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Canadian GDP (May, Apr/Q2 adv): Even stronger than expected

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GDP (period/period % chg)	25:Q4	26:Q1	Mar	Apr	**May**	**May Y/Y**
GDP (at basic prices)	-0.2	0.6	-0.2	0.6	0.3	**1.7**
• Goods-producing	-2.6	-1.5	-0.7	1.4	0.6	**2.3**
• Services-producing	0.8	1.5	0.1	0.2	0.2	**1.4**
• Business	-0.1	0.4	-0.2	0.6	0.3	**2.0**
• Non-business	-0.8	1.2	0.1	0.4	0.4	**0.3**

Source: Statistics Canada

- The Canadian economy was always expected to see solid growth in Q2, as it rebounded from a first quarter hindered by weather disruptions and maintenance in the oil sector. However, that rebound appears even more impressive than expected, and monthly data for May and June pointed to only a modest easing of momentum as the quarter progressed. At 3.4% annualized, the initial estimate for G2 GDP is almost a full percent higher than the Bank of Canada's July MPR forecast, although we don't expect that policymakers will read too much into that at this stage. An elevated unemployment rate and subdued measures of core inflation still point to plenty of slack within the economy, and we continue to forecast no change in interest rates this year.
- Monthly GDP posted a 0.3% increase for May, which was above the advance estimate (0.1%) and also a tick higher than the consensus forecast. It also followed an upwardly revised 0.6% advance in April. Growth in May was reasonably broad-based (13 of 20 sectors), with mining, oil & gas, construction, real estate and public admin leading in terms of contributions. However, the increase may have been flattered slightly by some temporary factors. Statistics Canada noted that maintenance activity in the oil sector was lower than normal this May, while work on the 2026 census contributed to the gain in public administration.
- The early estimate for June showed a further 0.2% gain in GDP, which isn't particularly surprising given that industry data for the month so far have been quite strong. StatsCan pointed to wholesaling, finance and retailing as key contributors to the further gain estimated for June.
- The better-than-expected monthly data meant that the advance estimate for Q2 is for impressive seasonally adjusted annualized growth of 3.4% - well above the Bank of Canada's July MPR forecast of 2.5% as well as our own current forecast. However, as always, these industry figures can be revised with the expenditure release that follows in a month's time.

Implications & actions

Re: Economic forecast — Q2 GDP growth appears to be stronger than initially expected, even if it was flattered somewhat by a reversal of one off factors (i.e. oil maintenance, weather disruptions) that negatively impacted the first quarter, as well as potentially some positive contributions related to the FIFA World Cup and the 2026 census. Looking ahead, we expect that the underlying pace of growth is closer to the average for the first half of the year as a whole (around 1.6% assuming no revisions), which would be consistent with only a gradual narrowing of the output gap. If GDP growth slows closer to that pace in Q3, which seems even more likely now that tariff uncertainty has risen again, then slack in the economy would decrease only slowly and the Bank of Canada is still expected to hold interest rates at current levels throughout the remainder of the year.

Re: Markets — Canadian bond yields rose following the better than expected release, but the loonie was little changed against the greenback with US data (Employment Cost Index) also printing hotter than consensus forecasts.