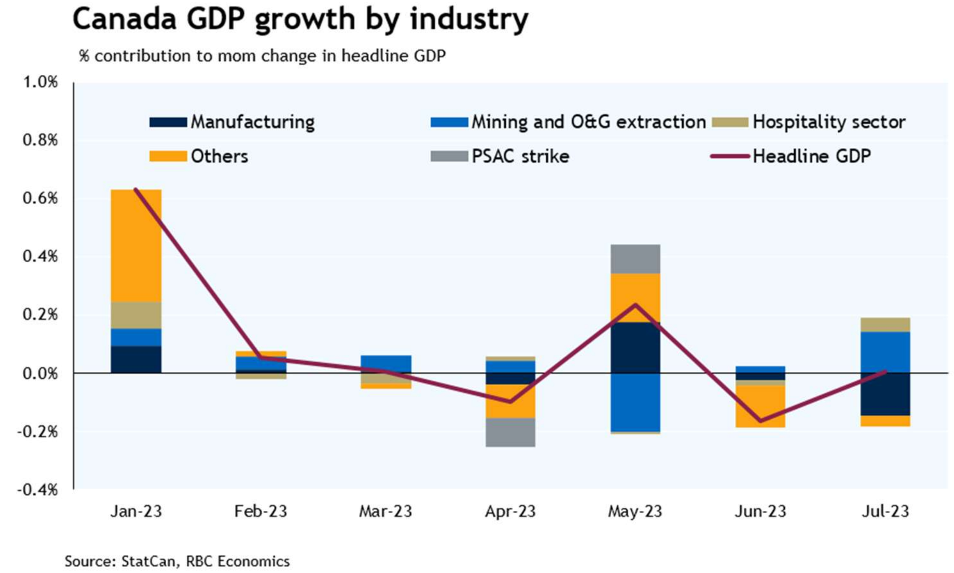
RBC Economics & Thought Leadership

Economic Update

September 29, 2023

July marks a soft start to Q3 Canadian GDP growth

- After falling 0.2% in June, real GDP in Canada was estimated to have remained largely unchanged in July. That extends the softening momentum in activities into Q3 and leaves overall output still slightly below where it was in the second quarter (on average) in July.



- The flat reading for July was a result of stronger activities in services sectors (+0.1%) offset by lower output in goods sectors (-0.3%). It was also despite a rebound among sectors that were impacted by wildfires in the prior month(s), including mining and quarrying (ex-oil and gas extraction) (+4.2%) and accommodation and food services (+2.3%).
- A 1.5% decline in manufacturing GDP made the largest downward contribution to growth in July. Production may have been disrupted by supply chain issues resulting from the port strike in B.C. in July. But early estimates suggest output from the sector may have fallen again in August, with most if not all of the reported 0.9% increase in nominal sales in the flash estimate for that month accounted for by higher prices for petroleum products.
- Home resale activities remained sluggish as the BoC continued to press on with rate hikes in July to combat persistent inflation pressures in Canada. That means momentum gained over the spring in real estate agent and broker activities have continued to wane – in July the sector posted its first decline in output (-1.3%) since January.

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639s
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- StatCan's prelim projection showed a 0.1% bounce back in GDP in August, a bit weaker than expected given a 0.5% increase in hours worked and a larger 2.6% month over month increase in wholesale ex-petroleum sales in the same month. StatCan pointed to softer retail and oil and gas extraction activity in August.
- **Bottom line:** The GDP growth backdrop in Canada continues to soften, in contrast to sticky inflation prints that are still running above the Bank of Canada's 2% target. With interest rates already at very restrictive levels, further increases from the BoC and other central banks will remain very data dependent. Firmer-than-expected inflation readings in Canada have increased the odds of another BoC interest rate hike this year. But inflation lags the economic cycle and there are growing signs that the impact of earlier interest rate increases are working to cool the economy. There is another CPI and labour market report before the next BoC decision on October 25th. Our own base-case forecast does not assume additional BoC interest rate hikes.

Canada Monthly GDP Summary

	m/m % change			*y/y % change*
	May-23	Jun-23	Jul-23	Jul-23
GDP	**0.2**	**-0.2**	**0.0**	**4.3**
Goods	**-0.3**	**-0.3**	**-0.3**	**4.8**
Manufacturing	1.9	-0.3	-1.5	4.1
Services	**0.4**	**-0.1**	**0.1**	**4.1**
Wholesale	2.7	-1.8	0.3	-0.4
Accom/food	-0.8	-0.9	2.3	18.7

Source: Statistics Canada, RBC Economics Research