



Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283

Canadian GDP Rockets Ahead for Another Quarter

Defying expectations for a slower pace of growth, the Canadian economy accelerated in the second quarter to grow at an annualized rate of 4.5 percent and, in so doing, it retains the title of fastest growing G-7 economy.

Sorry Japan, Canada Just Stole the Spotlight

Canada's economy expanded at an annualized rate of 4.5 percent in the second quarter, besting market expectations of a 3.7 percent gain. Before all of the results were in, it looked like Japan with its 4.0 percent growth in the second quarter would hold the distinction of fastest growing G-7 economy.

In recent months, the year-over-year GDP growth numbers have crested above 4.0 percent. As the middle chart shows, that is the fastest annual growth Canada has seen in roughly a decade. The faster growth is catching forecasters and financial markets somewhat by surprise. Even the Bank of Canada (BoC), which has been known to overshoot its growth estimates from time-to-time, is forecasting only 2.8 percent GDP growth for 2017 as a whole, according to projections in its July Monetary Policy Report. Growth would have to slow meaningfully in the second half of the year to come in with anything below 3.0 percent.

Canada's households continue to boost the economy, with spending growing at an annualized rate of more than 4.5 percent each of the first two quarters of the year. We were already concerned about high consumer debt levels in Canada, and today's report increases that concern. Consumer spending was so strong in Q2 that the personal savings rate slipped below 5.0 percent in the first half of the year, after having remained above 5.0 percent in 2016.

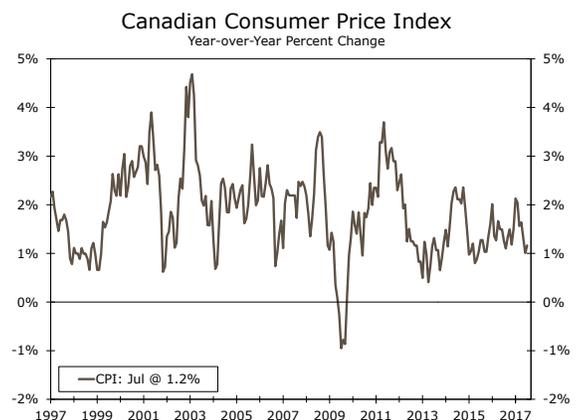
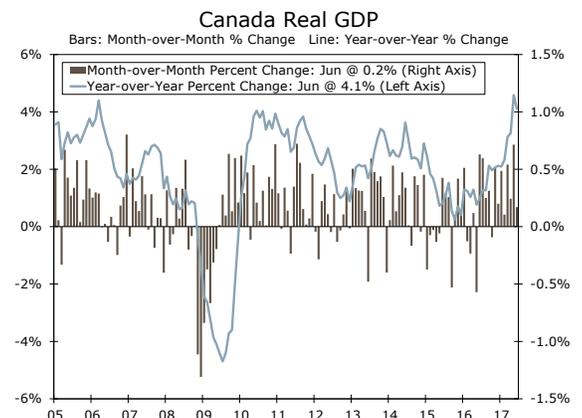
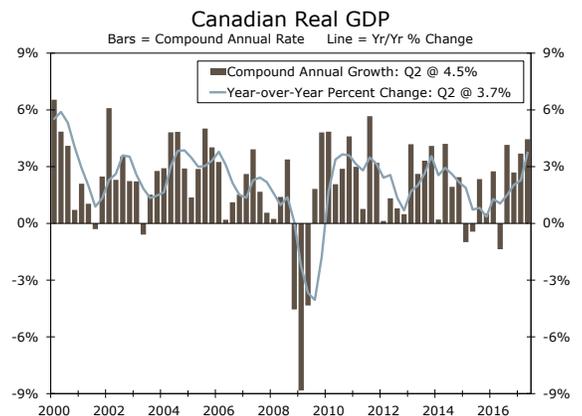
Business investment, which had been under pressure in 2015 and 2016 due to depressed commodity and oil prices, has rebounded in recent quarters, although admittedly the 1.9 percent growth rate for business investment in the second quarter marks a significant slowdown relative to the 10.5 percent surge in the first three months of the year.

Business inventories ratcheted up another \$14 billion after a \$10.3 billion increase in the prior quarter. While the quickening demand environment in Canada may justify the stockpiling, we suspect a slower pace of inventory accumulation in the second half may be a drag on GDP growth.

After being a drag on overall growth in Q1, net exports boosted growth in the second quarter, adding seven-tenths of a percentage point to the overall top-line growth rate for the period.

Bank of Canada Meeting Next Week Is Live

The BoC lifted its overnight rate to 0.75 percent at its July meeting and has since maintained a tightening bias. Prior to today's report, we would have said that the next hike could come as soon as the October meeting. While that is still our base case scenario, we would be remiss not to acknowledge there is some risk policy-makers could act at their scheduled meeting this coming Wednesday. CPI inflation at 1.2 percent is still near the low end of the target range, meaning they are not compelled to act now.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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