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GLOBAL ECONOMICS

SCOTIA FLASH

August 28, 2026

Canada Has the Fastest Growing Economy in the G7

- **GDP grew by 3.3% with upward revisions and momentum into Q3**
- **Interest sensitives soared which leans hawkishly**
- **Exports are holding up very well despite Trump's trade wars**
- **Multiple readings point to buoyant momentum into Q3**
- **Major projects suggestion: New tech for Statcan!!**

Contributors

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Canadian GDP, Q3, q/q SAAR, %:

Actual: 3.3

Scotia: 4.0

Consensus: 3.4

Prior: 0.3 (revised up from -0.1%)

Canadian GDP, June, m/m SA, %:

Actual: 0.3

Scotia: 0.3

Consensus: 0.2

Prior: 0.3 (unrevised)

July advance estimate: "essentially unchanged" (ie: likely –0.1 to +0.1)

Canada was the fastest growing economy in the G7 during the second quarter of this year and we think there is solid momentum into Q3. Underlying details are impressive including drivers and positive revisions. The broad takeaway is that with the kind of growth we're seeing in the interest sensitive sectors, the last thing that the Bank of Canada would wish to do would be to throw kerosene onto the economy by cutting rates—in fact quite the opposite. That's true even with the US having started a trade war that is frankly having minimal effect to date which is something we continue to expect.

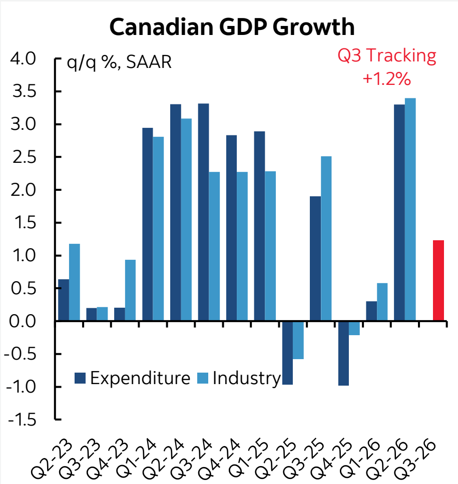
GDP was up by 3.3% q/q at a seasonally adjusted and annualized rate (SAAR). Chart 1. It would have come very close to my 4% estimate if not for upward revisions to Q1. The prior quarter was revised up from -0.1% q/q SAAR to +0.3%. That was still soft but removes the slight negative print and embarrasses the folks who tossed around the 'r' word.

Contributions to Q2 GDP growth are shown in chart 2.

Final domestic demand adds up consumption plus investment plus government spending and hence excludes inventories and net trade. FDD soared by 3.9% for the quickest growth since 2024Q4 (chart 3).

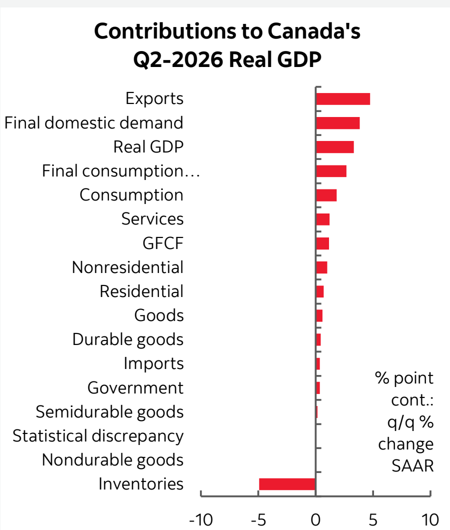
Inventories subtracted a whopping 4.9 percentage points from Q2 GDP after adding roughly 4% to Q1 GDP. You can't just take inventories out since they're connected with other components, but absent at least some of the inventory effect, we would have had an economy perhaps percentage points above the headline GDP number. My patented seesaw model derived from chart 4 has me thinking inventories could swing back to add multiple percentage points to Q3 GDP growth.

Chart 1



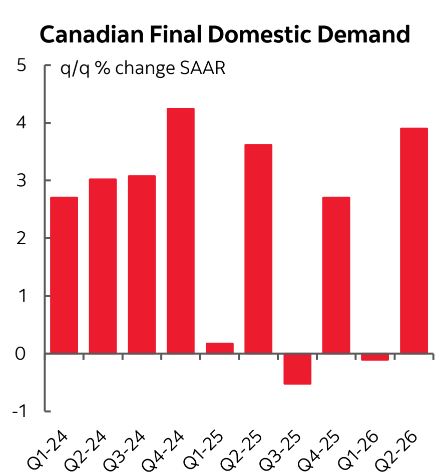
Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics,Statistics Canada.

Consumer spending grew 3.5% q/q SAAR and was revised up in Q1. Chart 5. Consumption by households added a weighted 1.9 ppts to GDP in Q2. There has only been one weak quarter in the past five quarters during which the US started a trade war.

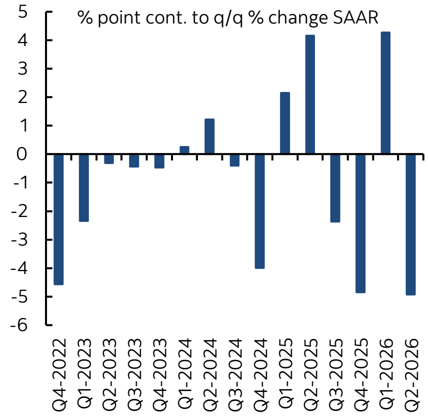
Exports are volatile but holding up. They were up by 15.1% q/q SAAR while imports were up 1.1%. Q4/Q1 into last year brought order front-running ahead of tariffs and then Q2 paid the price, followed by four consecutive gains. Repeat, there have been four consecutive gains in export volumes which covers 2025H2 and 2026H1 during which the US initiated trade war entered the picture (chart 6).

Investment grew by 9.5% q/q SAAR with nonresidential investment up 12.3% and residential/housing investment up 10.4%. These are incredibly strong numbers. The first investment gain in six quarters leads me to be cautious toward thinking that businesses are finally catching on (chart 7). Then again, if >100++ data centers come to fruition (many/most in Alberta) then perhaps it will continue.

Government investment was down again, -11% q/q SAAR in back-to-back declines but they follow a 25% gain in Q4. We're going to keep getting very lumpy data on that line item for years to come as the government's plans for major projects and investment start to flow through. Government consumption, however, was up 3.9% q/q SAAR after –0.1% in Q1.

Chart 4

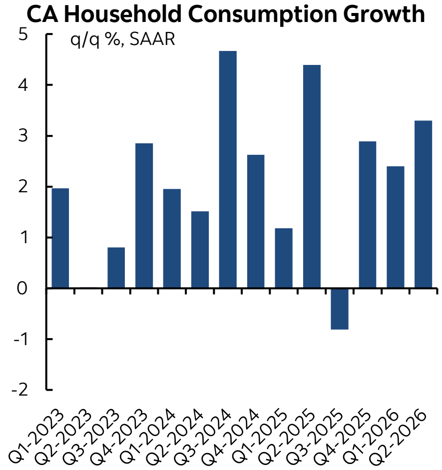
Inventories Contribution to Canadian GDP Growth



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

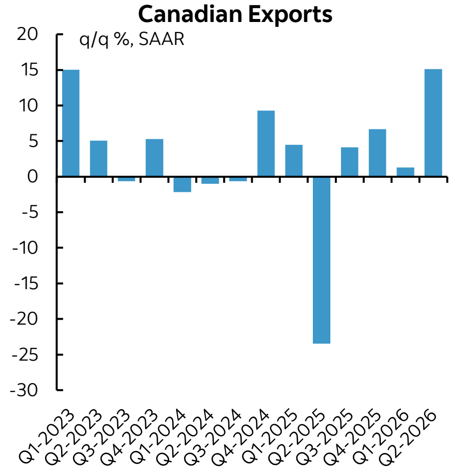
CA Household Consumption Growth



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

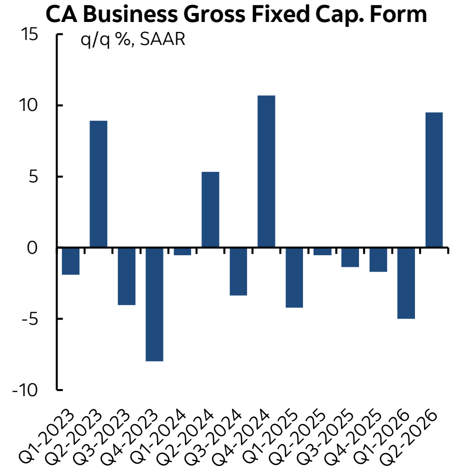
Canadian Exports



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

CA Business Gross Fixed Cap. Form

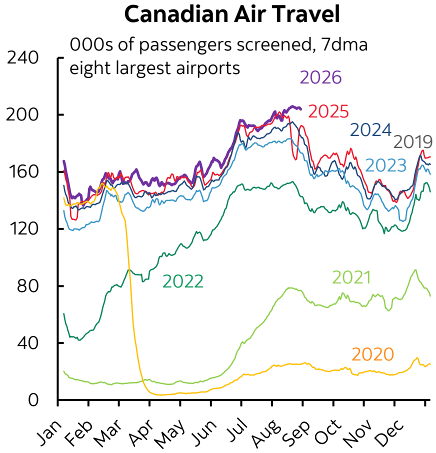


Sources: Scotiabank Economics, Statistics Canada.

There were no details provided for the July guidance in terms of numbers, only vague verbal guidance behind the 'essentially unchanged' remark:

Chart 8

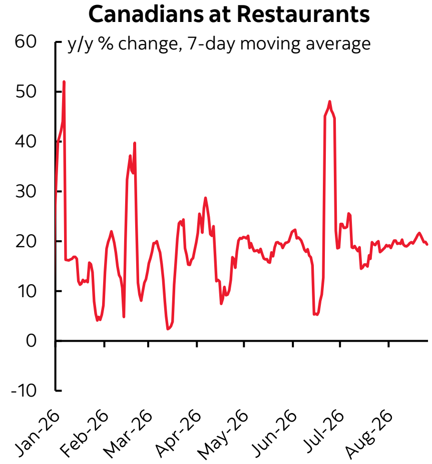
Canadian Air Travel



Sources: Scotiabank Economics, CATSA.

Chart 9

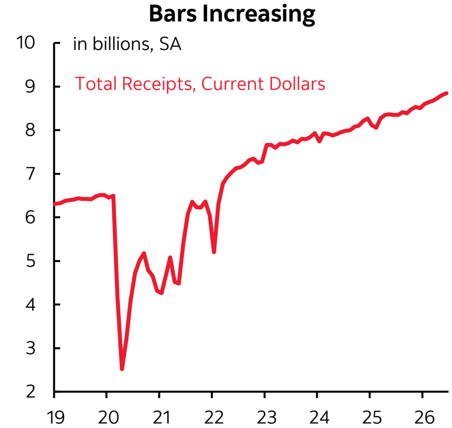
Canadians at Restaurants



Sources: Scotiabank Economics, OpenTable.

Chart 10

Spending on Food Services & Bars Increasing



Sources: Scotiabank Economics, Statistics Canada.

"Increases in real estate and rental and leasing and professional, scientific and technical services were offset by decreases in retail trade and manufacturing. "

What about whether the economy can sustain momentum into Q3? Here are some points behind why I think it very well could:

- While very tentative, Q3 is looking like it is tracking at +1.3% q/q SAAR baked in so far. This is based upon Q2 figures and advance guidance for July while assuming August and September are flat to focus the math on the knowns. In other words, there is ongoing momentum in the economy that could improve or deteriorate over the remainder of the quarter.
- Other readings point to buoyant household sector activity. Chart 8 shows that flights are….erm….soaring. So is activity at restaurants (charts 9, 10).

Last, someone needs to take charge and fix tech at Statcan. The site was down for an extended period starting right off the release.

Now onto Warsh's speech.