

## ECONOMIC NEWS

# Canada: August GDP surprises but risks remain

By Randall Bartlett, Senior Director of Canadian Economics

### HIGHLIGHTS

- ▶ Real GDP advanced by 0.1% in August, matching our call while beating the consensus forecast and Statistics Canada's expectations which were both looking for a flat print.
- ▶ Services-producing sectors posted a 0.3% gain in the month. While retail (1.2%) and wholesale (0.9%) trade led the charge, most services sectors showed improved momentum in August.
- ▶ In contrast, goods-producing sectors took a step back in August, falling 0.3%, led by lower activity in the resource sector. Construction activity (-0.7%) also fell for the fifth consecutive month, while manufacturing activity (-0.8%) retreated for the fourth time in the past five months.
- ▶ On a year-over-year basis, real GDP was up 4.0% from its August 2021 level, although that largely reflects gains seen earlier in 2022.
- ▶ Statistics Canada's flash estimate is for real GDP to edge 0.1% higher in September, pointing to advances in oil and gas extraction, manufacturing and the public sector offsetting a further decline in construction activity.
- ▶ Statistics Canada says that GDP in third quarter came in at 1.6%, in line with the Bank of Canada's forecast in this week's Monetary Policy Report.

### COMMENTS

While the Canadian economy isn't hitting it out of the park, upside surprises to Statistics Canada's flash estimates are a welcome development. August real GDP came in generally as we had anticipated, with broad-based gains in services-producing sectors offsetting weakness in goods-producing sectors. Construction is particularly notable given its sustained weakness as the Canadian housing market continues to correct. Our tracking for September real GDP growth is line with Statistics Canada's flash estimate, and points a stabilization in

### GRAPH

Canada's economy keeps treading water in the second half of 2022



Sources : Statistics Canada and Desjardins, Economic Research

goods production and a more modest advance in services as individual industry outcomes are more mixed. Looking even further ahead, we expect activity in goods-producing sectors to weigh on output in Q4 as the US and Canadian economies continue to see growth momentum fade.

### IMPLICATIONS

Today's release combined with upward historical revisions led us to revise up our Q3 real GDP growth tracking to roughly 1.5% annualized. This is in line with the Q3 growth projected by the Bank of Canada in its Monetary Policy Report released earlier this week and Statistics Canada's flash estimate from today. Our Q4 tracking is similarly in the line with the Bank's, at around 0.5%. However, where we continue to differ is in our outlook for real GDP growth in the first half of 2023. Where the Bank of Canada anticipates a soft landing, we are of the view that Canada will experience a modest recession (see our latest [Economic and Financial Outlook](#) for more information). Only time will tell who gets it right. But what we're more certain of is that the risks to the outlook are tilted to the downside, and the Bank knows it.