

ECONOMIC NEWS

Canada: Real GDP beats the heat in July

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Real GDP advanced by 0.1% in July, beating market and Statistics Canada's expectations of a 0.1% decline.
- ▶ Goods-producing sectors led the advance with a 0.5% gain in the month, driven by solid increases in mining, quarrying and oil and gas extraction (+1.9%) and agriculture (+3.2%). However, these gains were modestly offset by the fourth consecutive monthly contraction in construction (-0.2%) and the third decline in manufacturing in the past four months (-0.5%).
- ▶ Services-producing sectors posted their first monthly retreat since January, down -0.1% in July. This was driven by lower retail and wholesale trade (-1.9% and -0.7%, respectively) and accommodation and food services (-1.0%).
- ▶ On a year-over-year basis, real GDP was up 4.3% from its July 2021 level, although that largely reflects gains seen earlier in 2022.
- ▶ Statistics Canada's flash estimate is for real GDP to be little changed in August, pointing to a rebound in retail and wholesale trade offset by declines in manufacturing and oil and gas extraction.

COMMENTS

With all of the negative economic news out there, it was nice to get an upside surprise in today's expectations-beating real GDP release. But it's best not to get too excited. Nearly half of major industries saw declines in July. Notably, those services that benefitted most from reopening tailwinds, such as accommodation and food services, led the charge lower in the month. Construction also showed ongoing weakness, and we expect this to continue going forward given the headwinds from higher rates. Finally, manufacturing has demonstrated a surprising lack of momentum this year, and Statistics Canada's flash estimate suggests this will continue in August.

GRAPH

Canada's economy losing steam coming into the second half of 2022



Sources : Statistics Canada and Desjardins, Economic Research

IMPLICATIONS

Today's upside surprise in July real GDP growth helped to solidify our tracking for Q3 real GDP growth at around 1% annualized. This firms up our view that the Bank of Canada will hike by an additional 50 bps at its October meeting. However, at 1%, this is half the pace of Q3 real GDP growth forecasted by the Bank of Canada in its July 2022 Monetary Policy Report and a third of the pace seen in the first half of the year. So, make no mistake – the Canadian economy is slowing, and a prolonged pause in rate hikes after Q4 remains likely.