Economics

ECONOMIC FLASH!

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Canadian GDP (Oct, Nov adv.): A stride then a stumble

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GDP (period/period % chg)	24:Q2	24:Q3	Aug	Sep	Oct	Oct Y/Y
GDP (at basic prices)	2.2	1.2	0.1	0.2	0.3	1.9
• Goods-producing	2.6	-1.3	-0.1	-0.1	0.9	1.0
• Services-producing	2.0	2.1	0.1	0.4	0.1	2.2
• Business	1.8	0.7	0.0	0.3	0.4	1.7
• Non-business	3.5	3.3	0.2	0.1	0.0	2.6

Source: Statistics Canada

- The Canadian economy took a larger-than-expected stride forward in October, although early evidence for November suggests that it stumbled again in that month. Through that monthly volatility, Q4 GDP is still tracking slightly below the Bank of Canada's MPR projection and below the economy's long-run potential. Because of that, we continue to forecast a 25bp rate cut at the January meeting, and a low of 2.25% for the overnight rate in 2025.
- October GDP posted a healthy 0.3% advance, which was a tick above the consensus and two-ticks better than the early estimate for that month. Moreover, that came off the back of an upwardly revised September growth rate of 0.2%, from 0.1% initially. The 1.9% year-over-year growth in GDP was well above the consensus forecast (of 1.6%) albeit still well below the pace of population growth seen over the past year.
- A rebound in mining, oil & gas activity, following three monthly declines, contributed more than half of the overall growth rate in GDP. There was also further growth in real estate, where activity rose for a sixth successive month. However, it should be remembered that activity in the most cyclical part of this sector (offices of real estate agents) was starting from very low levels. Even following a 26% rise in this category on a year-over-year basis, activity remains 7% below the corresponding month of 2019, even before the surge seen during the pandemic.
- The advance estimate for November GDP suggested a slight give-back, with a 0.1% decline projected. Statistics Canada suggested that declines in mining, oil & gas and transportation & warehousing were not quite offset by growth in areas such as accommodation & food services and real estate.

Implications & actions

Re: Economic forecast — Even with the stronger-than-expected October figure, Q4 GDP is still tracking slightly below the Bank of Canada's MPR projection (1.7% vs 2.0%) and is still not growing above its long-run potential - something that is needed to close the output gap and reduce unemployment. As such, while there is evidence that interest-rate sensitive areas of the economy (i.e. real estate, retail sales) have already strengthened as the BoC has lowered rates, further interest rate relief will be needed in the New Year to help close the output gap. We continue to see rates needing to dip slightly below neutral, forecasting a low of 2.25% for the overnight rate in 2025.

Re: Markets — The mixed nature of today's data, with October better than expected but November worse, meant that market reaction was limited.