

Economics

ECONOMIC FLASH!

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Canadian GDP (Jul, Aug adv): Barely waking up

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GDP (period/period % chg)	22:Q4 ¹	23:Q1 ¹	May	Jun	Jul	Jul Y/Y
GDP (at basic prices)	2.6	0.1	0.2	-0.2	0.0	1.1
• Goods-producing	-0.1	-1.1	-0.3	-0.3	-0.3	-1.4
• Services-producing	3.6	0.6	0.4	-0.1	0.1	2.0
• Business	2.3	-0.2	0.1	-0.3	0.0	0.6
• Non-business	3.8	1.6	0.7	0.2	0.2	3.3

Source: Statistics Canada

- Latest monthly GDP data suggested that the Canadian economy barely awoke from its Q2 slumber in the third quarter. The flat reading for July, combined with an advance estimate for a mere 0.1% advance in August, leaves Q3 GDP tracking below a 0.5% annualized pace. While supply constraints related to wildfires and the BC port strike have handcuffed activity recently, there are also signs that domestic demand is not particularly strong which could be enough to keep the Bank of Canada on hold despite recently higher-than-expected inflation readings.
- July activity was flat on the month, which was in line with the advance estimate but slightly below the consensus forecast. The detail of July's data showed rebounds in some of the areas that had been impacted most severely by early summer forest fires, including mining, oil & gas and accommodation & food service. However, activity in both of these areas remained below highs earlier in the year. Public administration also continued to be a positive for GDP growth.
- These increases were broadly offset by declines in other areas, most notably manufacturing. The 1.5% decline in factory activity was due to lower inventory formation and driven mainly by plastics & rubber and chemical products. Statistics Canada noted that the chemical manufacturing industry appeared to be the hardest impacted by the BC port strike. A negative contribution to GDP from transportation & warehousing was also linked to the port strike, as well as the impact of flight cancellations due to inclement weather over the Canada Day weekend.
- However, even though a lot of moving pieces in recent GDP data have been caused by issues on the supply side of the economy, there is continued evidence that consumer demand is waning as well. The retail sector weighed on GDP for a sixth consecutive month in July, and the advance data for August suggests a further decline in that month as well.
- For GDP as a whole, the 0.1% advance estimate for August was a little weaker than we had originally pencilled into our quarterly profile. Assuming some further modest growth in September, Q3 as a whole is tracking growth of a little under 0.5% annualized which is a very muted rebound following Q2's surprise decline.

¹ Annualized.

Implications & actions

Re: Economic forecast — Recent swings in monthly GDP have been driven mainly by supply disruptions, such as wildfires and the port strike, which means that weak GDP readings may not necessarily translate into lower inflationary pressures in the near-term. However, with retail sales on a clear weakening track, there should be enough evidence that domestic demand is responding to higher interest rates to prevent a further interest rate hike from the Bank of Canada this year.

Re: Markets — Bond yields fell and the Canadian dollar weakened slightly following the release (although it remained higher against the US\$ on the day) as markets reduced the odds of an October interest rate hike from the Bank of Canada.

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