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## Canadian GDP (Q2): Little sign of rebound following Q2 contraction

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| National accounts (period/period % chg, annual rate, unless otherwise noted) | 2024 | 24:Q3 | 24:Q4 | 25:Q1 | 25:Q2 | Q2 Y/Y |
|---|---|---|---|---|---|---|
| Real GDP (chained 2012$) | 1.6 | 2.4 | 2.1 | 2.0 | -1.6 | 1.2 |
| • Final domestic demand | 2.1 | 3.2 | 5.2 | -0.9 | 3.5 | 2.7 |
| • Household consumption | 2.4 | 4.4 | 4.9 | 0.5 | 4.5 | 3.6 |
| • Government | 4.2 | 5.3 | 3.1 | -1.2 | 5.7 | 3.2 |
| • Residential investment | -0.6 | 5.4 | 16.8 | -12.2 | 6.3 | 3.5 |
| • Business fixed investment | -2.4 | -11.9 | 4.7 | 1.1 | -10.1 | -4.3 |
| • Bus inventory investment ($Bn) | 14.3 | 20.0 | -6.0 | 8.3 | 26.4 | NA |
| • Exports | 0.6 | -0.6 | 7.1 | 5.8 | -26.8 | -4.7 |
| • Imports | 0.7 | -1.0 | 2.5 | 3.6 | -5.1 | -0.1 |
| GDP implicit chain price index | 3.1 | 2.6 | 3.5 | 2.8 | 0.0 | 2.2 |
| Pre-tax profits | -3.1 | -7.8 | 27.9 | 6.4 | -13.1 | 2.2 |
| Real disposable income | 4.6 | 9.7 | -0.2 | 0.8 | 0.9 | 2.7 |
| Personal savings rate (%) | 6.0 | 7.2 | 6.0 | 6.0 | 5.0 | NA |

Source: Statistics Canada

- A slump in exports, driven by the imposition of US tariffs and a reversal of Q1's front-loading activity, drove a contraction in Canadian GDP during the second quarter. However, that was largely expected, and the most concerning aspect of today's report is the seemingly weak momentum that the economy still had towards the end of the quarter and into the start of Q3. That is supportive for our forecast that the Bank of Canada will cut interest rates by 25bp at their September meeting in an effort to accelerate the recovery, although next week's employment figures are still important to that call.
- The 1.6% annualized contraction in headline GDP was worse than the consensus projection (-0.7%) but broadly in line with the Bank of Canada's July MPR forecast. Exports slumped by 27%, eclipsing the more moderate 5% decline in imports. The -8%-pts contribution from net trade to GDP was easily the largest since the wild swings seen during the early days of the pandemic. The negative from net trade was partly offset by a positive contribution (+3.2%-pts) from inventories.
- Beneath the wild swings in trade and inventories, final domestic demand was actually fairly solid, rising by an annualized 3.5%. However, that followed a downwardly revised 0.9% drop in Q1, and the 1.3% average for the first half of the year is still consistent with demand growing slightly below its long-run potential. Consumer spending rose by 4.5%, which is a marked acceleration from the first quarter and in line with the pace seen through the second half of 2024. However, much of this was driven by lumpy auto sales, and a decline in the household savings rate to 5%, from 6%, suggests less room for further growth in the future.
- The near 6% increase in government spending will have been flattered by expenditures related to the Federal Election, while the rise in residential investment only offset roughly half of the contraction seen in the prior month.

Unsurprisingly given the lingering trade uncertainties and a decline in pre-tax profits, business investment fell sharply (-10%) in the second quarter.

- Monthly data for June was weaker than expected, showing a 0.1% reduction in GDP (consensus +0.1%) driven largely by a further drop in manufacturing production to its lowest level since July 2020. Retail was the largest positive contributor to June GDP, although sector data has already pointed to a give-back in that sector in July. For the economy as a whole, an advance estimate for a 0.1% gain in July only reverses part of the cumulative declines seen throughout Q2. That leaves early tracking for Q3 between 0-0.5%, depending on growth rates assumed for the remainder of the quarter, in contrast to the Bank of Canada's July MPR projection of +1%. On a year-over-year basis, GDP would be up by only 0.7% in July if the advance estimate is confirmed.

## Implications & actions

**Re: Economic forecast** — The second quarter was always expected to be negative given the slump seen in exports, the only question remaining was the magnitude of the decline. Because of that the main news in today's release is actually how weak momentum still was towards the end of the quarter and into the start of Q3, even as exports had begun to stabilise. We continue to think that a couple more interest rate cuts from the Bank of Canada are needed to accelerate the recovery, and assuming no fireworks in next week's LFS figures, we forecast the first of those being delivered at the upcoming September meeting.

**Re: Markets** — Canadian bond yields fell and the loonie depreciated following today's release as investors prices in a greater chance of a Bank of Canada cut at the September meeting.

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