



GDP growth surprises to the upside in July, trend remains soft

Canada's economy showed life to kick off the third quarter as GDP nudged higher by 0.2 per cent, exceeding the latest consensus forecast and Statistics Canada's own preliminary estimate from last month for no gain. The rebound came despite the impact of the devastating wildfires in the Jasper region that temporarily shut down rail freight service in the area, and impeded tourism activity among other sectors. That said, third quarter growth continues to track a soft pace which will continue into 2025.

Growth was broad-based in July. Surprisingly, the retail and wholesale segment of the economy found its legs again. Retail spending accelerated from a 0.3 per cent increase in June to a robust 1.0 per cent in July, with wholesale trade up 0.4 per cent after a 0.5 per cent contraction in June. The sector continues to be driven by population growth, where the latest data showed 0.6 per cent q/q and 3 per cent y/y growth in the second quarter. That said, retail spending is still lower than population growth on a y/y basis and the drag from elevated interest rates and mortgage rate renewals is expected to slow activity going forward.

Elevated growth was observed in sectors like manufacturing (0.3 per cent), particularly in pharmaceuticals and food products, as well as finance and insurance (0.5 per cent). The public-sector remained a higher growth area with education (0.2 per cent), healthcare and social assistance (0.2 per cent), and public administration (0.4 per cent) all showing moderate gains.

In other segments, the wildfires dragged on transportation and warehousing (0.4 per cent), while accommodations fell 0.2 per cent amidst related closures in RV parks and other recreational areas. Construction activity contracted by 0.4 per cent m/m as non-residential building activity slowed.

While July's GDP uptick was a surprise, the underlying economy remains soft. Statistics Canada's preliminary estimate for another flat (but likely to be revised) performance in August points to Q3 GDP growth of about one per cent, which is below the Bank of Canada's outlook while still running below population growth. Per capita GDP will deteriorate. With inflation returning to two per cent, the Bank of Canada has pivoted its focus towards the economy and labour market slack and potential downside risks to inflation. Today's GDP print will keep the Bank on its rate cutting path. We still expect the Bank to cut by 25 basis point increments through the end of the year and to 2.75 per cent by mid-2025. That said, cuts could come faster and larger increments if the economy deteriorates more quickly.

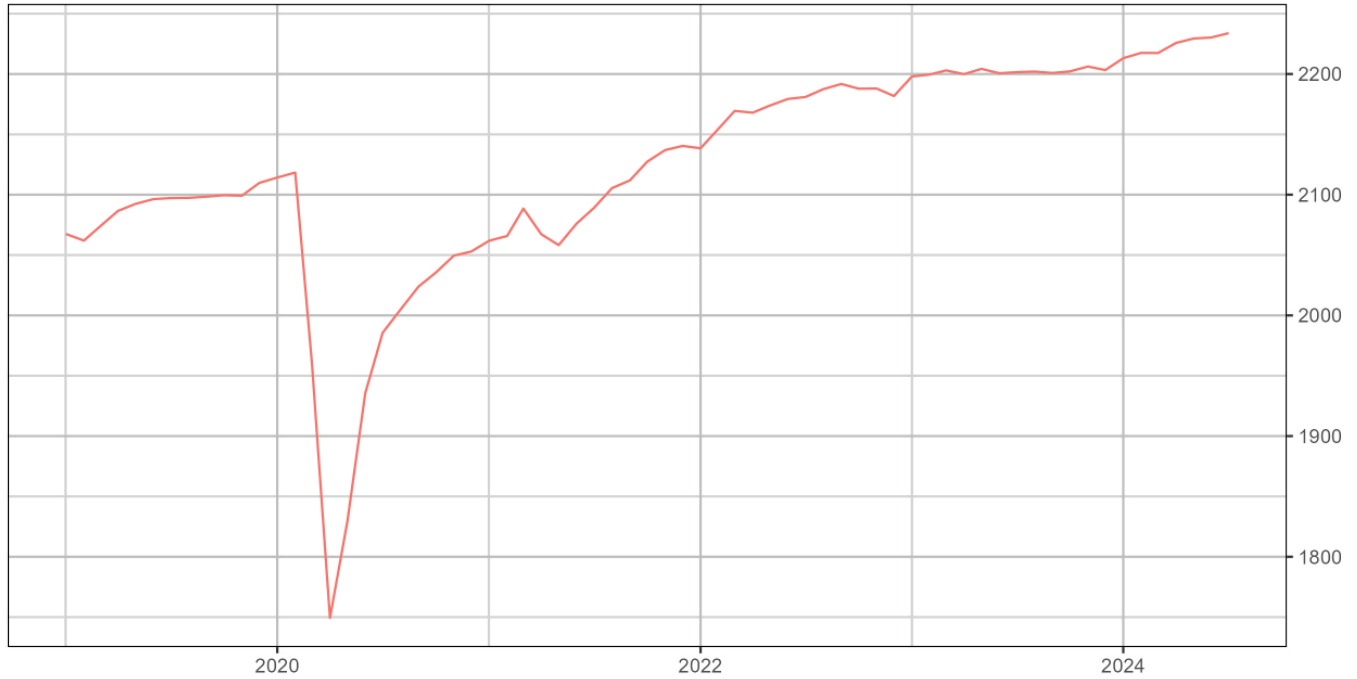
Bryan Yu

Chief Economist
Central 1 Credit Union
byu@central1.com

Industry Gross Domestic Product

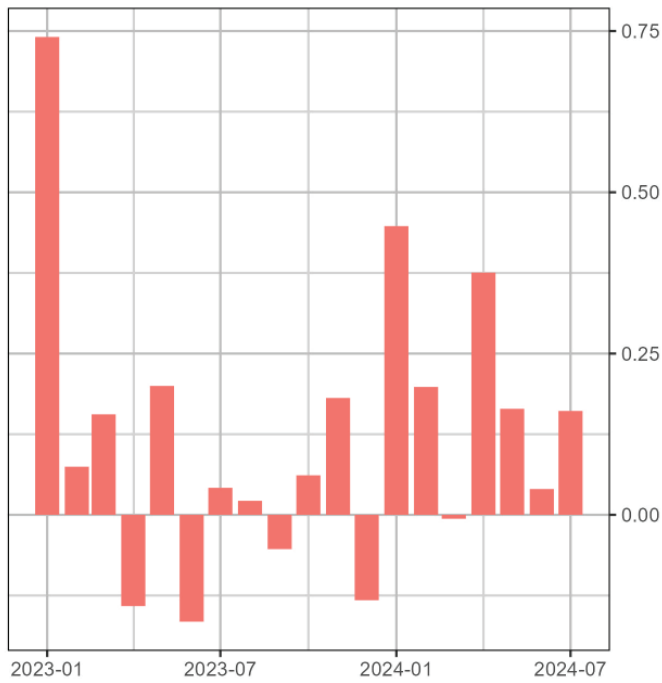
GDP (\$bil)

Last data point: 2024-07-01



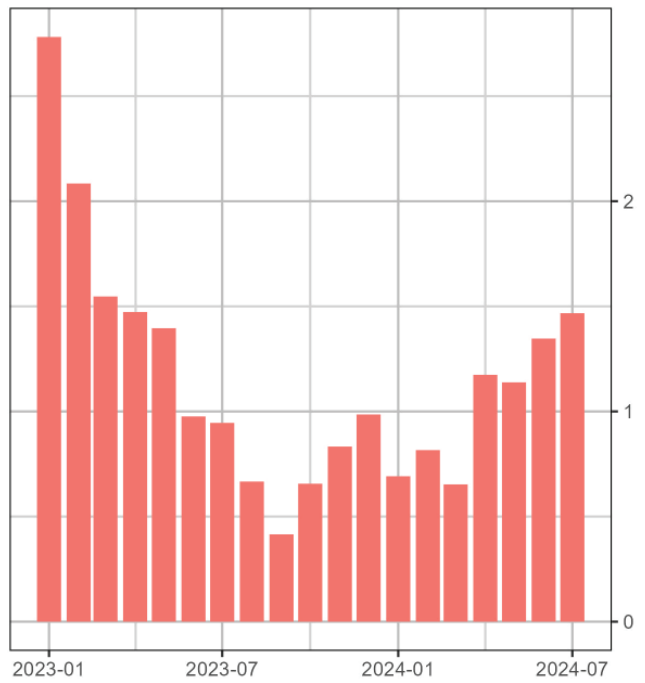
GDP - Month- to -Month change (%)

Last data point: 2024-07-01



GDP - Year-over-Year Change (%)

Last data point: 2024-07-01



Statistics Canada, Central 1

Jul/2024		Monthly Industry GDP, % change				
Indicator	m/m ch.	prior m/m ch	y/y ch.	prior y/y ch.	YTD ch.	
All Industries	0.2	0.0	1.5	1.3	1.0	
Goods	0.1	-0.3	-0.3	-0.5	-1.1	
Services	0.2	0.2	2.1	1.9	1.7	
Agr/For/Fish	0.6	0.7	6.1	4.3	0.4	
Mining and And Oil And Gas	-0.2	0.6	4.3	6.5	4.2	
Utilities	1.3	2.1	3.6	1.6	-0.8	
Construction	-0.4	-0.6	-2.7	-2.2	-2.3	
Manufacturing	0.3	-1.3	-2.5	-3.4	-2.7	
Wholesale	0.4	-0.5	1.2	2.5	1.7	
Retail	1.0	0.3	2.5	1.3	1.5	
Transp. and Warehouse	-0.4	-0.1	3.2	3.5	3.1	
Information And Cultural	-0.7	0.2	0.7	0.5	-0.1	
Finance And Insurance	0.5	0.5	3.3	2.6	1.9	
Real Estate And Rental	0.1	0.3	1.5	1.4	1.8	
Owner-Occupied Dwellings	0.1	0.1	1.7	1.7	1.8	
Professional, Scientific And Technical	0.2	0.3	1.6	0.9	0.9	
Admin/Support/ Waste Mgmt	-0.2	-0.5	-1.1	-1.2	-0.6	
Educational	0.2	0.2	3.6	3.6	2.6	
Health Care And Social Assist.	0.2	0.2	3.0	3.0	2.8	
Arts, Ent. And Rec	0.4	0.1	0.2	1.5	0.2	
Accommodation And Foodservices	0.1	-0.2	1.9	3.0	1.0	
Other Private Services	-0.2	0.0	1.0	1.3	1.2	
Public Admin	0.4	0.4	2.2	2.0	2.2	