

# Cdn GDP: Lazy Days of Summer

Canadian real GDP rose at a 2.0% annual rate in Q2, versus the 2.5% consensus and the Q1 surge of 5.8% (revised down from 6.1%). The moderate advance left GDP levels just 0.1% shy of the pre-recession high (set in 2007 Q4). There was no single big surprise to explain the softer-than-expected result, just a bunch of somewhat sub-par results. Consumer spending was ok, and business investment was robust, but government spending was a tad light, as was housing (see table for details). Final domestic demand—before inventories and trade—rose at a solid 3.5% a.r. Meantime, inventories added nearly 2 percentage points to growth, while net exports reduced GDP by 2.9 percentage points. Prices were also softer than expected, rising at a mild 1.0% a.r., versus an average of +4% in the two prior quarters, while profits dipped after a rapid rebound. Monthly GDP rose 0.2% in June, up from +0.1% in May. Manufacturing and utilities had banner months, while services rose just 0.1%. The June gain gives a decent hand-off to Q3, although we still expect growth to ease to less than 2% in the current quarter, as housing weakens further and capital spending tails off after the Q2 bounce.

	(quarter/quarter % change : s.a.a.r.)			(year/year % change)
	10Q2	10Q1	09Q4	
<b>Real GDP</b>	2.0	5.8	4.9	3.4
<b>Personal Expenditure</b>	2.6	4.3	3.9	3.7
<b>Residential Investment</b>	1.2	21.6	26.3	14.1
<b>Bus. Fixed Investment</b>	14.7	5.0	-9.8	2.4
<b>Business Equipment</b>	29.7	11.3	-8.1	11.8
<b>Non-Residential Structures</b>	1.0	-1.1	-11.4	-6.3
<b>Government</b>	2.0	2.1	9.1	5.7
<b>Exports</b>	6.0	10.7	13.8	10.0
<b>Imports</b>	16.4	13.9	12.4	17.3
<b>Net Exports ('02 \$billions)</b>	-118.1	-103.5	-97.2	
<b>Inventory Change ('02 \$billions)</b>	12.7	5.6	-1.2	
<b>Final Sales</b>	0.2	3.6	5.3	2.4
<b>Chain Price Index</b>	1.0	3.7	4.4	3.2
<b>Nominal GDP</b>	2.9	9.7	9.9	6.7
<b>Before-Tax Corporate Profits</b>	-3.9	39.1	36.8	27.5

**The Bottom Line:** GDP growth simmered down substantially in Q2. However, the breakdown of the quarter produced no major nasty surprises, as slower government spending and housing led the cool-down, and the monthly numbers suggest the economy had some momentum heading into Q3. Looking ahead, what you see here is what we'll get for growth in the second half, with the economy expected to grow at a modest 2% average pace. In that environment, we will cling to the view that the BoC will hike rates one last time next week, and then pause.

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