NATIONAL BANK OF CANADA
CAPITAL MARKETS

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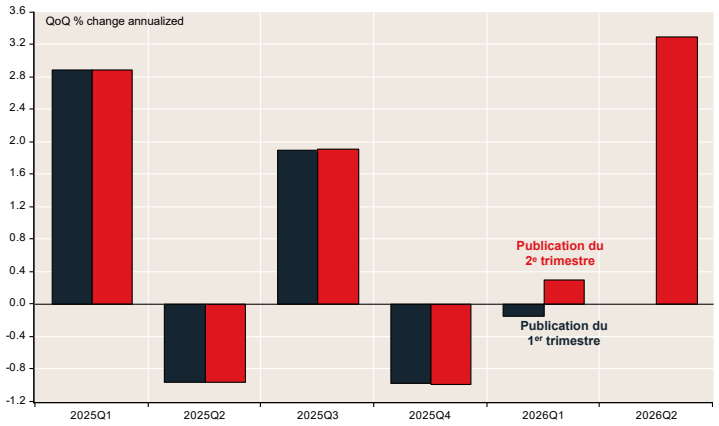
Canada: GDP posts a strong quarter, but fragility persists

By Alexandra Ducharme & Matthieu Arseneau

Highlights:

- Statistics Canada released its GDP estimate for Q2 2026. The economy bounced back strongly in the quarter, as GDP jumped 3.3% annualized, one tick below the consensus forecast. The previous quarter's growth, meanwhile, was revised upwardly by four ticks to 0.3%.
- Domestic demand surged 3.9% in the three months to June (compared to -0.1% in Q1). Household consumption was up 3.3% in the quarter. Residential investments also made a strong gain, increasing 10.4%. Business investment also contributed to the strong performance, with non-residential structures investment increasing 6.5% and machinery and equipment investment gaining 22.6%. Intellectual property was down 2.3%. Government expenditure dragged on growth, as investment fell 11.0% while consumption rose 3.9%.
- Trade had a strong positive impact on GDP, as exports surged (15.1%) while imports edged up (+1.1%). Inventory drawdown occurred during the quarter, a sharp contrast with the strong print registered in the previous quarter, resulting in a strong negative contribution to GDP (-4.9 p.p.).
- Nominal GDP rose 13.8% on an annualized basis following a 5.5% gain in Q1. Also in nominal terms, disposable income rose an annualized 8.8%, boosted by government transfers. Household consumption, meanwhile, rose 6.9% annualized, up from 4.5% in the previous quarter. As a result, the savings rate rose from 3.3% to 3.7%.
- Industry data showed that output was up 0.3% in June, above consensus expectations (+0.2%). Statistics Canada also released an advance estimate for July showing flat growth.

Canada: The technical recession disappears
Quarterly growth in real GDP, before and after revisions



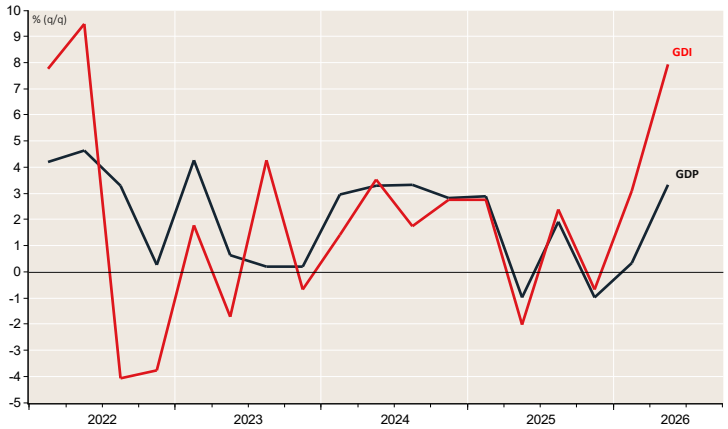
NBC Economics and Strategy (data via Statistics Canada)

As expected, Canadian GDP rebounded in the second quarter of 2026, growing 3.3% on an annualized basis, the fastest increase since the third quarter of 2024. This jump follows a weak growth sequence that had ignited talks about a technical recession. We had already expressed our reservations about this characterization, particularly because it does not account for potential GDP growth, which is currently under downward pressure from the contraction in the population. Today's GDP report confirms that it was premature to talk about a recession, especially as first-quarter growth was revised back into positive territory (top chart).

International trade was the main driver of growth during the quarter, but corporations seem to have drawn on their inventories to meet demand rather than increase production as shown by the inventory contribution more than offsetting trade's. Private domestic demand registered very healthy growth in the quarter thanks to strong consumption. The spring's unusually busy cultural calendar, most notably the FIFA World Cup, might have also provided a temporary boost to activity. Not only did consumers turn out in force, but businesses also demonstrated strong confidence by increasing their investments with profits reaching their highest level on record.

We do not expect the Bank of Canada to react to the Q2 growth rebound (2.5% estimated in the MPR). The quarter was boosted by temporary factors, including the conflict in the Middle East, which helped lift gross domestic income (GDI)—a measure of the purchasing power generated by domestic production—by the most since 2022 (bottom chart). That boost could fade quickly if conditions in the Strait of Hormuz normalize. More importantly, the economy remains in excess supply. That assessment is reinforced by the core personal consumption expenditure deflator, which rose just 2.0% during the quarter, consistent with stable underlying CPI inflation and suggesting that higher oil prices have yet to spill over into broader price pressures. Against that backdrop, the Bank of Canada can afford to remain patient, particularly given the renewed escalation in trade tensions with the United States.

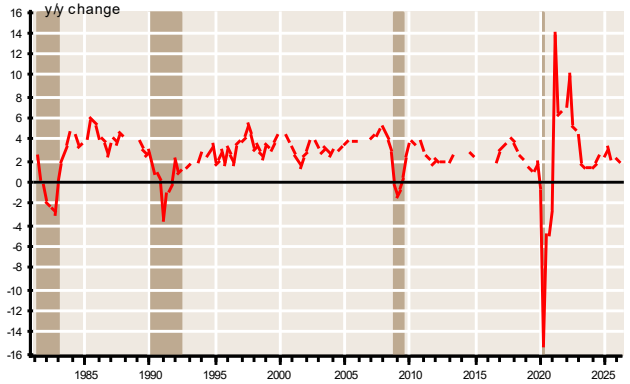
Canada: Gross domestic income jumps by most since 2022
Real GDP and real GDI growth



NBC Economics and Strategy (data via Statistics Canada)

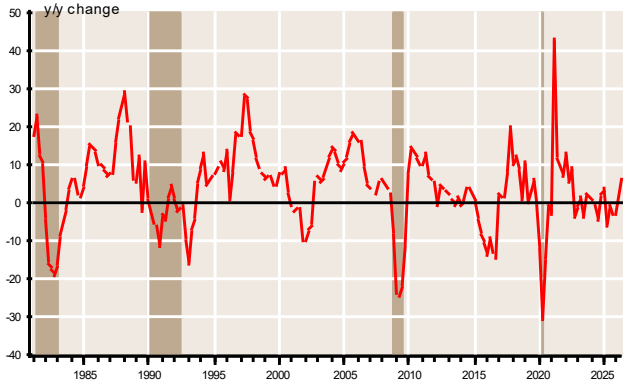
Consumption

Real consumer expenditures



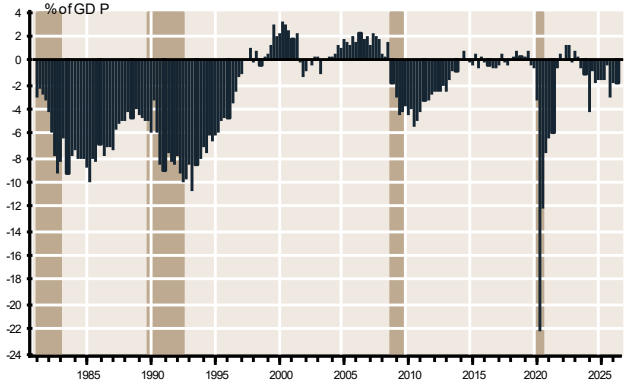
Business Investment

Real investment in machinery and equipment



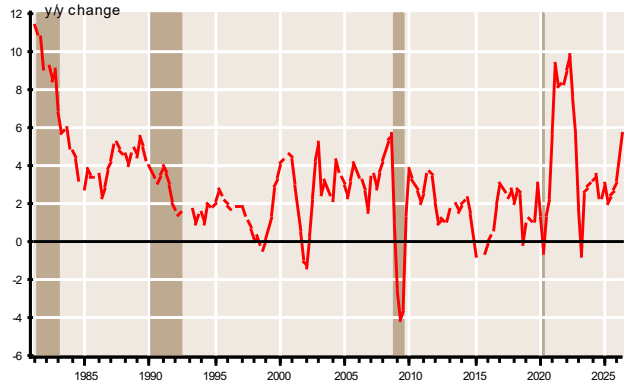
Government

Net lending as a share of GDP



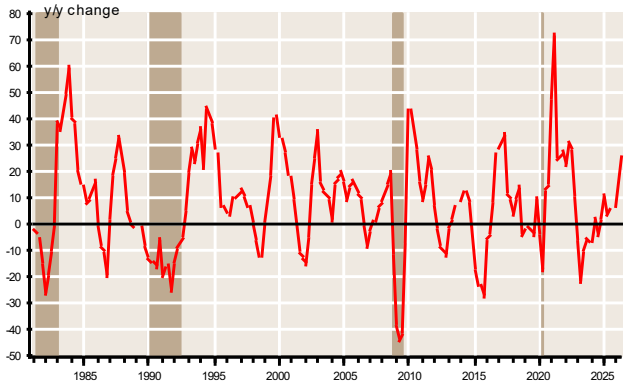
Inflation

GDP deflator (chain-weighted)



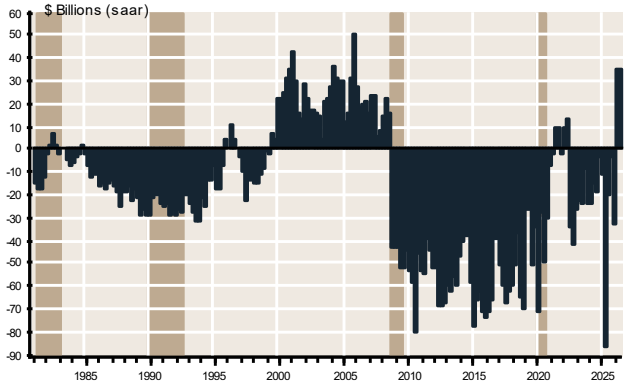
Profits

Corporate profits before tax



Current account

Balance on the current account



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