

Economics

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Canadian GDP (Q2): Impressive, but what comes next more important

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2025	25:Q3	25:Q4	26:Q1	26:Q2
Real GDP (chained 2012\$)	1.9	1.9	-1.0	0.3	3.3
• Final domestic demand	2.2	-0.5	2.7	-0.1	3.9
• Household consumption	2.4	-0.8	2.9	2.4	3.3
• Residential investment	0.5	4.4	-9.4	-10.6	10.4
• Business fixed investment	0.2	-5.9	2.3	-3.9	12.3
• Exports	-1.4	4.1	6.7	1.3	15.1
• Imports	-0.3	-10.9	2.0	13.1	1.1

Source: Statistics Canada

- The Canadian economy posted impressive growth of 3.3% annualized in the second quarter of the year, driven by a surge in exports but also strong growth in domestic demand. However, given the recent escalation of trade tensions with the US, and with monthly data suggesting that the economy was already slowing even before new tariffs hit, today's release will be viewed as old news and doesn't change our forecast for the Bank of Canada to remain on hold.
- The impressive headline growth rate for Q2 was driven partly by net trade, with a 4.7%-pts contribution from exports eclipsing a 0.4%-pts drag from imports. Inventories were drawn down in the quarter, shaving nearly 5%-pts from the headline reading, with StatsCan highlighted a drawdown in stocks of gold and precious metals.
- Final domestic demand posted a strong 3.9% gain, after stagnating in the prior quarter, supported by rebounds in residential and business investment, as well as government spending. While all components of residential investment increased, the sharpest rise was seen in ownership transfer costs, as activity in housing resales rebounded from a very weak first quarter. The rebound in business investment saw machinery and equipment spending rise to its highest since Q2 2024, although the recent escalation of trade tensions with the US likely puts this improvement at risk.
- Consumer spending was also very solid in the quarter, with real spending rising by 3.3% annualized even as the sharp increase in gasoline prices drove inflation higher. Spending growth was supported by a one-off payment of expanded household benefits from the federal government, which contributed to an 8.8% annualized increase in disposable incomes on the quarter. That meant that, even with strong spending growth, the household savings rate edged up slightly to 3.7%, from 3.3% in the prior quarter.
- Slight revisions to historic data saw Q1 GDP revised into positive territory, so quarterly data no longer show two consecutive quarters of contraction around the turn of the year.
- Monthly industry data pointed to a 0.3% increase in June, which was slightly stronger than the 0.2% advance estimate and matched the growth rate of the prior month. While there was some evidence that the FIFA World cup supported growth in sectors such as information & culture and arts & entertainment, it was actually wholesaling, retail and manufacturing that made the largest positive contributions to the monthly increase in GDP. However, the advance

estimate for July pointed to a stall in activity (0.0%), suggesting that growth was already losing momentum even before new tariff threats were made towards the end of that month before coming into effect in August.

Implications & actions

Re: Economic forecast — The strong Q2 growth rate eclipsed the 2.5% estimate from the Bank of Canada's most recent MPR, suggesting a slightly narrower negative output gap. However, with early tracking for Q3 appearing close to the Bank's 1.5% forecast, and with the recent escalation in US tariffs and related uncertainty clouding the future outlook, we still don't expect the Bank of Canada to move off the sidelines anytime soon.

Re: Markets — Bond yields and the Canadian dollar were little changed following today's data release.

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