



Consumers ramp up spending in Q3 to lift GDP, Q2 revised lower

Q3 Canadian GDP rebounded sharply and far outpaced market consensus and Statistics Canada's preliminary estimates. Expenditure GDP shot up a robust 1.3 per cent from Q2 or 5.4 per cent annualized. Consensus was for a 3.0 per cent. While this was almost bang- on with the Bank of Canada's forecast for 5.5 per cent growth for the quarter but tempered by a significant downward revision to Q2 to -3.2 per cent (from -1.1 per cent). With these revisions, the level of GDP still falls short of the implied Bank of Canada Q3 forecast by about 0.7 per cent.

Q3 expenditure growth was boosted by a huge lift in consumption as economic activities opened up more. Household consumption rose an annualized 17.9 per cent. This was led by services demand which soared 28 per cent, while semi-durable consumption increased 68 per cent, while durable goods fell. Export activity rose nine per cent, while imports declined likely owing to supply chain challenges. These gains were offset by a substantial decline in residential investment (-31 per cent), while non-residential investment also eased, and inventory drawdown also took away from growth.

Current dollar GDP rose at an annualized pace of 8.9 per cent during the quarter as the pace of price growth decelerated to 3.1 per cent. The household savings rate remained elevated but fell from 14 per cent in Q2 to 11 per cent in Q3.

Preliminary October estimates of industry- based GDP points to a stronger hand off to Q4 with a m/m increase of 0.8 per cent, up from 0.1 per cent from the September estimate with broad based increased among industries. This points growth of near five per cent in Q4. That said, the emergence of the Omicron variant of concern adds significant uncertainty to the short-term outlook, which could slow global economic activity and further amplify supply chain disruptions. The recent BC floods also marks a negative risk for the outlook.

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