DATA COMMENTARY · MAY GDP

Canada's economy shakes off weak start with Q2 boom

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THE TAKE

"As growth runs ahead of the Bank of Canada's expectations, recession fears are quickly fading into the rear-view mirror. The key question now is whether momentum can persist as temporary boosts to oil and gas are set to fade."

— THOMPSON RICHARDS · ECONOMIST · SIBLEY CREEK

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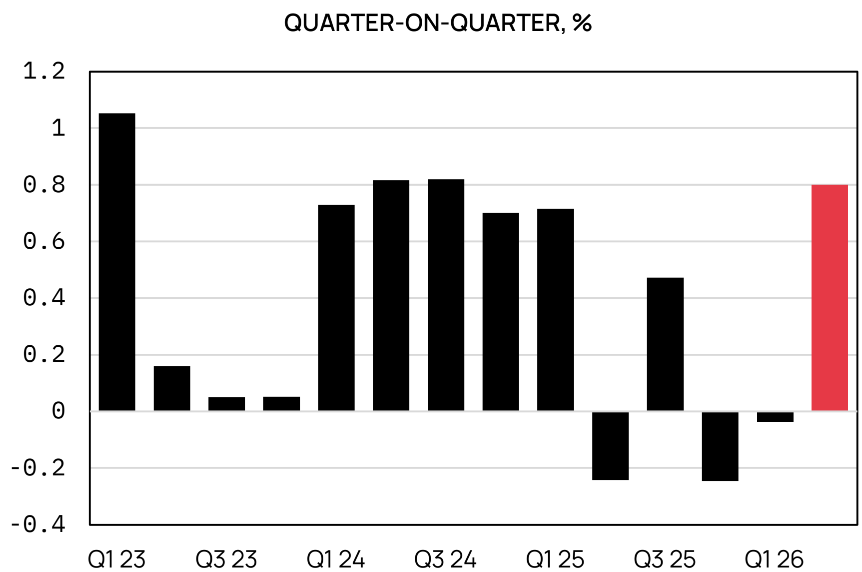
Canada's economy on track to grow 3.2% annualized in Q2

Canada's economy expanded 0.3% in May, beating Statistics Canada's advance estimate of 0.1%, and marking a second consecutive month of growth. Mining, quarrying, and oil and gas led the increase, also for the second straight month. Together with construction, they accounted for nearly half of the total growth in May. Overall, expansion was reasonably broad, with 13 of 20 industries posting gains, including both goods (+0.6%) and services (+0.2%).

StatCan's advance estimate points to a 0.2% GDP increase in the month of June, and a 0.8% gain in the second quarter, annualizing to 3.2%. After a rocky Q1, this marks a stronger rebound than the Bank of Canada had projected, with the Bank forecasting 2.5% annualized growth in Q2.

Fastest quarterly growth in nearly 2 years.



Source: Statistics Canada. Seasonally adjusted. Q2 26 is StatCan's advance estimate.

Growth extends beyond oil and gas

Oil and gas continued to outperform expectations, with gas extraction rising 0.7% and oil sands production up another 1.6%. This can be partially attributed to maintenance work being completed ahead of schedule or deferred. With that being said, we still expect the sector to slow down in the second half of the year.

Growth extended beyond the goods sector. Real estate and rental leasing rose 0.4%, helped by a 5.1% jump in activity at real estate agents and brokers as home resales picked up. Public administration increased 0.6%, partly reflecting activity related to the 2026 census, while finance and insurance and transportation and warehousing each grew 0.3%.

Strong growth shifts risks

For the Bank of Canada, the stronger-than-expected rebound reinforces the case for keeping rates on hold – certainly quashing the case for rate cuts anytime soon. With Q2 growth tracking well above the Bank's forecast, the balance of risks has shifted toward rate hikes, particularly if the stronger pace of growth persists and inflation worsens from here.

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