

October 31, 2023

Canadian GDP edging lower in Q3

- Canadian GDP was unchanged in August, slightly below the +0.1% preliminary estimate a month ago.
- Output in July was also unchanged but following a 0.2% drop in June. The early estimate for September GDP was also "essentially unchanged." Preliminary GDP estimates have been highly revision-prone, but that would leave output tracking down slightly in Q3 (-0.1% at an annualized rate) as a whole.

- Consumer spending continued to show signs of softening. Retail GDP declined for a third straight month (-0.7% in August) and output in accommodation & food services largely reversed a 2% increase in July with a 1.8% August drop. Retail GDP is down 2 1/2% at an annualized rate in Q3 to-date through August and output in accommodation & food services is unchanged over that period.

Canadian consumers rolling back spending



- Output in the manufacturing sector fell for a third straight month (-0.6% in August) and is down almost 4% versus the Q2 average Q3 to-date.
- The main offsetting increase in August output (preventing an outright monthly GDP decline) was a 1.2% increase in mining output as wildfire disruptions and maintenance shutdowns from earlier months eased.
- The monthly GDP numbers look substantially softer on a per-capita basis (-0.3% month-over-month) given another large increase in population in the August labour market data.

Nathan Janzen | Assistant Chief Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-0569
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- Bottom line:** The average level of output over July and August is slightly below its Q2 average - in line with our prior assumption that output declined for a second straight quarter in Q3, and below the BoC's assumption that GDP rose 0.8%. And details were arguably softer than the headline growth number suggested with consumer-sensitive sectors like retail sales and hospitality services looking softer (despite surging population growth) and the manufacturing sector pulling back for a third straight month. The BoC is still concerned about broader inflation pressures running above the 2% target. But evidence continues to build that go-forward inflation pressures are easing as the economic growth backdrop softens. We don't expect additional interest rate hikes from the BoC as long as that continues.

Canada Monthly GDP Summary				
	<i>m/m % change</i>			
	<u>May-23</u>	<u>Jun-23</u>	<u>Jul-23</u>	<u>Aug-23</u>
GDP	0.2	-0.2	0.0	0.0
Goods	-0.4	-0.3	-0.4	-0.2
Oil & gas extrac.	-3.5	1.5	1.7	1.0
Mining ex-oil&gas	-1.0	-2.5	0.8	4.2
Manufacturing	1.8	-0.3	-1.1	-0.6
Services	0.4	-0.1	0.1	0.1
Retail sales	0.4	-0.5	-0.1	-0.7
Accommodation & food services	-0.9	-1.1	2.0	-1.8

Source: Statistics Canada, RBC Economics