Economics

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Canadian GDP (Aug, Sep/Q3 adv): A small scare for the BoC

Andrew Grantham andrew.grantham@cibc.com

GDP (period/period % chg)	25:Q1	25:Q2	Jun	Jul	Aug	Aug Y/Y
GDP (at basic prices)	1.5	-0.7	-0.1	0.3	-0.3	0.7
• Goods-producing	3.2	-4.8	-0.4	0.8	-0.6	-0.5
• Services-producing	0.9	1.0	0.1	0.1	-0.1	1.1
• Business	1.6	-1.2	-0.1	0.3	-0.3	0.7
• Non-business	1.3	1.6	-0.1	0.2	0.0	0.7

Source: Statistics Canada

- Canadian GDP was more trick than treat, with the economy contracting in August and only rebounding slightly in September. While the early estimate for Q3 as a whole was almost bang in line with the Bank of Canada's recent MPR projection, the lack of momentum towards the end of the quarter may spook policymakers somewhat, given that the Bank expects a modest acceleration in GDP growth to 1.0% in the final quarter of the year.
- The -0.3% reading for August was much weaker than the consensus forecast and advance estimate (0.0%), and although that came off the back of an upwardly revised 0.3% gain in July (from 0.2%) the level of GDP in August is weaker than was anticipated before the release. The decline in August was reasonably broad based by sector, led by trade sensitive areas such as transportation & warehousing, wholesaling and manufacturing.
- However, there were some one-off factors at play, such as a flight attendants strike that impacted air transportation and drought conditions that negatively affected the utilities sector. The declines in manufacturing and wholesaling partly offset some improvements seen in recent months, although the level of activity in those areas remained above the lows seen in Q2 when tariffs and trade uncertainty were having their most pronounced impact.
- A rebound in retailing was one of the few positives in today's report, although industry data already shows that spending pulled back again in September.
- For the economy as whole, a +0.1% advance estimate for September suggests that the unwinding of some of the temporary factors that depressed August GDP was not enough to fully offset that surprise decline.
- That modest rebound in September leaves GDP growth for Q3 as a whole at 0.4% annualized, which is almost bang in line with the Bank of Canada's recent MPR estimate and slightly below our most recent forecast. However, there has been greater divergence between the monthly industry data and quarterly expenditure figures than normal so far this year, likely due to the wild swings in trade. Moreover, Statistics Canada has already warned that GDP figures for the quarter could be revised more than normal due to a lack of US trade data as the government shutdown there continues.

Implications & actions

Re: Economic forecast — Canadian GDP appears to have returned to growth in Q3, albeit very modest and not strong enough to absorb any of the slack currently present within the economy. While this is not a surprise relative to the Bank of Canada's recent projections, policymakers may be slightly scared by the apparent lack of momentum towards the end of the quarter which decreases the likelihood of GDP growth accelerating in Q4 as they projected. We still expect the Bank of Canada to remain on the sidelines, but GDP growth will have to pick up ahead if this hold is going to extend throughout next year as we currently project.

Re: Markets — With today's data, on balance, printing weaker than expected, Canadian bond yields moved lower and the Canadian dollar weakened against its US counterpart.