

Economics

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## Canadian GDP (Aug, Sep/Q3 adv): Skirting recession

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GDP (period/period % chg)	23:Q1 <sup>1</sup>	23:Q2 <sup>1</sup>	Jun	Jul	Aug	Aug Y/Y
GDP (at basic prices)	2.6	0.1	-0.2	0.0	0.0	0.9
• Goods-producing	-0.2	-1.3	-0.3	-0.4	-0.2	-2.0
• Services-producing	3.6	0.7	-0.1	0.1	0.1	1.9
• Business	2.3	-0.1	-0.3	-0.1	0.0	0.3
• Non-business	3.8	1.5	0.2	0.2	0.2	3.2

Source: Statistics Canada

- The Canadian economy is already skirting a recession, with preliminary industry data for Q3 suggesting the possibility of a further slight contraction in activity to follow Q2's surprise decline. While the expenditure data to be released later could still show that the economy stayed out of recession this year, the fact that activity has been so weak at a time when population and labour force growth has been so strong clearly shows that past rate hikes have worked to cool the activity - perhaps a little bit too well.
- Monthly GDP for August showed no change compared to the prior month, which was weaker than the advance estimate and consensus forecast for a 0.1% increase. Gains in areas such as transportation, wholesale and mining, oil & gas (which were rebounding from the port strike and wildfire disruptions) were broadly offset by declines in sectors such as manufacturing, retail and accommodation & food service. On a year-over-year basis, retail was down by 0.8% in August, which would represent an even larger decline in per capita terms. The recovery in accommodation & food services from the pandemic has also stalled, with activity flat on a year-over-year basis and still below 2019 levels.
- Goods producing industries have posted declines in five consecutive months, largely due to contraction in agriculture which was a large source of growth in 2022. Statistics Canada noted a 6.7% year-over-year decline in crop production for August, largely due to dry conditions in Western Canada.
- The advance estimate for September suggests continued stagnation, with activity broadly unchanged relative to the prior month. While full details are not available yet, Statistics Canada suggested that mining, oil & gas activity fell back in September, offset by gains in construction and the public sector.
- For Q3 as a whole, GDP was also essentially unchanged (-0.1% annualized). That's much weaker than the Bank of Canada's MPR forecast of 0.8% annualized growth, although it should be noted that there is often a discrepancy between the industry figures released today and the later expenditure data.

### Implications & actions

**Re: Economic forecast** — While Q3's weakness can be partly chalked up to the decline in agricultural production and fire/strike disruptions early in the quarter, the underlying trend of consumer spending also appears very weak with retail sales declining and the post-pandemic recovery in accommodation & food services stalling. The fact that this weakness is

<sup>1</sup> Annualized.

happening at a time when population growth has been so strong, and before the majority of homeowners have yet to be exposed to higher interest rates, is a clear signal that rates will have to come down next year to avoid an even worse outcome (we currently expect the first move lower in Q2 next year).

**Re: Markets** — Bond yields initially moved lower, but retracted that thereafter because of stronger than expected wage data out of the US. The Canadian dollar weakened against the US\$ and also more broadly.

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