



Canada's economy treads water in July

Canada's economy managed to tread water in July according to Statistics Canada's latest industry- gross domestic product (GDP) estimates. Industry-GDP growth was unchanged following a 0.2 per cent contraction in June, which aligned with the agency's preliminary estimates. The economy is slowing but is also managing to skirt a technical recession with preliminary August estimates pointing to a slight increase in growth of 0.1 per cent. We forecast near zero growth for the third quarter.

July's economic performance showed a mix in activity that was in part hampered by the port strike in B.C. that led to a contraction in water transportation activity shipments (3.4 per cent) and impacted exports in some sectors, although grain terminals were unaffected.

Goods-sector output fell 0.3 per cent and marked a fourth consecutive monthly contraction. While resource extraction sectors jumped 1.9 per cent, owing to a bounce-back in sectors like metals (4.1 per cent) and non-metallic minerals (7.1 per cent) mining after wild-fire induced declines in June and oil and gas production increased (2.4 per cent). The latter was driven by natural gas output. Manufacturing slumped by 1.5 per cent, construction was flat, and forestry declined. Manufacturing declines were led by chemical products (down 3.6 per cent), and petroleum and coal products (down 8.8 per cent). Electronics fell four per cent, while auto-related manufacturing was flat.

On the services side of the economy, aggregate activity increased by 0.1 per cent to offset goods-sector declines. Tourism related activity picked up as wildfire threats abated. Accommodation and foodservices rose 2.3 per cent after a 0.9 per cent contraction in June, while arts/recreation/entertainment expanded 0.5 per cent. Public administration increased 0.3 per cent, while other public-sector-related sectors nudged higher.

There was little to take away from July's GDP report given mixed performances among industries and temporary impacts of factors like wildfires and port strikes. Even so, the economy has clearly flatlined over the past couple of quarters given July's print and preliminary August figures. Economic growth is likely to fall well short of the Bank of Canada's outlook for a 1.5 per cent expansion, and this is amplified by the fact that population growth has come in at a three per cent pace pointing to declining real-GDP and economic well-being. While inflation is not behaving well, we expect the Bank of Canada to hold its policy rate at 5 per cent into 2024 as past hikes continue to filter through the economy.

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