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Canadian GDP: What gets revised up must come back down

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2022	22:Q4	23:Q1	23:Q2	23:Q3	Q3 Y/Y
Real GDP (chained 2012$)	3.8	-0.9	2.5	1.4	-1.1	0.5
• Final domestic demand	2.8	-1.0	2.9	1.2	1.3	1.1
• Household consumption	5.1	0.7	5.3	-0.1	0.1	1.5
• Government	3.3	0.3	1.6	1.1	6.5	2.4
• Residential investment	-12.1	-8.6	-12.6	-4.2	8.3	-4.6
• Business fixed investment	4.0	-6.5	4.2	13.9	-10.1	-0.1
• Bus inventory investment ($Bn)	55.7	50.9	30.8	31.2	25.3	NA
• Exports	3.2	-0.7	12.1	5.1	-5.1	2.7
• Imports	7.6	-12.1	4.0	4.4	-0.6	-1.3
GDP implicit chain price index	7.7	0.0	-2.6	1.7	7.4	1.6
Pre-tax profits	14.7	-31.8	-38.4	-24.7	14.6	-22.4
Real disposable income	-0.1	6.3	-0.7	-0.3	0.9	1.5
Personal savings rate (%)	5.4	5.6	4.4	4.7	5.1	NA

Source: Statistics Canada

- What was revised up for Q2 came back down in the third quarter, leaving the level of economic activity broadly in line with prior expectations. The 1.1% annualized decline in GDP during the third quarter was weaker than had been expected by the consensus (+0.1%) and the BoC in its last MPR (+0.8%). However, the drop in overall activity was driven by inventories and net trade, and there was a large upward revision to headline GDP for the prior quarter (now +1.4% vs -0.2% previously), which offset the downside surprise to Q3. As a result, today's figures will do little to make the Bank of Canada either more or less confident in its projected timeline for getting inflation back down to target.
- The upward revision to Q2 GDP stemmed largely from a smaller drag from inventories and also net trade, which were the two areas that drove the decline in activity during the third quarter. The recent trend in final domestic demand appears similarly muted to what was released a quarter ago. Following a 1.2% increase in Q2 (revised marginally from +1.0% in the first release) domestic demand grew at a 1.3% annualized pace in Q3.
- Household consumption has been stagnant for two quarters in a row now, with consumers once again choosing to save rather than spend in this high interest rate environment. The household saving rate rose to 5.1% in Q3, from 4.7% in the prior quarter. Higher spending on services and durable goods (mainly new vehicles as supply chain pressures eased further) was offset by declines for semi and non-durable goods. The increase in domestic demand in Q3 was driven by government and residential investment, with the latter reflecting much needed growth in homebuilding.
- While inventory accumulation was the slowest in two years, and as such represented a drag on growth in the third quarter, stock-to-sale ratios continued to rise which is positive news from an inflation point of view. Indeed those ratios have now returned to pre-pandemic norms even in retail and motor vehicles, reflecting an easing of supply chain issues but also possibly a waning of demand given how high interest rates are.

- Looking ahead to the fourth quarter, early indicators suggest that we are seeing the bounce in activity that we had anticipated as supply shocks related to the port strike and wildfires faded. September monthly GDP showed a 0.1% increase (slightly better than the advance estimate and consensus forecast for a flat reading), while the advance estimate for October suggests a further increase of 0.2%. That leaves Q4 tracking around a 1% annualized growth pace, assuming flat readings for the prior two months.
- Released alongside today's GDP figures, the SEPH employment data for September pointed to a modest 22K increase in headcount, which broadly offset a decline seen in the prior month. There was, however, a further sharp decline in job vacancies (-41K or -6%), which took the vacancy rate down to 3.6%. That is the lowest reading since January 2021 and very close to pre-pandemic norms of between 3-3.5%.

Implications & actions

Re: Economic forecast — Through all of the noise caused by revisions and swings in trade and inventories (which could have been influenced by the port strike early in the quarter) the underlying trend remains one of modest growth on aggregate but a decline in activity in per capita terms. While GDP should see a decent bounce in Q4, that will partly reflect a rebound from some of the supply constraints that impacted the third quarter. Overall the sluggish trend in economic activity and further decline in the job vacancy rate today keeps us on track for a first interest rate cut in Q2 next year, which is in line with our previous forecast.

Re: Markets — Bond yields were slightly higher but the Canadian dollar little changed following today's data.

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