales may have already been seen. After declining for four months, activity within finance & insurance grew slightly, as did real estate. Further hikes to interest rates since July will keep activity muted ahead, but outright large declines in services tied to resales may be behind us, although construction of new units is likely to be a drag ahead.

<sup>1</sup> Annualized.

## Implications & actions

**Re: Economic forecast** — Including revisions, today's data is a little stronger than we had expected and puts the third quarter growth roughly in line with the Bank of Canada forecast, but slightly above our estimate. While we will be revising our overall 2022 growth expectation to be a tad higher, this does not alter our view that the economy will stall in the months ahead, and the lack of momentum late in Q3 is aligned with that. With these latest growth figures only slightly below estimates of potential growth, we will need to see this further slowing of the economy to bring inflation back to target. This supports the notion that while we are getting closer to the end of the hiking cycle, there is still a little left to do. We continue to expect that the Bank of Canada will hike by a further 50bps before pausing.

**Re: Markets** — With quarterly growth estimate in line with the Bank of Canada's latest forecast, there was little market reaction to today's figures.

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