

Economics

ECONOMIC FLASH!

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Canadian GDP (Jul, Aug adv): A step and a stumble

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GDP (period/period % chg)	25:Q1	25:Q2	May	Jun	Jul	Jul Y/Y
GDP (at basic prices)	1.7	-0.6	-0.1	-0.1	0.2	0.9
• Goods-producing	3.4	-4.6	-0.2	-0.4	0.6	-0.1
• Services-producing	1.0	0.9	0.0	0.1	0.1	1.3
• Business	1.7	-1.1	-0.1	-0.1	0.3	0.9
• Non-business	1.3	1.6	-0.2	-0.1	0.2	1.0

Source: Statistics Canada

- The Canadian economy took a slightly bigger-than-expected step forward in July, only to stumble again in August. Even though Q3 GDP is now tracking somewhat stronger than it was prior to today's release, growth still appears set to fall short of the Bank of Canada's most recent MPR forecast. That leaves us on course for one more interest rate cut, although upcoming employment and CPI data will be more important in determining whether that comes as early as the October meeting as we currently expect.
- The 0.2% gain in July GDP was a tick stronger than the advance estimate and the consensus forecast, and the first increase in activity for four months. Growth was seen in just over half of the broad sectors covered (11 of 20), with the largest contributions from mining, oil & gas and manufacturing. Growth in the latter was driven in part by the auto industry, where fewer seasonal closures were seen this year which positively impacted the seasonally adjusted figures. However, this may have reversed in August, with advance industry data already pointing to a decline in overall manufacturing sales that month.
- Real estate, rental & leasing activity increased for a fourth consecutive month, on higher resale activity in Ontario and BC. Retailing was the main drag on growth in July, although the 1.0% reduction only reversed approximately two-thirds of the increase seen in the prior month.
- The advance estimate for overall August GDP suggests that the economy stalled again that month, with pullbacks in mining, oil & gas and manufacturing offsetting a rebound in retailing. Through the monthly volatility, Q3 GDP is tracking a 0.8% annualized rate, which is better than where it was tracking before today's release (0 to +0.5%) but still slightly below the Bank of Canada's July MPR projection (+1.0%).

Implications & actions

Re: Economic forecast — The Canadian economy appears to have started along the road to recovery but, even after today's slightly better-than-expected release, progress is quite slow. With current tracking for Q3 pointing to growth of less than 1%, that would still be modestly below the economy's longer-term potential and consistent with a slight build up of slack (as highlighted by the rise in the unemployment rate in August). We think that a further interest rate cut is still warranted, and continue to forecast a move at the October meeting, although upcoming employment and CPI data remain important to that call.

Re: Markets — The slightly better than expected July GDP print saw bond yields rise and the Canadian dollar strengthen slightly against its US counterpart.

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