

ECONOMIC RESEARCH AND STRATEGY



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Canadian Real GDP 2023Q3 Report – Economy Fading in Contraction Territory

Yesterday, the U.S. GDP report for 2023Q3 revealed a fierce acceleration in economic momentum driven by upbeat American consumers, the lock-in protection of 30-year fixed mortgages, and a favorable short-term tailwind from Washington's easing fiscal policy. U.S. real GDP soared to 5.2% quarter-over-quarter, annualized.

The outperformance of the U.S. economy relative to Canada is unusually large. This morning, Statistics Canada's release of real GDP by expenditures for 2023Q3 showed how the Canadian economy rapidly lost momentum in this elevated interest rates environment. Canadian real GDP growth cooled down from 2.5% in 2023Q1 to 1.4% in 2023Q2 before contracting by 1.1% in 2023Q3 (annualized q-o-q % change).

Consumer confidence is currently lower than it was in 2008-09. Consumer spending virtually stalled during the last two quarters, 2023Q2 and 2023Q3. Even the less-interest-rate-sensitive component of consumer spending in services is near the point of stagnation. On a nominal basis, the household savings rate edged up from 4.7% to 5.1%, contrasting with Americans who are financing spending with the large utilization of savings.

As for businesses, the simplification of supply chains, green investments, and climate infrastructure resiliency are favorable structural trends for private investment. However, as the construction phase of the LNG Canada project in B.C. nears completion, it is causing a drag on the economy rather than adding to it, contributing to an outsized decline in business investment in 2023Q3 (-10%). Many firms are also expanding warehousing capacity as part of their strategy to hold higher inventory levels, but manufacturers withdrew a record high in inventories in 2023Q3, exerting a 0.2pp drag on real GDP.

Housing activity moderately rebounded in 2023Q3, still down by 25% relative to the peak in 2021Q1, and still mildly below pre-pandemic levels. Within this housing expenditure component, rental homebuilding strengthened, while resale activity pulled back, and renovation spending stalled.

Overall, it is easier to identify weak spots in this report than to find silver linings. For instance, economic activity in the private sector is in the doldrums: excluding government spending on programs and capital investment, real GDP plunged by a concerning 3.6% q-o-q annualized. Geopolitical tensions and unstable global commodity supplies were expected to have larger adverse impacts in the Euro Area, yet it managed to see its economy contract to a lesser extent (-0.1%) than Canada in 2023Q3. On a per capita basis, Canadian real GDP faltered by 4.7% relative to a year ago.



The dovish tone part of last week's BoC Governor Macklem speech is supported by this weak Canadian real GDP report.

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