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Canadian GDP: A slight acceleration, then a stall

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2023	23:Q3	23:Q4	24:Q1	24:Q2	Q2 Y/Y
Real GDP (chained 2012$)	1.2	-0.3	0.1	1.8	2.1	0.9
• Final domestic demand	0.5	0.2	0.0	3.1	2.4	1.4
• Household consumption	1.7	0.1	3.2	3.6	0.6	1.9
• Government	2.1	4.3	-1.6	2.5	6.7	2.9
• Residential investment	-10.3	9.8	-2.3	-0.1	-7.3	-0.1
• Business fixed investment	-0.8	-16.8	-13.5	2.4	11.1	-4.9
• Bus inventory investment ($Bn)	38.8	42.8	38.8	25.4	24.6	NA
• Exports	5.4	-3.2	3.2	2.0	-1.8	0.0
• Imports	0.9	-0.2	0.9	0.1	-0.5	0.1
GDP implicit chain price index	1.5	6.4	6.0	-1.3	4.6	3.9
Pre-tax profits	-17.4	23.7	17.1	-34.4	15.1	2.2
Real disposable income	1.9	6.3	2.4	5.0	1.9	3.9
Personal savings rate (%)	5.5	6.5	6.2	6.7	7.2	N/A

Source: Statistics Canada

- Growth in the Canadian economy was modestly better than expected in Q2, but weak momentum heading into the third quarter gives ample reason for the BoC to continue cutting interest rates. Indeed, we still see the Bank of Canada reducing interest rates by 25bp at each remaining meeting this year.
- The 2.1% annualized growth rate in Q2 was slightly higher than a 1.8% consensus estimate and also above the 1.5% the Bank of Canada had penciled into its July MPR. However, the composition of growth wasn't particularly impressive, with consumer spending almost stalling (+0.6% annualized) and government spending being the largest contributor. The slowdown in consumer spending relative to the prior quarter reflected a decline in durable goods consumption but also slower growth on the services side. Government consumption rose by 6.7% annualized and contributed 1.3%-pts to headline GDP, with this increase being driven by higher wages and increased hours worked across different levels of government.
- Business investment was also a positive, albeit flattered by a large rise in volatile elements such as aircraft and other transportation equipment. Residential investment, on the other hand, saw a decline in activity among each of its three main components (new construction, renovation and ownership transfer costs). Excluding the early stages of the pandemic, renovation activity has reached its lowest level since Q1 2013.
- Inventories contributed little to Q2 GDP, although due to still weak demand the stock-to-sales ratio within the economy continued to rise. After facing shortages throughout much of 2021 and 2022, the inventory-to-sales ratio for autos is now well above where it stood in 2019. Net trade was a slight negative for growth as exports fell by more than imports. Despite higher exports of crude oil as pipeline capacity improved, that was offset by declines in areas such as metals and autos.

- Momentum heading into Q3 was much weaker than anticipated, with June GDP printing flat on the month (consensus +0.1%) and the advance estimate for July pointing to a further stall that month as well. That leaves early tracking for Q3 at around 0.5% annualized, allowing for modest growth in August and September, which would be well below the 2.8% forecast from the Bank of Canada's MPR.
- By sector, manufacturing, construction and wholesale were the largest negatives to growth in June, while utilities was the largest upward contributor. Statistics Canada noted that construction and wholesale continued to struggle in July, while growth in retail and finance provided an offset.

Implications & actions

Re: Economic forecast — While Q2 growth was a little higher than expected, it was still likely marginally below the economy's current potential growth rate given how quickly the population has been rising. Moreover, the surprisingly weak start to Q3 will raise concerns at the Bank of Canada that slack in the economy is continuing to open up and that the unemployment rate could continue moving higher as a result. We continue to forecast 25bp cuts at each remaining meeting this year, with more reductions needed in 2025 as well.

Re: Markets — Bond yields were slightly higher following their release, as markets took their cue from US data showing still-strong consumer spending. The Canadian dollar weakened slightly against its US counterpart.

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