Canada: GDP growth remains solid in 2022Q2, but headwinds emerge
By Matthieu Arseneau / Alexandra Ducharme

Despite weaker than expected growth in Q2, the Canadian economy’s performance is quite enviable when compared to the rest of the G7 (left chart). Real GDP has again grown well above potential driven by the easing of health measures and a sharp increase in consumption of services with household still registering strong increase in compensation in a tight labour market. In nominal terms, it was even more surprising, as the economy grew by 17.9% annualized as the terms of trade reached a record high. On a year over year basis, nominal GDP grew by 14.8%, its fastest pace since the early 1980’s if we exclude the reopening of the economy at the beginning of the pandemic. This has contributed to a strong increase in profits for companies, which have taken advantage of this to increase their investments. All in all, there is nothing in this report to slow down the central bank’s vigor in the short term. Economic growth is below its forecast in the last Monetary Policy Report for the second quarter (4.0%) but it won’t alter its determination to bring monetary policy in restrictive territory as wage pressures in the tight labour market are still a cause for concern. There are, however, some elements in this morning’s report that call for caution. The monthly GDP data shows already a stagnating economy over the last 3 months (including July’s preliminary reading right chart) and interest rate sensitive sectors (especially real estate) should continue to contribute negatively to growth in the coming quarters. We expect growth to moderate sharply in H2 2022.

HIGHLIGHTS:
- According to Statistics Canada, the economy expanded an annualized 3.3% in the second quarter of 2022, below consensus expectations (+4.4%). Following in the footsteps of a 3.1% expansion in Q1, this gain hoisted economic output 1.7% above its pre-crisis level.
- Final domestic demand remained strong in Q2, up 2.9% annualized. Spending on services rose a massive 16.3% while goods consumption rose 2.4% allowing total household consumption to rise a spectacular 9.7%. Business investment also contributed to the quarterly advance with machinery & equipment rising 19.3% and non-residential structure posting a 11.1% rise. At the opposite, residential sector posted a whopping 27.6% pullback. Government also had a negative impact on the quarterly performance as investments dropped 7.9% and expenditures were flat. Relative to their pre-crisis levels, services consumption was up 1.3% while spending on goods was up 59%.
- Trade had a negative impact on growth as the rise in exports (+10.9%) was outpaced by the massive increase in imports (+30.5%). Imports contributed to the buildup in inventory, that added 5.9 percentage points to the headline growth figure.
- Nominal GDP grew by a massive 17.9% annualized, following a 15.8% increase in Q1 and 15.2% in Q4. This is good news for the fiscal health of Canadian governments and businesses. Disposable income grew an annualized 3.9% thanks to an 8.0% rise in compensation while transfers dropped by 13.2% with most of the federal support being discontinued at this point. The household savings rate consequently dropped from 9.5% to 6.2%, which is still above this indicator’s pre-crisis level (roughly 2.7%).
- Finally, industry data showed a 0.1% GDP growth reading in June, with increases in the goods sector (+0.1%) and in services-producing industries (+0.2%), Statistics Canada also released an advance estimate for July showing a decline of 0.1% m/m.
- For more details, see charts on next page.
Canada: Consumption in goods and services on the rise
Real consumption

Canada: Operating surplus and business investment
Net operating surplus and business investment

Canada: Savings rate still above pre-pandemic level
Compensation, disposable income and savings rate

Canada: Contribution to real GDP growth and annualized growth
2022Q2
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