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# Economic Flash!

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## Canadian Q2 GDP Growth: What Goes Up Will Come Down

| Per/Per % chg, Annual Rate | 2017 | 17:Q3 | 17:Q4 | 18:Q1 | **18:Q2** | **Q2 Y/Y** |
|---|---|---|---|---|---|---|
| Real GDP (chained 2007$) | 3.0 | 1.7 | 1.7 | 1.4 | **2.9** | **1.9** |
| Final Domestic Demand | 3.0 | 3.6 | 4.1 | 1.7 | **2.1** | **2.9** |
| Household Consumption | 3.5 | 3.1 | 2.2 | 1.0 | **2.6** | **2.2** |
| Government | 2.6 | 4.8 | 4.5 | 2.8 | **1.0** | **3.3** |
| Residential Investment | 2.9 | -0.1 | 13.5 | -10.5 | **1.1** | **0.7** |
| Business Fixed Investment | 2.8 | 5.9 | 8.0 | 11.4 | **1.9** | **6.7** |
| Bus Inventory Investment ($Bn) | 14.0 | 18.3 | 15.9 | 16.0 | **13.4** | **NA** |
| Exports | 1.1 | -9.9 | 3.9 | 2.4 | **12.3** | **1.9** |
| Imports | 3.6 | 1.3 | 7.7 | 4.2 | **6.5** | **4.9** |
| GDP Implicit Chain Price Index | 2.3 | 0.3 | 4.2 | 1.7 | **2.1** | **2.1** |
| Pre-tax Profits | 19.9 | -2.6 | 9.5 | 0.3 | **11.8** | **4.6** |
| Real Disposable Income | 3.7 | 6.8 | 1.8 | -0.5 | **1.0** | **2.2** |
| Personal Savings Rate (%) | 3.8 | 4.3 | 4.5 | 3.9 | **3.4** | **NA** |

- The economy was speeding ahead in the second quarter, but don't take that as a sign of things to come. The reading was a rebound from a sluggish first quarter, and the monthly GDP print for June suggests there was little momentum heading into Q3. With no handshakes on a trade deal yet, the Bank of Canada won't rush a rate hike next week, and will take the extra seven weeks to monitor incoming data and make sure Canada-US negotiations don't fly off the rails.
- Canada's 2.9% growth rate over the second quarter does wash away concerns about Q1's modest 1.4% pace (1.3% prior to revision). However, the first half only exceeded the Bank of Canada's estimate of potential growth by a slim margin, and will therefore only nudge central bankers towards a rate hike in October, rather than doing anything to force their hand in September.
- Exports stood out as a major winner, up 12.3% over the period. That helped net trade make up roughly half of all economic growth seen in the second quarter. Goods exports were the major driver, but at least some of that appears to have come from inventories, meaning production likely didn't fully match shipments.

- Households also did their fair share to prop up growth in the second quarter. Consumer spending rose 2.6%, more than double the pace seen in Q1. That was, however, partially the result of slightly less fiscal prudence on the part of households, as the savings rate edged down to 3.4% from 3.9% in the prior period. That's the lowest it's been in a year, and at least marginally adds to the reasons households will be contributing less to growth moving forward.
- Data for June showed a sharp deceleration from the heady pace seen in May. An outage at a major oil production facility is to blame for part of that slowdown, but as indicated in previously released data, there wasn't much growth to find in other parts of the economy either. Oil production isn't set to come fully back on line until September.

## Implications & Actions

**Re: Economic Forecast —** Today's data didn't provide any reason for the Bank of Canada to rush a rate hike next week given that trade negotiations are still a major question mark for the outlook. As a result, look for central bankers to hold off until October when they'll have more clarity on the trade situation and will have a better picture of how the third quarter is unfolding. The flat reading in June, leaves early estimates for the third quarter tracking a roughly 1 ½% growth pace. But keep in mind the economy will be feeling the drag of that oil production outage for much of the quarter, a factor that will prove only transitory, and should be looked through when the Bank assesses the health of the Canadian economy.

**Re: Market Impact** — While this was only a slight miss on the headline versus consensus, market positioning was likely skewed towards an upside surprise, given some expectations that quarterly GDP was set to exceed the monthly readings after undershooting for the past three quarters. As a result, the data has been positive for fixed income and negative for the Canadian dollar. Expectations for a September hike from the Bank of Canada have also been pared back.