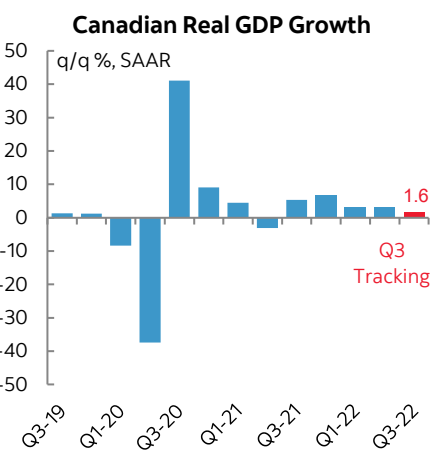


Contributors

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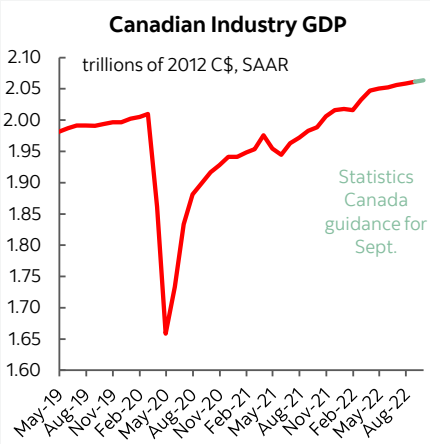
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canada’s Resilient Economy, Upcoming Budget Update and Hot US Inflation Readings

- Canada’s economy stays on the plus side in Q3
- The economy is still in inflationary excess demand
- Canada to offer Budget update next Thursday
- US inflation measures remain hot

CDN GDP m/m % change, August, SA:

Actual: 0.1
 Scotia: 0.1
 Consensus: 0.0
 Prior: 0.1
September ‘flash’: 0.1

Canada’s economy isn’t looking so shabby after all! At least so far. The economy matched my above-consensus reading and grew by 0.1% m/m in August. It then posted another 0.1% gain in September that was better than I had thought it might have been at least on the first guesstimates from Statcan. That’s not great growth, but consider the context below. The C\$ largely shook it off and Canada’s two-year bond yield initially moved 2–3bps higher post-data but has since come back down.

This leaves us tracking Q3 GDP growth of about 1.6% at an annualized rate (chart 1). Q4 has ½% growth at an annualized rate ‘baked in’ and based upon the Q3 average and the way the quarter ended before we get any actual data for Q4.

How does that compare to what the Bank of Canada just forecast for Q3? Using different accounts that cover the expenditure side they estimate growth of 1.5% in Q3 at a q/q annualized pace. That’s a different concept to the 1.6% tracking above that uses production side accounts that don’t fully capture *how* the economy grew including through inventory investment swings and changes in net trade including import leakage effects. Still, it’s feasible that the BoC’s forecast for a mild continued expansion in Q3 may be tracking well.

The economy is now 2.7% larger than it was in February 2020 before the pandemic struck with full force (chart 2). That might not sound like much, but amidst all of the damage done to the supply side of the global economy the combination has contributed to net excess demand and inflationary pressures.

The fact the economy is eking out any growth is a minor miracle of sorts in the wake of the torrid pace of growth before that. Q2 grew by 4.2%, Q1 posted growth of 3.7%, 2021Q4 grew by 6.6% and 2021Q3 grew at a similar rate of 5.7%. The economy has been on fire and the envy of much of the rest of the world while strongly outpacing international peers right up to the summer. The Canadian economy is now petering out but not yet contracting. The four quarters of enormous growth brought forward some momentum, but not in some bone-crushing fashion.

There was decent breadth to the August GDP figures with 14 of 20 sectors up (chart 3). Service sector GDP led the way with a gain of 0.3% m/m and goods sector GDP was down 0.3%. Chart 4 shows the weighted contributions to growth by sector behind the 0.1% m/m Canadian GDP gain in August.

Within the goods sector, ag/forestry up 3.9% m/m as Cdn crop conditions have generally been much better than, say, Europe’s drought. Mining/o&g down 1%, utilities up 1.5%,

construction up 0.7% and manufacturing down 0.8%

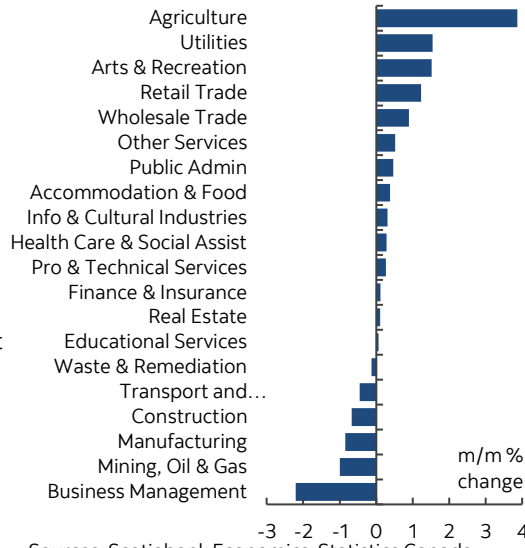
Within services during August, retail as up 1.2%, wholesale 0.9%, arts/entertainment was up 1.5% as the biggest upsides. The biggest downsides were the small weight on management of companies (-2.2%) and transportation/warehousing (-0.5%)

As for September, we don't get actual numbers, but general guidance points to gains in oil & gas and manufacturing offset by weaker construction.

Chart 5 shows tracking of Q3 GDP growth by sector. Agriculture is crushing it with assists from other sectors and few material downsides.

Chart 3

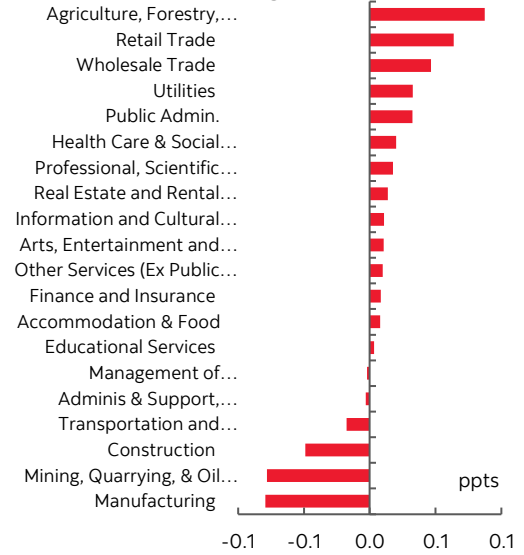
August Real GDP Growth by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

Weighted Contributions from Sectors to August Real GDP



Sources: Scotiabank Economics, Statistics Canada.

BUDGET UPDATE COMING

Canadian Finance Minister Chrystia Freeland will offer the Fall fiscal update next Thursday after markets close (announcement [here](#)).

HOT US INFLATION

At the same time that Canada was releasing GDP, the US updated a couple of important inflation measures that met expectations and continue to run hot.

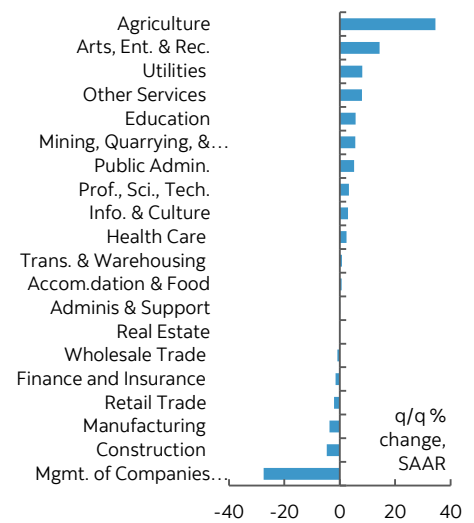
Core PCE inflation (ex-food and energy) met expectations for a gain of 0.5% m/m in September. We already had core CPI and so it's not a big surprise that core PCE met expectations. Chart 6 shows that the annualized rise remains hot and that hope that inflationary pressures in the US economy remains nothing more than hope.

Ditto on US employment costs that climbed by 1.2% q/q non-annualized in Q3. At an annualized rate, employment costs have been soaring as shown in the final chart.

Into next Wednesday's FOMC meeting, I would expect Fed Chair Powell to ask whether the dovish pivot folks have been looking at the same data!

Chart 5

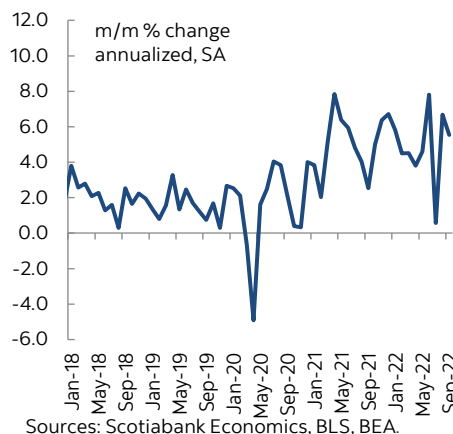
Tracking Q3 GDP by Industry



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

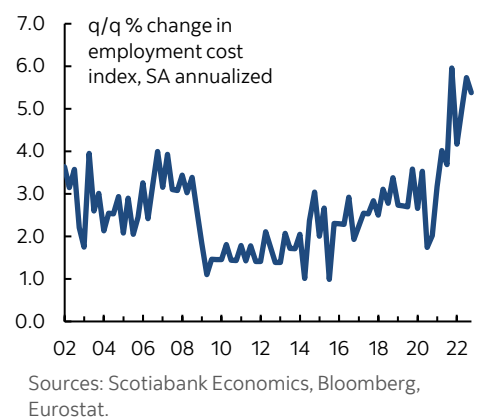
US Core PCE



Sources: Scotiabank Economics, BLS, BEA.

Chart 7

Accelerating US Employment Costs



Sources: Scotiabank Economics, Bloomberg, Eurostat.

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