Canada: Services lift GDP in August
By Kyle Dahms and Alexandra Ducharme

GDP registered slightly above expectations in August with a one tick increase. This rise was led by the services industry with gains stemming in part from retail and wholesale trade. The increase in retail outlays is likely to be short-lived as consumers contend with a decline in purchasing power and rising interest bills. On the wholesale front, this latest growth does little to recover a sector which has been struggling in 2022. Still, August’s report suggests that the moderation for the Canadian economy in the third quarter will not be as significant as initially expected following the solid growth recorded in Q2. Indeed, the Statistics Canada preliminary estimate for September is projecting an increase of 0.1% (right chart). Looking at the quarterly picture based on Canadian monthly GDP by industry data, the third quarter stands at 1.6% annualized following an increase of 4.2% in the second quarter of the year. We expect further moderation in the coming months with consumers being hit by higher prices, an interest payment shock and a negative wealth effect. Higher interest rates have negatively impacted the construction, financial and real estate sectors in recent months and should continue to do so in the period ahead. The weaker economic outlook is causing businesses to revise their hiring and investment plans downward, as evidenced by the Bank of Canada’s latest Business Outlook Survey, which is expected to hurt growth as well.

HIGHLIGHTS:
- Canada’s real GDP rose 0.1% in August, a result better than consensus expectations and one tick above the Statistics Canada’s preliminary estimate calling for a flat print. Production rose in 14 of the 20 industrial sectors covered in August.
- The improvement stemmed from services-producing industries (+0.3%), with positive contributions from retail trade (+1.2%), wholesale trade (+0.9%), public administration (+0.5%) and other services (+0.5%) more than enough to offset declines in management (-2.2%) and transportation/warehousing (-0.5%).
- Goods sector output, meanwhile, decreased (-0.3%) as sizeable declines occurred in mining/quarrying/oil & gas extraction (-1.0%), manufacturing (-0.8%) and construction (-0.7%) while agriculture (+3.9%) and utilities (+1.5%) registered improvements (left chart). Industrial production was down -0.6% m/m.
- Statistics Canada’s preliminary estimate showed GDP grew 0.1% in September.
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