



## Faster GDP gain in Q2 but economy falters into Q3

Canada's economy grew at a faster pace during the second quarter, expanding at an annualized 2.1 per cent from 1.8 per cent in the second quarter. This outpaced both consensus (1.6 per cent) and the Bank of Canada's July Monetary Policy Report forecast (1.5 per cent). Our forecast was for a 1.8 per cent increase. On a non-annualized basis, the economy grew 0.5 per cent q/q, while y/y growth came in at 1.2 per cent.

The stronger second quarter complicates monetary policy but the latest summer data points to a weak Q3. Moreover, economic growth continued to lag growth in population. Per capita GDP growth was estimated to have declined 0.1 per cent during the quarter, marking a fifth straight contraction. Year-over-year, population growth is still running at a 3 per cent pace. The inability of the economy to absorb the flow of newcomers has more clearly been observed in the country's rising unemployment rate and declining employment rate.

The details of second quarter GDP were mixed. Key themes of slower consumer demand and robust public-sector support persisted. Household consumption fell from a 3.6 per cent annualized pace to 0.6 per cent in Q2 as consumers ratcheted back amidst the softening labour market, shock of mortgage renewal costs. Consumers pulled back on goods spending (-1.0 per cent), particularly durable products like vehicles, while spending on services slowed from 5 per cent growth to 1.8 per cent on weaker overseas travel. Household spending growth contracted on a per capita basis. Meanwhile, residential investment spending fell at an annualized 7.2 per cent, which was the eighth decline in nine quarters with builders and purchasers holding back.

On the upside, there was a pickup in business investment with M&E up 29 per cent and structure investment up 1.9 per cent even as business sentiment has weakened in recent quarters. Exports fell 1.8 per cent during the quarter while imports fell a more modest 0.5 per cent. Growth was also heavily skewed to public-sector spending. Government spending was the key driver of growth with consumption spending up 6 per cent and fixed capital investment up 11 per cent.

The GDP price deflator increased 1.1 per cent over the quarter, with nominal GDP up 1.7 per cent. Employee compensation rose 1.6 per cent, which nudged higher from Q1 growth, while gross operating surplus (profits) rose 2.9 per cent after falling in the previous quarter, including corporate profit growth of 3.1 per cent. The national savings rate remained elevated at 5.6 per cent, with household savings at 7.2 per cent.

Despite the elevated pace of growth in Q2 the third quarter is likely to drop off and fall well below the Bank of Canada's 2.8 per cent forecast. Industry GDP showed a flat June monthly reading more than the same in preliminary July data with resources declining. Add in the short but impactful rail stoppage in August and we forecast growth of about one per cent for the quarter. We see a cut in September, and further cuts at its remaining two meetings for 2024. The pace of reduction will slow in 2025 and reach 2.75 per cent in Q3/Q4.

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