

Economics Group

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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.

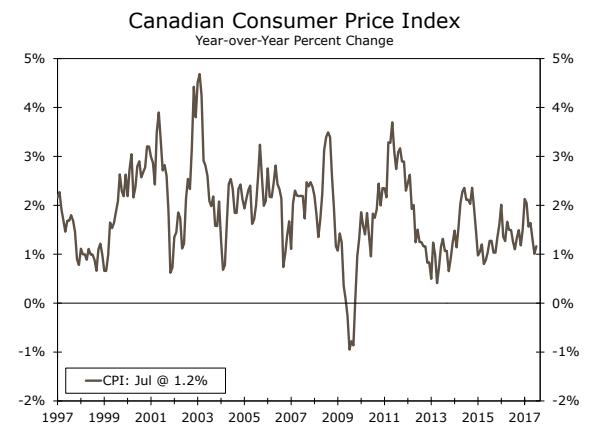
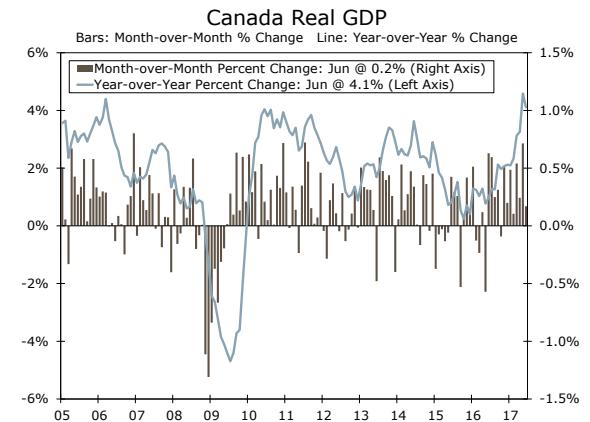
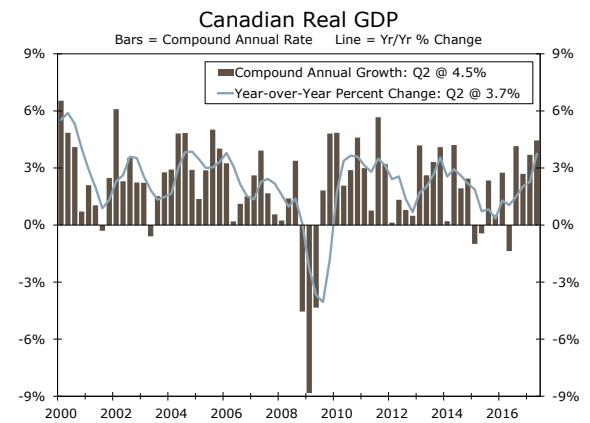
Business investment, which had been under pressure in 2015 and 2016 due to depressed commodity and oil prices, has rebounded in recent quarters, although admittedly the 1.9 percent growth rate for business investment in the second quarter marks a significant slowdown relative to the 10.5 percent surge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



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