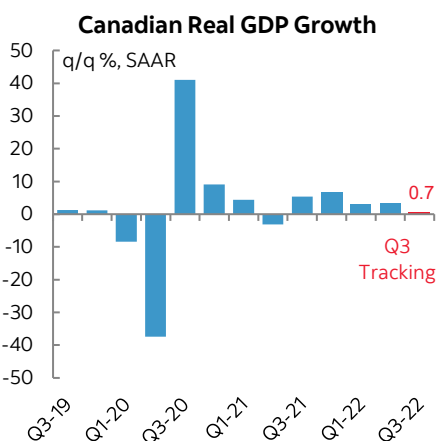


#### Contributors

##### Derek Holt

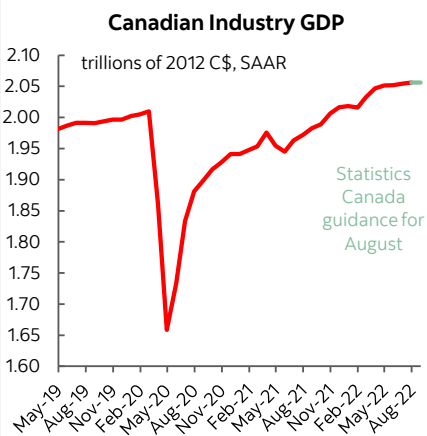
VP & Head of Capital Markets Economics  
Scotiabank Economics  
416.863.7707  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

## Canada's Economy May Be Losing Its Shine, But It's Still Outperforming Many Others

- GDP growth barely stayed in the black in July with little change in August...
- ...with Q3 tracking slightly positive growth...
- ...which itself is a minor miracle after rapid H1 growth...
- ...as Canada remains a relative sweet spot in the global economy

#### Canadian GDP, m/m % change, July, SA:

Actual: +0.1

Scotia: -0.2

Consensus: -0.1

Prior: +0.1

**August guidance:** "essentially unchanged"

It's not exactly cause for breaking out the party hats especially in light of forward-looking risks, but I'll take it for now. Canada's economy is actually doing a wee bit better than expected in Q3 and continues to outperform much of the rest of the world's major economies in 2022. On a highly tentative basis it is tracking low but positive growth instead of a contraction in Q3 and this follows torrid growth rates over H1.

Markets reacted by driving volatility in the currency that is presently weaker than before the 8:30amET releases and that probably had more to do with strong US data than the Canadian side of the picture on a USDCAD basis. US core PCE inflation was revised up in Q2 and initial jobless claims fell below 200k. Canada's 2-year yield is flat on the day and avoiding the sell-off in the US post-data. Either the data doesn't really change much for the BoC and/or in my opinion, front-end participants in Canada are still clinging to the false narrative that slowing growth will bump the BoC off its hike path. As if damaging growth through rate hikes will come as a surprise to the BoC as it seeks to cool still very high inflation.

GDP expanded by 0.1% m/m in July as opposed to the initial 'flash' guidance from Statistics Canada that had pointed to a drop of -0.1% m/m. Guidance for August was left at "essentially unchanged" instead of giving a number. Maybe the agency is growing more concerned about the quality of the initial flash readings and is reticent to provide an actual number, but the verbal guidance could mean anything from a small dip to a small add or downright flat.

That leaves Q3 tracking 0.7% q/q growth at a seasonally adjusted and annualized rate. This is based upon the guidance up to August and assuming that September will be flat simply in order to focus the math upon the effects of what we know so far without skewing the estimates through imposing judgement upon September without any real data to go by yet.

0.7% growth (chart 1). Yippee, nothing to get excited about, right? Fair enough, but bear in mind that the economy grew by 4.2% in Q2 over Q1 using the monthly GDP estimates and by 3.6% in Q1. Growth was 3.1% in Q1 and 3.3% in Q2 using quarterly expenditure-based GDP figures unless revised. After growth powered ahead in H1 it's a minor miracle that the economy isn't posting worse numbers into Q3 on the brought-forward argument.

Canada's economy remains about 2.3% larger than pre-pandemic levels (chart 2). Because the supply-side was damaged at home and abroad, its capacity to produce goods and services took a hit and therefore the combination of a weakened supply side and the rebound in GDP drove the economy into excess aggregate demand.

Still, 0.7% is stall speed, but at least it's not a contraction or at least not by this definition of growth. On that note, however, remember that this is using monthly production/income side GDP accounts that don't do well at capturing inventory and import swings because the figures don't consider *how* higher income was achieved. Quarterly GDP accounts are defined on an expenditure basis and do consider drivers like import leakage effects and inventory swings and that's what the BoC and most of the street focuses upon.

Therefore when the BoC forecast 2% q/q growth in Q3 within the July MPR on an expenditure basis it may be that growth is tracking beneath this by using income side GDP accounts, but we don't have enough trade and inventory information to judge this and those have both been driving big swing effects.

Still, there is upward pressure upon inventory figures as inventory-to-sales ratios increase in sectors like manufacturing and wholesale (charts 3, 4). Retail inventories are quarterly and only up to Q2 so far. There is debate over the extent to which this inventory build is undesired versus desired and on balance I lean more toward the latter. Improving supply chains are making it more possible to re-stock into the holiday shopping season and across the broader economy. Sundry disruptions to supply chains will probably continue to bias firms toward higher inventory buffers given how vulnerable their operations proved to be to various supply chain shocks that left them without product to sell. In my opinion, just-in-time worked for a while in key sectors but has been a disaster in the serial disruptions to supply chains that started with trade frictions after the 2016 US Presidential election and Brexit vote and then built upon themselves when the pandemic arrived and geopolitical frictions intensified.

Breadth was mixed in July with chart 5 showing unweighted growth by sector and chart 6 showing the weighted contributions to GDP growth that take into account the relative importance of each sector. A handful of sectors kept growth in the black. Strong crop conditions are better than those faced in large parts of Europe and the US that are experiencing drought and this was behind the agricultural sector's gains. Higher oil production drove the gain in the mining/quarrying/oil/gas sector that topped the charts. Retail trade was soft

Statcan does not release details behind the August guidance and only flags increases in retail and wholesale trade plus ag/forestry/fishing versus declines in manufacturing and oil and gas extraction off of July's strength.

Chart 5

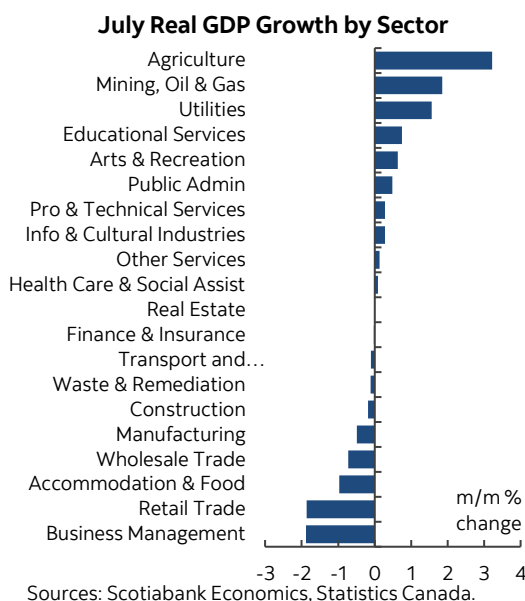


Chart 3

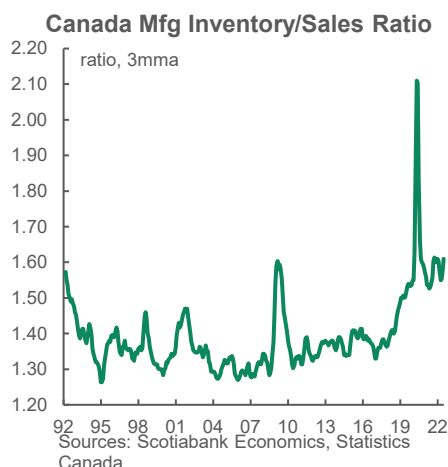


Chart 4

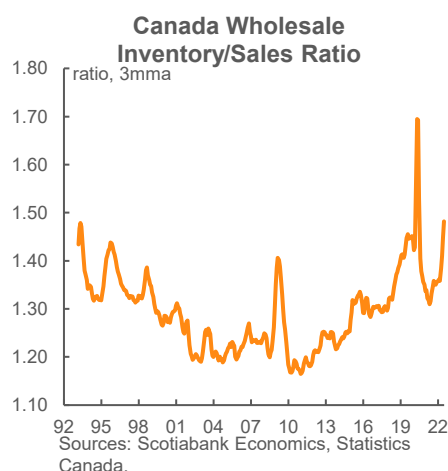
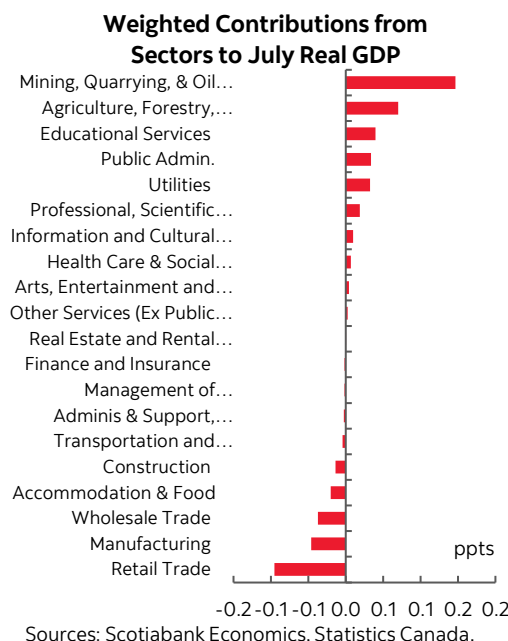


Chart 6



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.