

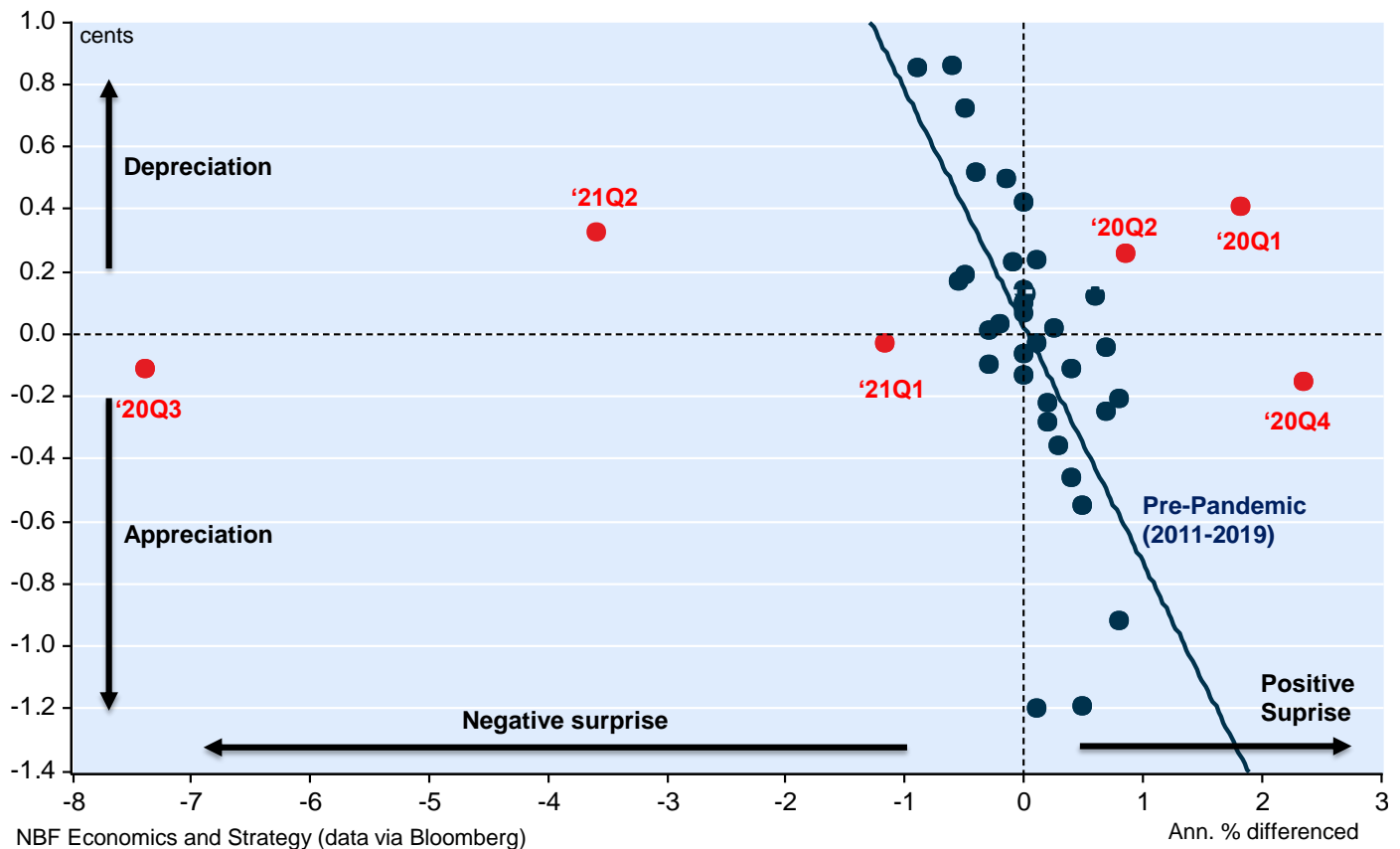
Canada Watch

Matthieu Arseneau & Kyle Dahms

Yesterday's release of Canadian second quarter GDP data came as a big negative surprise to economists. Indeed, the 1.1% annualized decline in Canada's GDP was 3.6 percentage points below expectations, the worst economic surprise since 2011, with the exception of 2020Q3 when growth came out at 41% vs. 48% following pandemic-related lockdowns. Historically, there has been a strong correlation between GDP surprises and currency fluctuations before and after disclosure. Between 2011 and 2019, the correlation coefficient stands at -0.67 . So it might seem strange that the Canadian dollar was so little impacted yesterday between 8:00 am and 9:30 am by the big miss on Q2 GDP. Or was it? As today's Hot Chart shows, the correlation observed between 2011 and 2019 does not appear to hold true since the beginning of the pandemic with releases being very choppy and impacted by sanitary measures. As for yesterday's numbers, we are not uncomfortable with the market reaction as there is no indication of an economy in disarray. The weakness in domestic demand in Q2 is explained by an economy still constrained by health measures and negatively impacted by the moderation in the red-hot housing sector. As for the drop in exports, 40% of it is explained by the automotive sector, which is experiencing serious supply issues, not a lack of demand. Nominal GDP growth of 7.9%, boosted by the terms of trade (which were very beneficial for the resources sector), helped maintain corporate profits at a record level. Finally, households recorded once again enviable disposable income growth this quarter.

Canada: Do GDP misses still matter for the CAD?

GDP surprises vs USDCAD movements from 8:00AM to 9:30AM



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