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Economics

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Canadian GDP (Aug, Sep adv.): Both trick and treat

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GDP (period/period % chg)	24:Q11	24:Q21	Jun	Jul	Aug	Aug Y/Y
GDP (at basic prices)	2.2	2.1	0.0	0.1	0.0	1.3
• Goods-producing	-1.0	1.4	-0.5	0.0	-0.4	-0.5
• Services-producing	3.3	2.4	0.1	0.1	0.1	1.9
• Business	1.3	1.7	-0.1	0.1	-0.1	1.0
• Non-business	6.3	3.9	0.3	0.3	0.2	2.7

Source: Statistics Canada

- Canadian GDP was both trick and treat, with weakness at the start of Q3 followed by a solid rebound during its final month. However, even with a solid end to the quarter, a downward revision to July meant that the first estimate for Q3 growth came in weaker than the Bank of Canada's already downgraded MPR forecast. If this is mirrored in the expenditure figures released at the end of November, it would support the case for another 50bp cut at the December meeting.
- Monthly GDP was flat in August, which was in line with the consensus forecast but followed a downwardly revised 0.1% gain in the prior month (previously +0.2%). Weakness in August was partly the result of a brief rail stoppage, which led to a near 8% monthly decline in that sector, although other areas such as manufacturing, utilities and wholesaling also saw declines. The 0.4% drop in activity at goods-producing sectors took the level of activity to its lowest since December 2021.
- Declines in the previously mentioned sectors were offset by gains in areas such as public admin, finance and retail. Statistics Canada noted that autos was the largest contributor to a second successive increase in retailing.
- With August GDP partly held back by temporary factors, we expected a rebound in September and the advance estimate of +0.3% points to just that. Statistics Canada noted further increases in finance and retail trade, offset somewhat by a decline in mining, oil & gas.
- However, even with the solid September figure, due to the downward revision at the start of the quarter, for Q3 as a whole growth is still tracking weaker than it was prior to today's release and slightly below the Bank of Canada's already downgraded forecast (1.0% vs 1.5% in the October MPR and 2.8% in the July MPR). While the final expenditure figures can diverge from the monthly industry data, and the Bank will have these quarterly figures at hand before its next rate decision in December, for now the data suggest a somewhat larger increase in slack within the economy than policymakers previously thought.
- Released at the same time as the GDP figures, the SEPH employment data pointed to a 13.5K increase in payrolls during August. The breakdown showed continued strength in areas of the public sector (health, education and public admin) alongside further weakness in areas closely linked to consumer spending (employment fell in arts & recreation and accommodation & food service). Job vacancies were little changed on the month, although the job vacancy rate ticked down further and the number of unemployed persons per job opening edged up again. Despite evidence of excess labour supply, fixed weight wage growth actually accelerated to 5.7% (above its 2022 peak even) although given normal volatility in this series the reading shouldn't scare the Bank of Canada too much.

Implications & actions

Re: Economic forecast — Today's figures suggest that the economy continued to grow at a pace below its long-run potential in Q3, which is consistent with the slight rise in unemployment rate seen during the quarter. With growth once again appearing to fall short of their already downgraded forecast, we continue to forecast that policymakers will deliver another 50bp cut at the December meeting. However, admittedly the expenditure GDP data at the end of November, combined with upcoming labour force numbers, are more important for that call than today's data.

Re: Markets — Bond yields were slightly lower following the GDP data, although the loonie was little changed against the greenback.