



Canada: GDP jumps in Q3, held back by domestic demand

By Matthieu Arseneau / Alexandra Ducharme

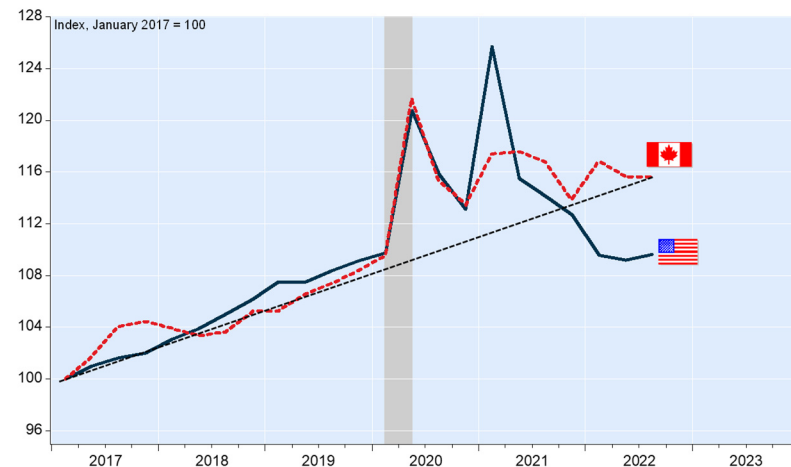
Once again, monthly GDP by industry will have misled economists about quarterly growth. Indeed, the figures released a month ago suggested a quarterly growth of 1.6% annualized. What came out was a whopping 2.9%, well above consensus expectations and the Central Bank's forecast of 1.5%. Does this mean the central bank needs to respond more aggressively than we previously thought? Not so fast. While the headline GDP figure overshot consensus expectations due to a massive contribution from trade, the details of the report were not the most encouraging. Final domestic demand recorded its weakest quarter since the start of the pandemic, with a 0.6% annualized decline. Residential investment, the most interest-sensitive component of GDP, contracted for a second consecutive quarter. Consumers also bent their knees in the third quarter, ending a buying spree amidst a loss of purchasing power and an interest rate shock. The sharp increase in inventories again this quarter points to weak activity in the months ahead and potentially price declines when the time comes for companies to shed them. There are still some interesting developments. Terms of trade, while down, have remained very good and should continue to be so as Canadian resource producers represent an attractive option in the current geopolitical environment. Employee compensation jumped 4.9%, while prices rose 3.0% in the quarter, meaning that real disposable income maintained its pre-pandemic trend in the third quarter, a better development than in the U.S. (left chart). The savings rate, which rose during the quarter and is still above the pre-pandemic level, suggests that households are still accumulating excess savings, which contrasts with the dissaving that is currently taking place south of the border. All in all, this morning's report shows a significant moderation in domestic demand which should remain weak in the coming months in a context of extremely restrictive monetary policy.

HIGHLIGHTS:

- According to Statistics Canada, the Canadian economy sprang 2.9% annualized from the previous quarter, almost doubling consensus expectations which were anticipating a 1.5% annualized increase. Following in the footsteps of a 3.2% expansion in Q2, this gain hoisted economic output 3.0% above its pre-crisis level.
- Despite the quarterly increase, details of the report showed that final domestic demand bent 0.6% annualized in the third quarter of the year, its first decline since the second quarter of 2021. The decline is attributable to a 6.5% annualized step back in spending on goods, while consumption of services grew 3.8% (right chart).
- Business investment also contributed to the drawback with machinery & equipment dipping 7.6% and residential structures dropping 15.4%. Meanwhile, non-residential structure posted a 11.7% rise.
- The buildup in inventory continued in Q3, adding 0.2 percentage points to the headline growth figure
- Meanwhile, government had a positive impact on quarterly performance with investments dropping 4.0%, which was more than offset by expenditures expanding 5.3%. Trade also had a positive impact on growth as the rise in exports (+8.6%) was amplified by a decrease in imports (-1.5%).
- Nominal GDP declined 2.7% on an annualized basis, following a 17.2% increase in Q2 and a 15.8% in Q1. Nonetheless, nominal GDP remained 19.6% above its pre-crisis level. Disposable income grew an annualized 3.3% thanks to a 4.9% rise in compensation while transfers received increased by 7.6%. The household savings rate consequently increased from 5.1% to 5.7%, above this indicator's pre-crisis level (roughly 2.7%).
- Finally, industry data showed a 0.1% GDP growth reading in September, with increases in the goods sector (+0.3%) while services-producing were unchanged. Statistics Canada also released an advance estimate for October showing unchanged output in the month.

Canada: Disposable income remains on trend

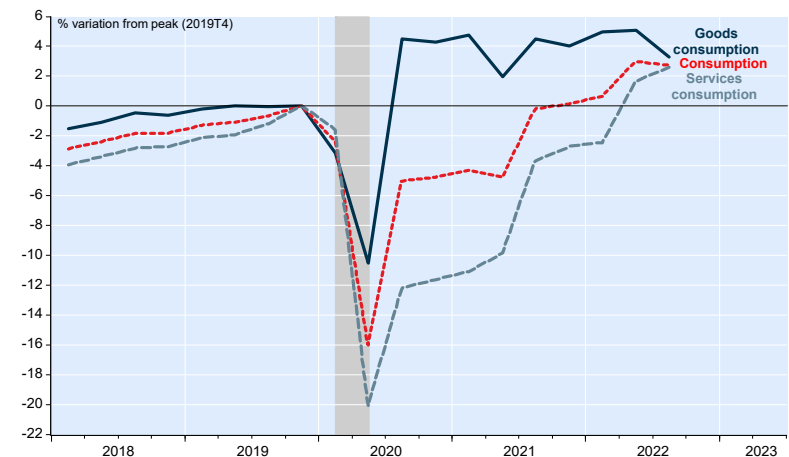
Real disposable income: Canada and the United States



NBF Economics and Strategy (Statistics Canada and BEA data)

Canada: Consumption in goods decline while services continue to rise

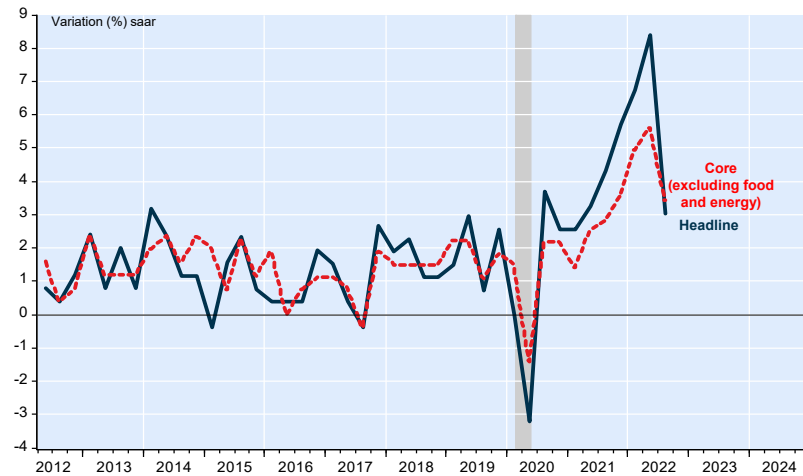
Real consumption



NBF Economics and Strategy (data from Statistics Canada)

Canada: Consumption deflators moderate

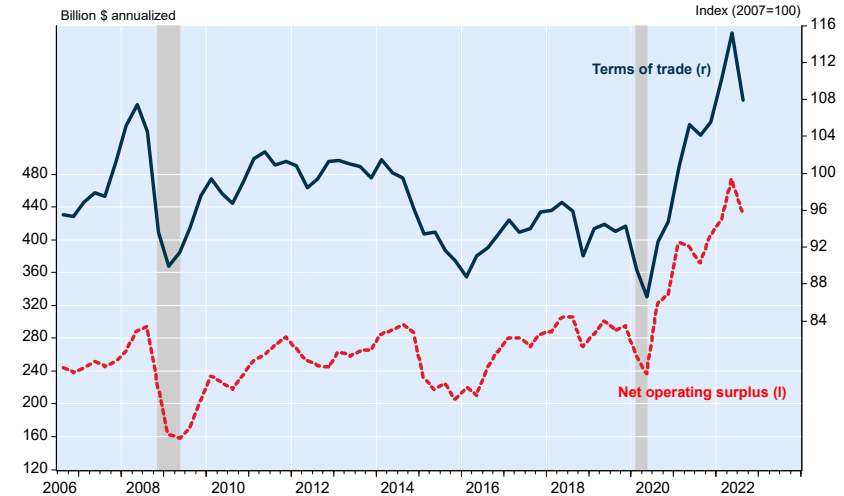
Household consumption deflator, quarterly annualized change



NBF Economics and Strategy (data from Statistics Canada)

Canada: Operating surplus and terms of trade remain elevated

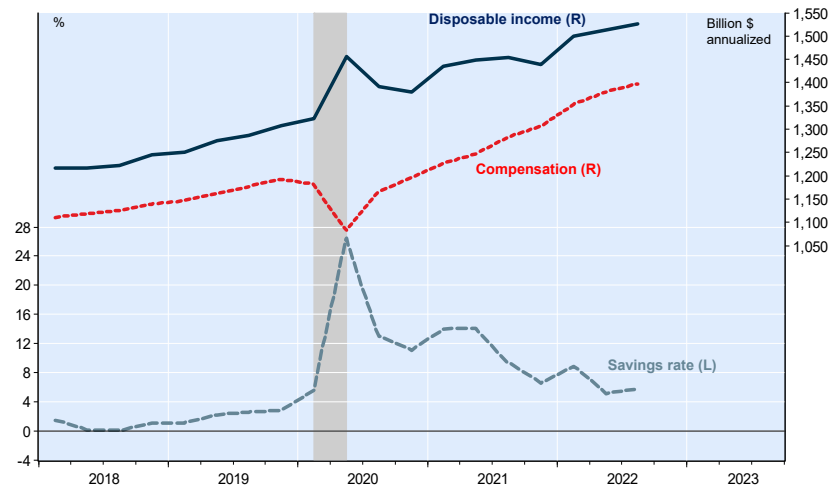
Net operating surplus and terms of trade



NBF Economics and Strategy (data via Statistics Canada)

Canada: Savings rate rises but remains above pre-pandemic level

Compensation, disposable income and savings rate



NBF Economics and Strategy (data via Statistics Canada)

Canada: Contribution to real GDP growth and annualized growth

2022Q3

	Contribution	Q/Q annualized growth (%)
GDP	2.9	2.9
Consumption	-0.5	-1.0
Business Investment	0.4	4.3
Nonprofit Sector	0.0	2.1
Residential Investment	-1.4	-15.4
Government	0.9	1.3
Final Domestic Demand	-0.6	-0.6
Exports	2.9	8.6
Imports	0.5	-1.5
Trade	3.4	-
Inventories	0.2	-
Statistical discrepancy	-0.1	-

NBF Economics and Strategy (data via Refinitiv)

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