ECONOMIC NEWS

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Canada: Q3 Real GDP Beat But Don't Believe the Hype

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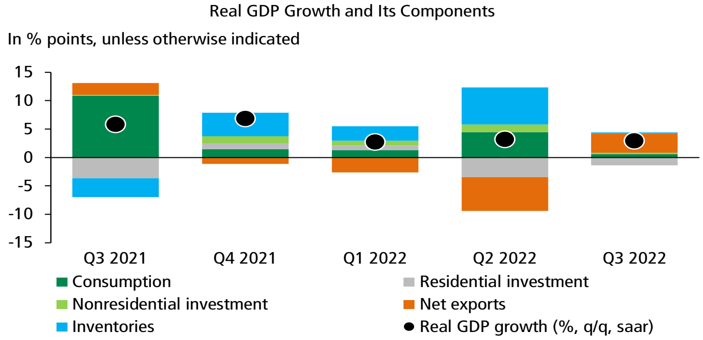
HIGHLIGHTS

- Real GDP grew at an annual rate of 2.9% q/q in the third quarter of 2022, roughly double Bank of Canada and consensus expectations of 1.5%, respectively.
- Household consumption shrunk in Q3 (-1.0%), the first decline since Q2 2021. This reflects a contraction in goods consumption (-6.5%), notably durables, offset by a modest advance in services consumption (3.8%).
- As expected, residential investment contracted sharply, falling by 15.4% due to declines in resale activity and renovations. That contrasted with a gain in non-residential business investment, which rose by 4.3% in Q3.
- Taken together, domestic demand fell by 0.6% in Q3 2022, the first contraction since Q2 2021. The advance in the headline number was mostly driven by trade. Real exports surged in the third quarter (8.6%). When paired with a drop in imports (1.5%), net exports made a substantial contribution to growth (3.4 ppts). Maybe most surprisingly, inventory levels inched higher in Q3, adding 0.2 ppts to annualized growth.
- In nominal terms, GDP contracted by 2.7% in Q3 as price swings dominated real GDP once again. Terms of trade collapsed by 22.9% as a result of plummeting commodity prices. This hit corporate profits (net operating surplus), which dropped by 30.7%. In contrast, compensation of employees rose 5.0% in Q3, albeit the most modest advance since the early days of the pandemic. Meanwhile, the savings rate rose to 5.7% from a downwardly revised 5.1% in Q2.
- Monthly real GDP growth clocked in at a modest 0.1% m/m in September, following upwardly revised gains in July (0.2%) and August (0.3%). Statistics Canada's flash estimate is for a flat print in October 2022.

GRAPH
Big headline move in Q3 real GDP masks underlying weakness



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Q3 real GDP growth may have beaten the Bank of Canada and consensus call, but the devil is in the details. With domestic demand falling in the quarter, the headline number was likely more of a head fake than an indicator of economic strength (see our recent analysis). This is going exactly to the Bank of Canada's plan. We now need to turn our attention to the final quarter of the year. For now, our tracking of 1.2% for Q4 remains above the Bank of Canada's latest forecast of 0.5%. However, there's still some data to take in, and the additional hikes will bite. Looking through the volatility, we continue to see Canada as heading towards recession in 2023.