The headline for Canada’s GDP was just as expected, but the story had some surprising twists and turns. Material revisions left Canada’s growth rate tracking 1.7% over the past year, much closer to the Bank of Canada’s estimate of potential than anticipated. So, while the headline Q3 growth rate isn’t anything to write home about, the revisions coupled with strength in Q3 final domestic demand growth do reinforce the Bank of Canada’s current stand-pat view on rates.

Canada’s GDP growth rate clocked in at 1.3% SAAR in Q3, a material deceleration from the prior quarter which was revised down a touch to 3.5% (3.7% prev.). Households, though, did open their wallets a bit more, with growth in their spending advancing 1.6% (0.5% in Q2). While that wasn’t as much of an acceleration as we had expected, the savings rate for households looked much healthier than in previous reports helped by better readings on compensation. Canadians are now saving on average 3.2% of their disposable income, and the prior quarter’s savings rate was also revised up to 3.0%, suggesting that Canadians have been stashing away a bit more money for a rainy day than Statistics Canada was previously estimating.

Surprising strength was observed in Canadian fixed investment. Spending on residential structures rose 13.3% annualized, the fastest quarterly increase since 2012. So far, however, housing starts numbers don’t suggest anything close that growth rate will be sustained in the...
fourth quarter. Non-residential capital spending was also a bright spot, rising 9.5% on the back of robust growth in both the structures and machinery & equipment sub-categories. That was surprising given the outright declines seen in real imports of industrial machinery and equipment during the period. Despite that strength, however, investment in inventories was weak enough to almost offset all of the gains in fixed investment. Inventory accumulation could perk back up, if only because the rail strike earlier this month in Canada left some goods at their origin.

- At least a portion of that Q3 weakness in inventories likely came from the subdued imports seen in today’s report, with inbound shipments of goods rising only 0.6% annualized in Q3. As a result an inventory pickup in the coming quarter might not be actually be driven by production in Canada. Exports fared even worse, though, with goods exports diving 2.0%, only partially offset by an increase in services. The struggles for two-way trade likely continued in the fourth quarter, with the aforementioned rail strike hindering the movement of goods for a period.

Implications & Actions

Re: Economic Forecast — The upward revisions to Q4 of 2018 and Q1 of 2019 growth coupled with the Q3 strength in final domestic demand suggest that the Bank of Canada won’t be in any rush to sound overly dovish next week.

Re: Market Impact — The Canadian dollar is stronger and yields are higher following the release which now leaves growth looking healthier than previously believed over the past year.