

ECONOMIC NEWS

Canada: Real Estate Weighed Heavily on Q2 GDP Growth

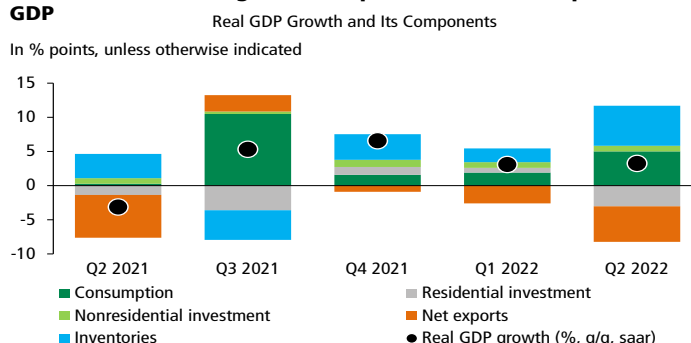
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HIGHLIGHTS

- ▶ Real GDP grew at an annual rate of 3.3% q/q in the second quarter of 2022, coming in much weaker than Bank of Canada (4%) and consensus (4.4%) expectations.
- ▶ Household consumption posted another solid move in Q2, advancing by 9.7% on the back of strength in services spending (16.3%) and a more modest gain in goods consumption (2.4%).
- ▶ Residential investment contracted sharply, falling by 27.6% after two quarters of outsized gains. This was slightly offset by growth in non-residential business investment, which advanced by 13.9% in Q2.
- ▶ Taken together, domestic demand made a solid advance of 2.9% in Q2 2022. But the real action was on the trade side of things. Real imports surged in the second quarter (30.5%), dwarfing the advance in exports (10.9%) and leading to a substantial drag on growth from net exports (-5.2 ppts). Inventory levels shot up as a result, contributing 5.9 ppts to annualized growth in Q2.
- ▶ In nominal terms, GDP advanced by 17.9% in Q2 as the price gain dominated that of real GDP. Indeed, terms of trade hit 21.7% as a result of surging commodity prices. This helped to boost corporate profits (net operating surplus) by a solid 62.8%, outpacing compensation of employees by a wide margin (8.0%). Meanwhile, the savings rate fell to 6.2% from 9.5% in Q1.
- ▶ Monthly real GDP growth clocked in at a modest 0.1% m/m in June, following 0.0% in May and a downwardly revised 0.2% in April. Statistics Canada's flash estimate for July 2022 real GDP growth is a 0.1% decline.

GRAPH

Rate hikes are starting to show up in weaker-than-expected Q2 GDP



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Another quarter, another below-consensus real GDP growth surprise. This quarter it was weaker residential investment that took forecasters by surprise. And with the housing market continuing to turn over, the drag is expected to persist in the third quarter of 2022.

IMPLICATIONS

The 3.3% advance in Q2 2022 real GDP was meaningfully below the Bank of Canada's 4% tracking in the July 2022 MPR. Given ongoing strength in wage growth and high inflation, we continue to expect the Bank to act 'forcefully' at next week's meeting by hiking rates 50 basis points. But with the flash estimate for July pointing to a weak start to the third quarter and the housing market slowing sharply, the Bank's job is going to get a lot harder going forward.