

Economics

ECONOMIC FLASH!

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Canadian GDP (May, June adv.): Not a medal-winning performance

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GDP (period/period % chg)	23:Q4 ¹	24:Q1 ¹	Mar	Apr	May	May Y/Y
GDP (at basic prices)	0.4	2.5	0.0	0.3	0.2	1.1
• Goods-producing	0.1	-0.5	0.0	0.4	0.4	0.1
• Services-producing	0.5	3.5	0.0	0.3	0.1	1.4
• Business	1.1	1.6	-0.1	0.4	0.1	0.8
• Non-business	-2.5	6.2	0.2	0.2	0.4	2.3

Source: Statistics Canada

- While Canada's GDP gains in May and June were a touch better than we expected, this wasn't a medal winning performance given the strong pace for population growth. The 0.2% real growth rate in May (rounded up from 0.156%), and the advance estimate for a further 0.1% gain in June, would have the quarter running at just over 2% annualized on this GDP-by-industry measure. That's a few decimal places above our forecast for the more prominent quarterly national accounts expenditure-based GDP, but the two series can often diverge by that magnitude or more. A roughly 2% pace would be lacklustre in terms of its implications for per capita output, and hasn't been sufficient to prevent the rise we've seen in the unemployment rate over that quarter. So this isn't a podium finish, and neither is the 1.4% growth rate that we've seen in monthly GDP over the past year.
- May's data was also given a significant helping hand from a 0.4% pace for public sector output, which accounted for about half of the month's overall growth. Private sector output was less buoyant, as a healthy gain in manufacturing was countered by weakness in wholesaling, retailing and production declines at oil sands due to maintenance shutdowns.
- The advance estimate for June's 0.1% gain defied our expectations for a drop of that magnitude, but still represented a weak handoff in terms of momentum heading into Q3. Note that the Bank of Canada's latest forecast for Q3 was for a healthy pickup to a 2.8% annualized pace, and we'll need a jump in July to get back on track for that sort of gain. So while today's data hints that the economy might beat the Bank's 1.5% growth forecast for Q2, we could end up seeing that offset by a disappointment in the third quarter. In contrast, the fact that GDP managed to edge higher in June, rather than the small contraction we were expecting, suggests that we might have to bump up our own 0.8% forecast for Q3 growth, although we still do not expect to see an acceleration from Q2's pace.

Implications & actions

Re: Economic forecast — Our July 18th economic update had Canada's GDP pace projected a 1.9% annualized for Q2 as a whole, and today's data don't cry out for a change in that view given that these industry level data don't exactly line with the quarterly expenditure data. Q3 growth might be top our prior call, but still seems likely to fall short of the Bank of

¹ Annualized.

Canada's optimistic take. None of that alters our call for another quarter point rate cut by the Bank of Canada in September, with that decision being much more tied to the progress we've seen on underlying inflation measures.

Re: Markets — Today's data should have no material implications for fixed income markets, which are more closely eyeing what the Fed has to say later today. The Canadian dollar was already having a better day before the data release, benefiting from a weaker overall picture for the USD after a Bank of Japan rate hike overnight, and in anticipation of dovish remarks by the Fed Chair.

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