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November 29, 2024

Canadian GDP (Q3): Ending with a whimper

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2023	23:Q4	24:Q1	24:Q2	24:Q3	Q3 Y/Y
Real GDP (chained 2012$)	1.5	0.7	2.0	2.2	1.0	1.5
• Final domestic demand	1.1	-0.9	2.4	2.3	2.4	1.5
• Household consumption	1.8	1.3	3.1	0.9	3.5	2.2
• Government	2.6	-0.8	3.2	4.5	4.8	2.9
• Residential investment	-8.5	-3.6	-5.8	-7.4	3.0	-3.5
• Business fixed investment	1.0	-11.9	2.3	14.1	-11.3	-2.3
• Bus inventory investment ($Bn)	25.3	24.3	15.1	25.0	16.6	NA
• Exports	5.0	9.3	1.5	-5.4	-1.1	0.9
• Imports	0.3	2.0	-1.7	-0.8	-0.4	-0.2
GDP implicit chain price index	1.4	5.6	-1.0	4.2	2.2	2.7
Pre-tax profits	-14.8	19.8	-34.3	9.8	-11.2	-6.4
Real disposable income	1.6	2.0	3.4	6.3	7.6	4.8
Personal savings rate (%)	3.7	4.6	4.8	6.2	7.1	NA

Source: Statistics Canada

- While growth in the Canadian economy slowed to a crawl in Q3, that was broadly anticipated and was mainly driven by inventories and net trade. Domestic demand growth was much more solid and similar to the prior quarter. More concerning for the Bank of Canada will be the monthly data that showed the quarter ending with a whimper rather than the expected bang, leaving early tracking for Q4 well below the October MPR projection. Because of that, today's data are somewhat supportive of a 50bp cut at the next meeting, rather than a smaller 25bp reduction, although next week's employment figures will be just as important in making the final decision.
- Headline GDP rose at a 1.0% annualized rate in Q3, which is in line with the earlier tracking and consensus forecast, but half a percent below the BoC's October MPR projection. However, the detail was more positive than the headline, with consumer spending accelerating to a 3.5% annualized rate, and residential investment growing (albeit modestly) for the first time in a year. While business investment fell sharply, that followed an outsized increase in the prior quarter.
- Final domestic demand as a whole was a solid 2.4%, which was almost identical to the prior quarter. Headline GDP in Q3 was dragged lower than that by inventories and net trade. Net trade may have been negatively impacted by wildfire disruptions and the brief rail strike we saw during the quarter.
- Household incomes continued to grow at a strong pace and above the rate of spending, resulting in a further increase in the personal savings rate to a three-year high of 7.1%. That suggests scope for household spending to accelerate further ahead, especially as interest rates continue to fall.

- While inventories rose at a slower pace than in the prior quarter (making them a drag on GDP growth), the ratio of stocks to sales across the economy as a whole continued to rise and remains well above pre-pandemic levels. That suggests there's still plenty of scope for demand to improve without stoking inflationary pressures.
- Today's data also contained upward revisions to growth during the early post-pandemic periods, which left the level of GDP 1.4% higher as of Q2 2024. However, this shouldn't impact the Bank of Canada's output gap projections, as we already know what inflation was doing during the period of revision. Instead, these data suggest that productivity may not have been quite as bad as initially believed in recent years. Around 40% of the upward revision to GDP was accounted for by services exports, which was already flagged by yesterday's current account data. Household spending on goods, and business investment, were also higher than previously reported.
- Monthly data suggested that the economy ended Q3 on a weaker note than anticipated, with the 0.1% increase in September two ticks below the consensus forecast and the advance estimate (of 0.3%). However, the main negative (-0.1%-pts) was from the mining, oil & gas sector, as some facilities in Alberta underwent maintenance. Most other areas saw modest growth, including wholesale, retail and transportation.
- The early estimate for October is for further slight growth of 0.1%, with mining, oil & gas once again holding back the headline gain. As a result of the September and October figures, early tracking for the final quarter of the year is around 1.0% (assuming 0.1% increases in November and December), which will once again fall short of the Bank of Canada's MPR projection (in this case +2.0%).

Implications & actions

Re: Economic forecast — While growth in Q3 was weaker than the Bank of Canada's already downgraded MPR forecast, the more positive underlying detail suggests that that shouldn't be too much of a concern for policymakers. More concerning is the weaker-than-anticipated end to the quarter, suggesting that the Bank may need to downgrade its GDP projections again and that the output gap is continuing to widen. Because of that, today's data are somewhat supportive of a 50bp cut at the December meeting, although next week's employment data will be key in the final decision.

Re: Markets — Bond yields and the Canadian dollar fell following the release, as markets started pricing in a greater probability of a 50bp move at the December meeting.

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