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THE CHIEF  
ECONOMIST

# QUARTERLY ECONOMIC AND TRADE REPORT

## Q2 2024

# SECOND QUARTER 2024

	% change, Q2 2024 vs Q1 2024	% change, YTD 2024
<b>Global real GDP*</b>	2.8	2.7
<b>Global merchandise trade volume</b>	1.0	0.9
<b>Canadian real GDP*</b>	2.1	0.7
<b>Canadian exports (goods &amp; services)</b>	1.0	1.7
<b>Canadian imports (goods &amp; services)</b>	1.4	1.8

Notes: \*GDP is quarterly changes at annualized rates. YTD is year-to-date; it compares the data available for the current year to the same quarters of the previous year.

Source: Oxford Economics, Netherland Bureau for Economic Analysis, Statistics Canada.

## HIGHLIGHTS

- The global economy continued to expand, growing 2.8% in Q2 2024, slightly higher than the previous quarter (2.7%). Growth in advanced economies picked up, growing 2.0% in Q2 2024, compared with 1.3% in Q1 2024, as the U.S. experienced stronger-than-expected growth, the UK continued to expand, and Japan's growth turned positive. World merchandise trade volumes accelerated in Q2 2024, increasing 1.0%.
- Canada's real GDP growth accelerated to 2.1% (annualized) in Q2 from 1.8% in Q1, mainly supported by government spending, business investment and household spending on services, while net trade weakened, and residential investment fell. Economic growth was widespread in Canada, with 15 out of 20 industries growing, particularly services-producing industries.
- On the trade front, Canada's exports of goods and services increased 1.0% with goods growing 0.9% and services growing 1.5%. Imports of goods and services grew slightly faster at 1.4%.
- With price pressures easing, the Bank of Canada announced another 25-basis point cut to the policy rate on September 4, bringing it down to 4.25%. The Bank of Canada reiterated that it is "reasonable to expect further cuts" if the expectations of a gradually weakening economy and downward pressure on inflation are confirmed in the data.

# IN Q2, ADVANCED ECONOMIES STRENGTHEN, WHILE EMERGING ECONOMIES SLOW DOWN

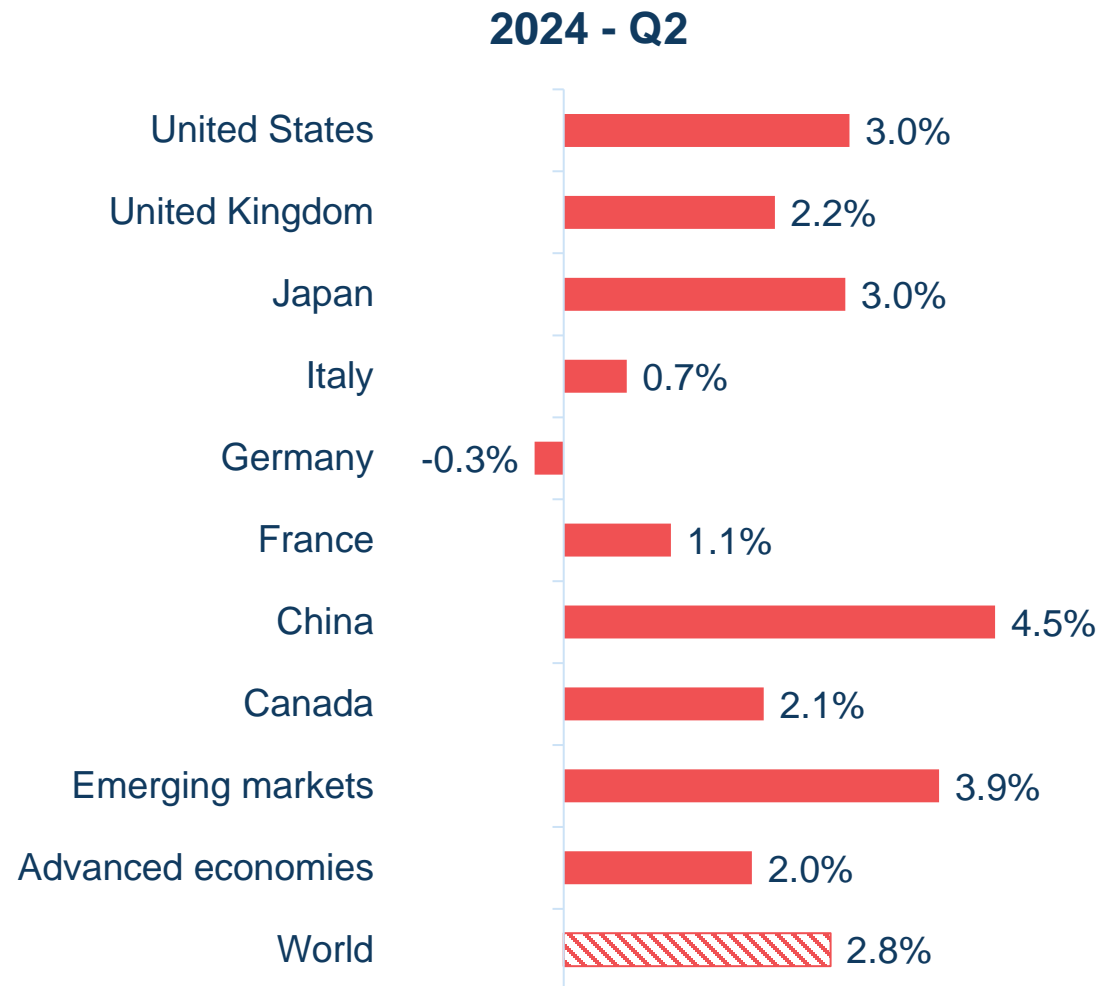
The global economy grew at an annual rate of 2.8% Q2 2024, slightly faster than Q1 (2.7%). Advanced economies picked up the pace and grew by 2.0%, compared with 1.3% in Q1 2024, while emerging markets' growth decelerated to 3.9% from 4.6%.

U.S. GDP grew 3.0% in Q2 on an annualized basis (following 1.4% in Q1 2024), as business equipment spending was stronger than previously anticipated and consumer spending exceeded expectations. Although the unemployment rate has been rising in recent months (4.3% as of July 2024), analysis by Oxford Economics suggests this is due to new entrants to the workforce, driven by higher immigration, and not due to layoffs.

In line with previous forecasts, China's economy decelerated in Q2 2024 to 4.5% on an annualized basis, after posting a 7.6% growth in Q1 2024. The fiscal stimulus measures introduced by the government failed to achieve their objectives, and although goods exports rose sharply, consumer spending remained weak.

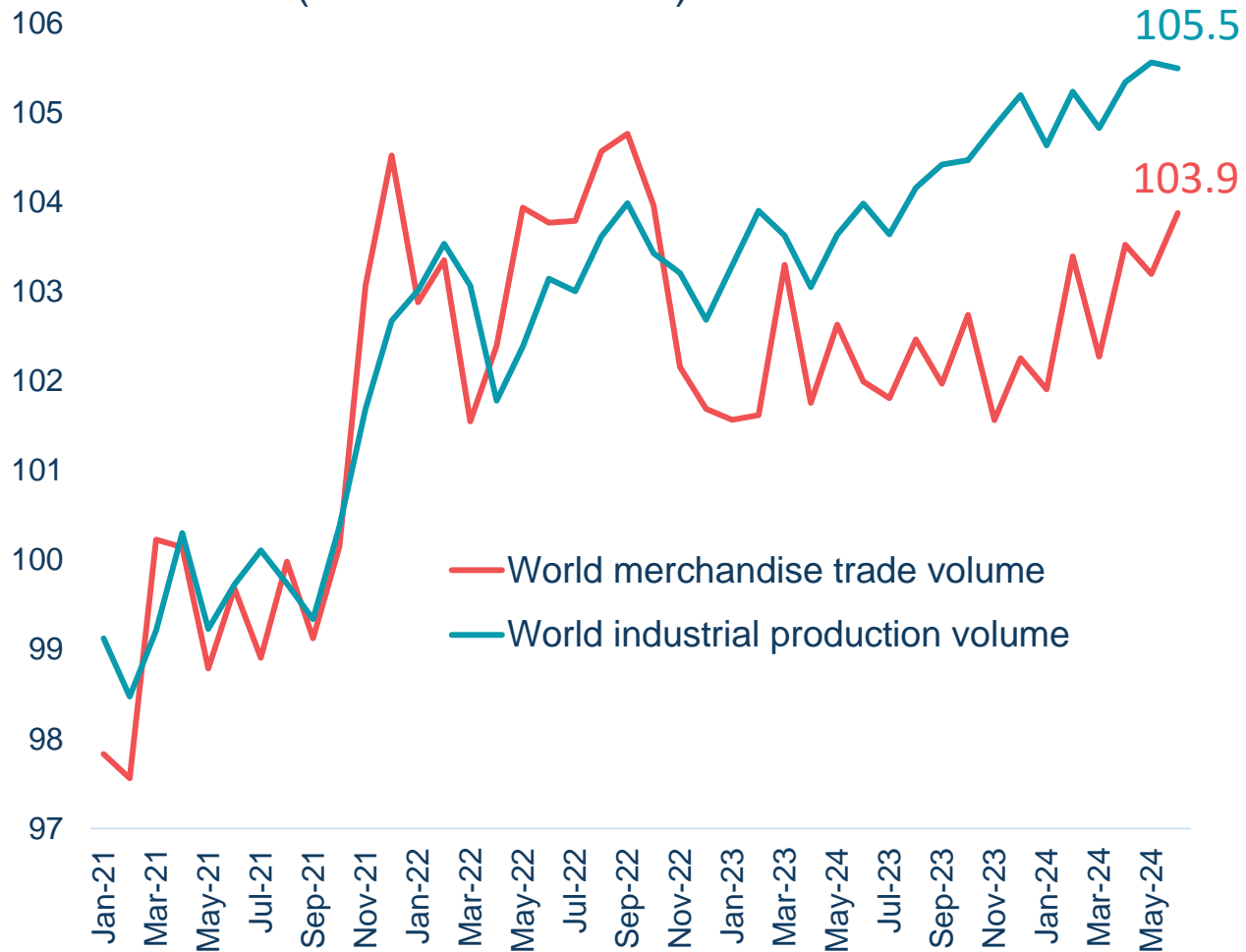
The eurozone expanded 1.0% in Q2 2024 on an annualized basis. While net trade drove Spain's 3.3% growth, Germany's economy shrank by 0.3%. This is the third quarterly drop in GDP for Germany in the last six quarters. In France and Italy, GDP grew marginally, boosted by net trade in France and domestic consumption and services in Italy. In the UK, the economy posted a 2.2% expansion on an annual basis in Q2.

## Real GDP growth, top economies (quarterly % change, annualized)



Sources: Oxford Economics, retrieved on 2024-08-12; Statistics Canada and Bureau of Economic Analysis, retrieved on 2024-08-30.

## World merchandise trade and industrial production volume (Index 2021 = 100)



Source: Netherland Bureau for Economic Analysis, retrieved on 2024-08-23.

## WORLD TRADE VOLUMES ACCELERATE IN Q2 2024

World merchandise trade volumes rose 1.0% in Q2 2024, the strongest quarter since Q3 2022. During Q2, exports increased by 0.8%, while imports expanded by 1.2%.

Emerging economies drove the rise in export volumes in Q2, increasing 2.1%, while exports from advanced economies edged down 0.1%. Among emerging economies, China led with a 4.0% increase in export volumes. Increased volumes were driven by tech-related products (chips, computers) and transportation equipment (auto, ships). Export volumes from Latin America rose 1.2% after a decline in the previous quarter.

Imports by advanced economies grew 1.4%, surpassing the global average. With its economy booming, the UK saw a 10.4% jump in its imports, and they advanced 3.2% for Japan. Emerging economies' imports rose 0.9%, led by China (+1.4%), while Eastern Europe and Latin America each posted a 2.7% increase.

World industrial production rose 0.5% in Q2, with almost equal contributions from advanced (+0.6%) and emerging (+0.5%) economies. In Q2, industrial production in the U.S. rose 0.9%, led by equipment spending, and Japan also increased its industrial production by 0.9%. Growth in emerging markets was led by emerging Asia excluding China (+1.6%), Eastern Europe (+1.4%) and Latin America (+1.2%).

# GLOBAL ECONOMIC GROWTH REMAINS STABLE IN THE MEDIUM TERM

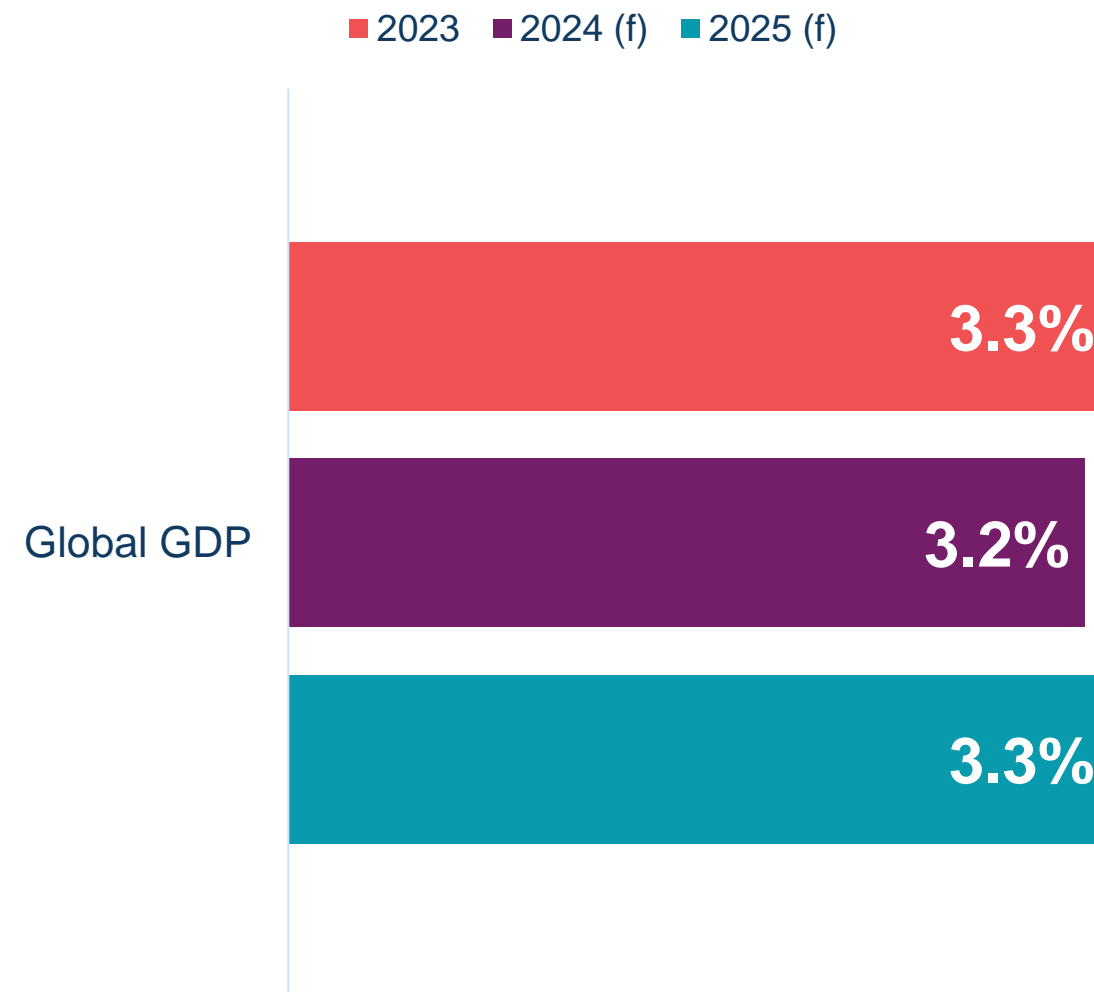
In 2023, the IMF estimates that global growth reached 3.3%. The IMF lowered its forecast slightly for 2024 by 0.1 percentage points (p.p.), to 3.2%, based on upward revisions to commodity prices, sticky energy prices and lower but still present price pressures from the Middle East conflict. The global forecast for 2025 remains at 3.3%.

Growth in advanced economies is expected to reach 1.7% in 2024 and 1.8% in 2025. The U.S. experienced a softer start to the year in Q1, and the IMF forecasts a 1.9% expansion in 2025, as the labour market cools and consumption moderates, with a gradual tightening of fiscal policy.

For 2024, the IMF expects a modest 0.9% recovery in the euro area, driven by services and higher net exports, while expectations for Japan were revised down by 0.2 p.p. to 0.7% on weak private investment.

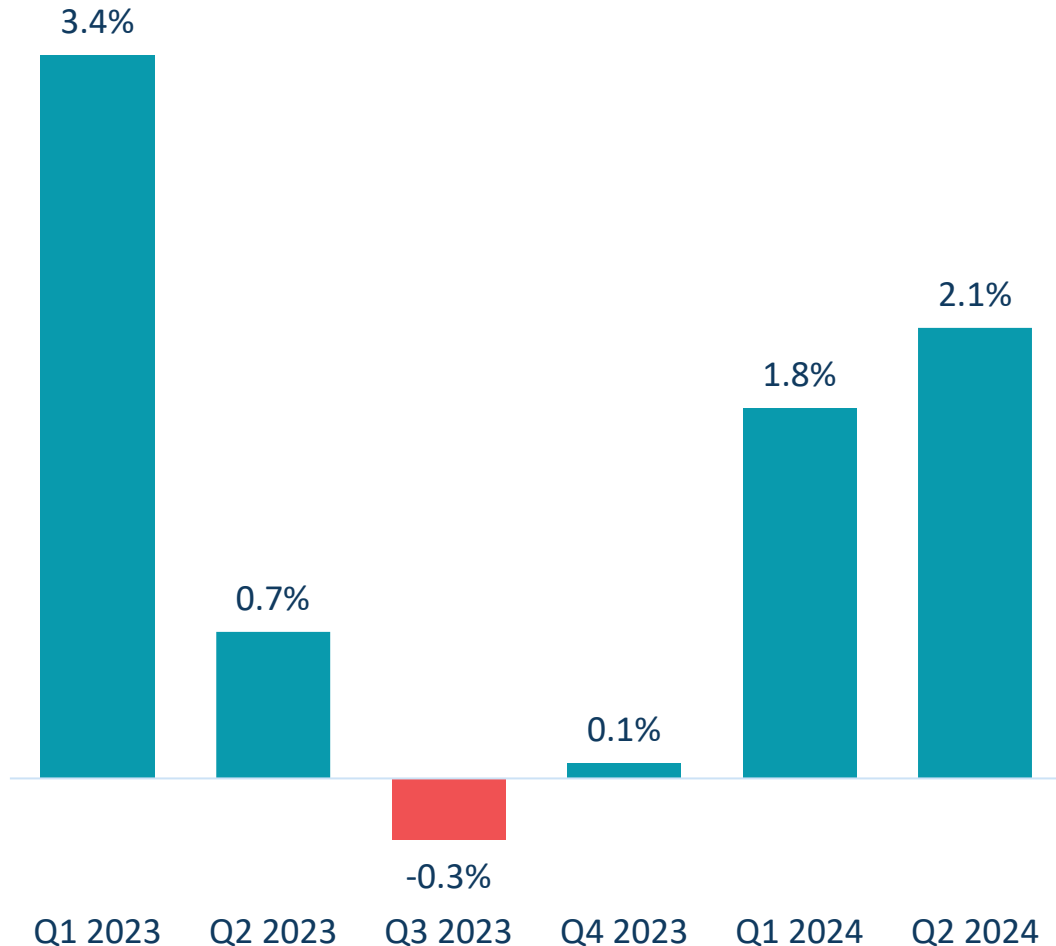
Growth forecasts for emerging and developing economies is expected to reach 4.3%, spurred by stronger activity in China and India. In China, exports rebounded in Q1 2024, and GDP forecast has been revised up and should reach 5.0% in 2024. Growth should hit 7.0% in India, as private consumption increases, particularly in rural areas.

## Global forecasted GDP growth (annual % change)



Source: IMF WEO, July 2024, retrieved on 2024-08-12.

## Real Canadian GDP growth (quarterly % change, annualized)



## ECONOMIC ACTIVITY MAINTAINS MOMENTUM IN Q2 2024

Canada's real GDP grew 2.1% (annualized) in Q2 2024, after rising 1.8% in Q1 2024. Business investment, higher government expenditures, and household spending on services contributed to the increase in GDP in Q2 2024, offset by declines in net trade, residential investment and household spending on goods.

Government spending was the largest contributor to growth in Q2 (79.1% contribution) due to higher compensation and purchases of goods and services. Business spending on machinery and equipment rose 28.8% in Q2, led by higher spending on aircraft and other transportation equipment and parts. Business investment in non-residential structures increased 2.0% due to higher spending on engineering structures, mainly in the oil and gas sector.

On the other hand, with goods and services exports (-1.8%) declining faster than imports (-0.5%), net trade contributed negatively to GDP growth in Q2. A few goods led to lower exports: unwrought gold, silver and platinum group metals, passenger cars and light trucks and refined petroleum energy. The drops were moderated by higher exports of crude oil which got a boost thanks to the opening of the Trans Mountain expansion in May.

Growth in household spending moderated in Q2 2024, rising 0.6% after increasing 3.6% in the first quarter. Residential investment was down 7.3%, the largest decline since Q1 2023, driven by lower investment in new construction.

## GROWTH BY INDUSTRY WAS BROAD-BASED IN Q2

Real GDP by industry rose 0.5% (2.2%\* annualized) in Q2 2024. Growth was broad-based with 15 industries contributing positively to the quarter.

On the services sides, educational services grew the fastest in Q2 at 2.0%. Public sectors, which include educational services, health care and social assistance and public administration, were the largest contributor to growth for a second consecutive quarter. Other major contributor from services-producing industries include transportation and warehousing due to increased urban transit ridership and expanded Trans Mountain pipeline capacity. Furthermore, finance and insurance industry also made major contribution as the Bank of Canada's decision to cut its policy rate in June contributed to higher activity in financial markets.

On the goods-producing side, mining, quarrying, and oil and gas extraction rose 2.5% in Q2 2024 reflecting higher activity in oil sands extraction. However, construction sector dampened growth due to weakness in residential construction. The manufacturing sector also declined for the fourth consecutive quarters with transportation equipment manufacturing being one of the largest contributor to the contraction.

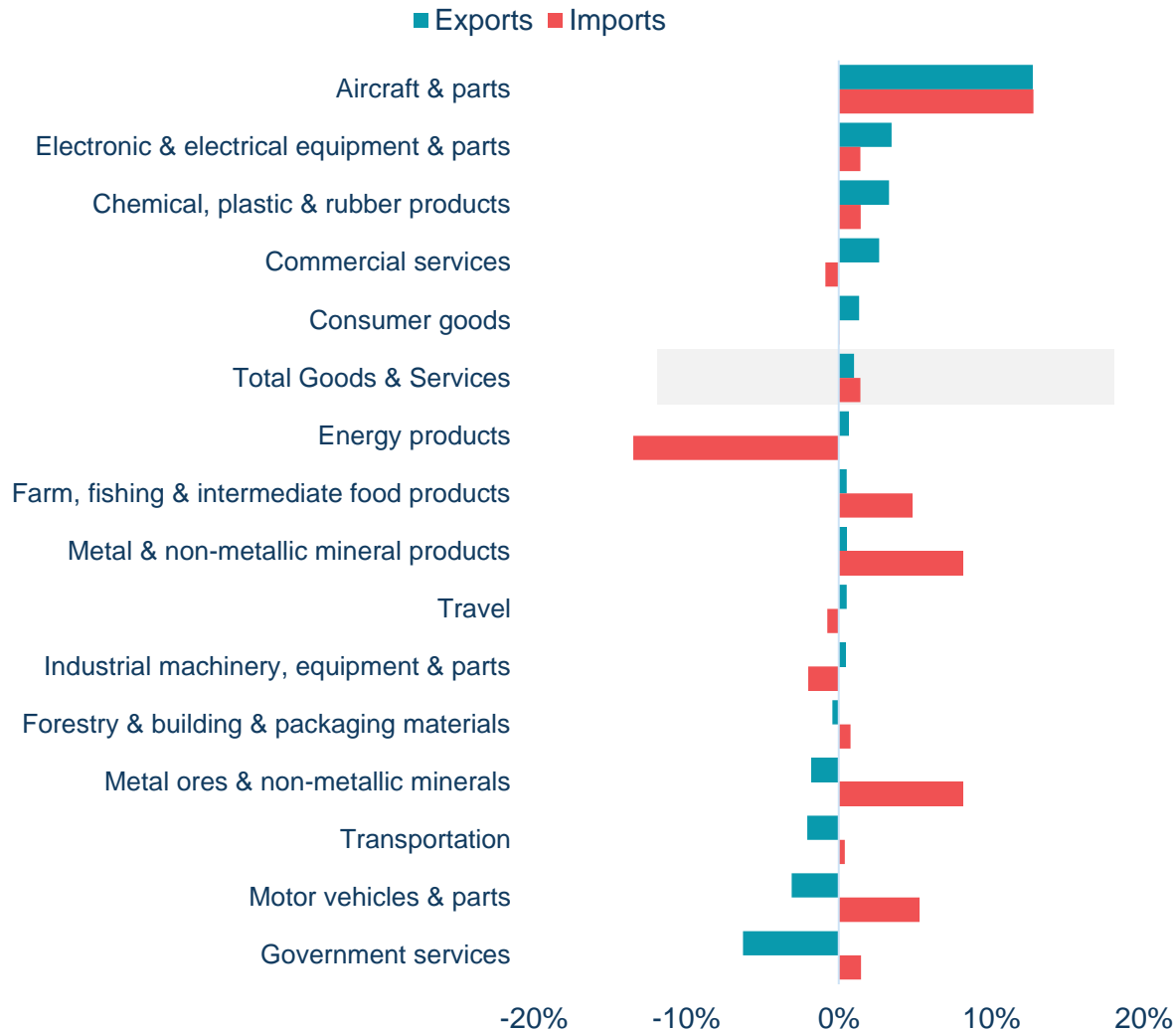
\*GDP by industry can differ slightly from GDP by expenditure in the last slide.

## Canada's GDP at basic prices by industry for Q2 (Quarterly % change)



Source: Statistics Canada Table 36-10-0449-01. Retrieved on 2024-08-30.

## Canada's international trade by product (Q2 2024, quarterly % change)



Sources: Statistics Canada Table 36-10-0019-01 & Table 36-10-0021-01.  
Balance of payments basis, seasonally adjusted. Retrieved on 2024-08-30.

## MODEST GROWTH FOR EXPORTS IN Q2

The value of goods and services exports increased 1.0% in Q2 2024, with the growth in goods exports driven mainly by higher exports of aircraft (+12.7%) and the growth in services exports mainly on the strength of commercial services (+2.6%).

On the other hand, exports of motor vehicles and parts dropped for a third consecutive quarter, as several manufacturing plants in Canada entered a transition phase where the assembly lines are retooled to produce new vehicle models. Additionally, there was also the cessation of production at an Ontario motor vehicle assembly plant.

The value of goods and services imports grew 1.4% in Q2 2024 as goods grew 2.0% while services fell 0.6%. Imports of motor vehicles and parts (+5.3%) drove the increase, on the strength of passenger cars and light trucks. Elsewhere, higher imports of gold also contributed to the increase.

Services imports were down in the quarter due to declines in commercial services (-0.9%) and travel services (-0.8%). The weakness in commercial services was due mainly to lower imports of computer services as well as scientific and technical services.



## GROWTH IN EXPORTS TO THE U.S. AND CHINA IN Q2

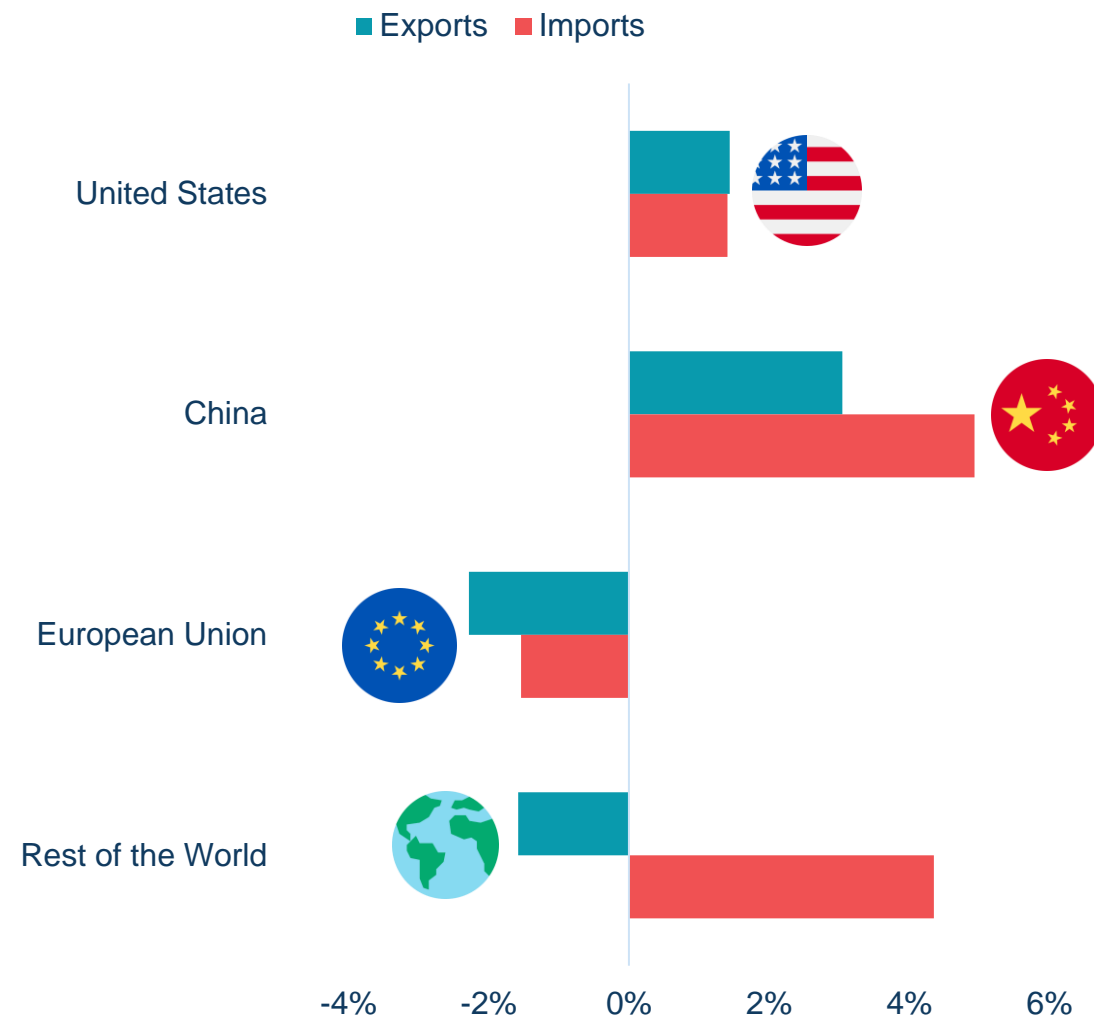
The goods trade surplus with the U.S. increased slightly in Q2, as growth in goods exports (+1.4%) slightly outpaced goods imports (+1.4%). The growth in exports came despite weaknesses in one of Canada's top exports to this country - motor vehicles and parts. On the other hand, growth in imports of motor vehicles and parts from the U.S. surged.

Growth in exports to China lagged growth in imports. There was notable growth in imports of various products from China in June.

Both goods exports and imports with the European Union declined in Q2. Of note, there was a notable decrease in imports of various products from Germany in May as the German economy struggled.

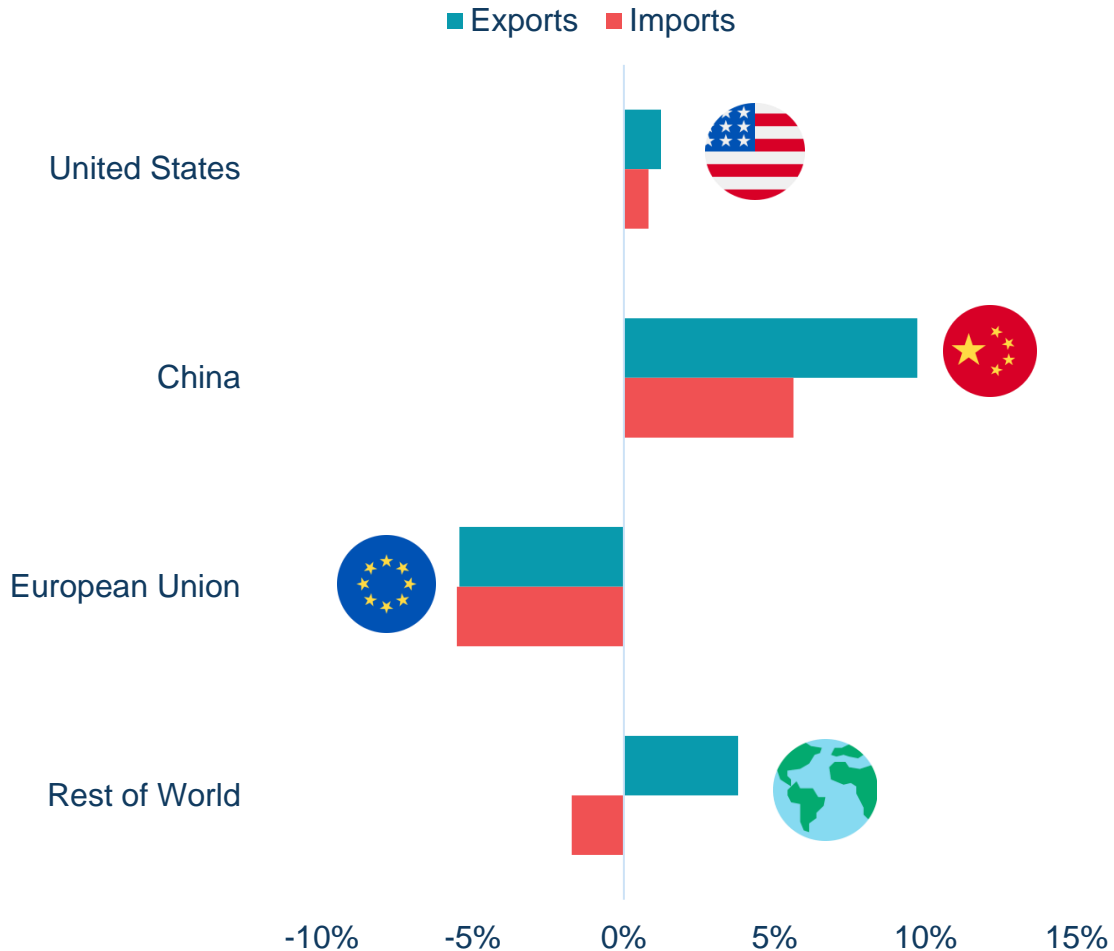
Goods exports to the rest of the world decreased 1.6% in Q2. Notably, there was high monthly volatility in exports of gold, mainly to the United Kingdom. Meanwhile, imports from the rest of the world increased 4.4%. Of note in May, there was large growth in imports of gold for refining from several countries, including Brazil, Mauritania, Chile and Guyana and copper ores and concentrates from Chile.

### Canada's goods trade, by major trading partner (Q2 2024, quarterly % change)



Source: Statistics Canada, Table 36-10-0023-01, balance of payments basis, seasonally adjusted. Retrieved on 2024-08-30. European Union does not include the United Kingdom. 9

## Canada's services trade, by major trading partner (Q2 2024, quarterly % change)



Source: Statistics Canada Table 12-10-0157-01, balance of payments basis, seasonally adjusted. European Union does not include the United Kingdom.

## SERVICES TRADE WITH THE U.S. WITNESSED GROWTH IN Q2

Services exports to the U.S. edged up 1.2% in Q2 2024, outpacing imports which grew 0.8%. As a result, the services trade deficit with the U.S. narrowed slightly. The number of U.S. residents visiting Canada grew 5.9% and the number of Canadian visitors in the U.S. grew 0.9%, supporting travel services trade between the two countries.

Else where, services exports to China grew 9.7% and to the rest of the world grew 3.8%. Services exports to the European Union (-5.4%) impaired the overall growth.

Meanwhile, there was less services imports from the European Union (-5.5%) and the rest of the world (-1.7%) but services imports from China grew 5.6%.

Visitors from countries other than the U.S. grew 3.8% in Q2, supporting travel services exports. Meanwhile, Canadians visiting countries other than the U.S. decreased 5.1%, dampening travel services imports from these countries.

# THE CANADIAN ECONOMY IS IN EXCESS SUPPLY WHICH SHOULD CONTINUE TO TEMPER INFLATION

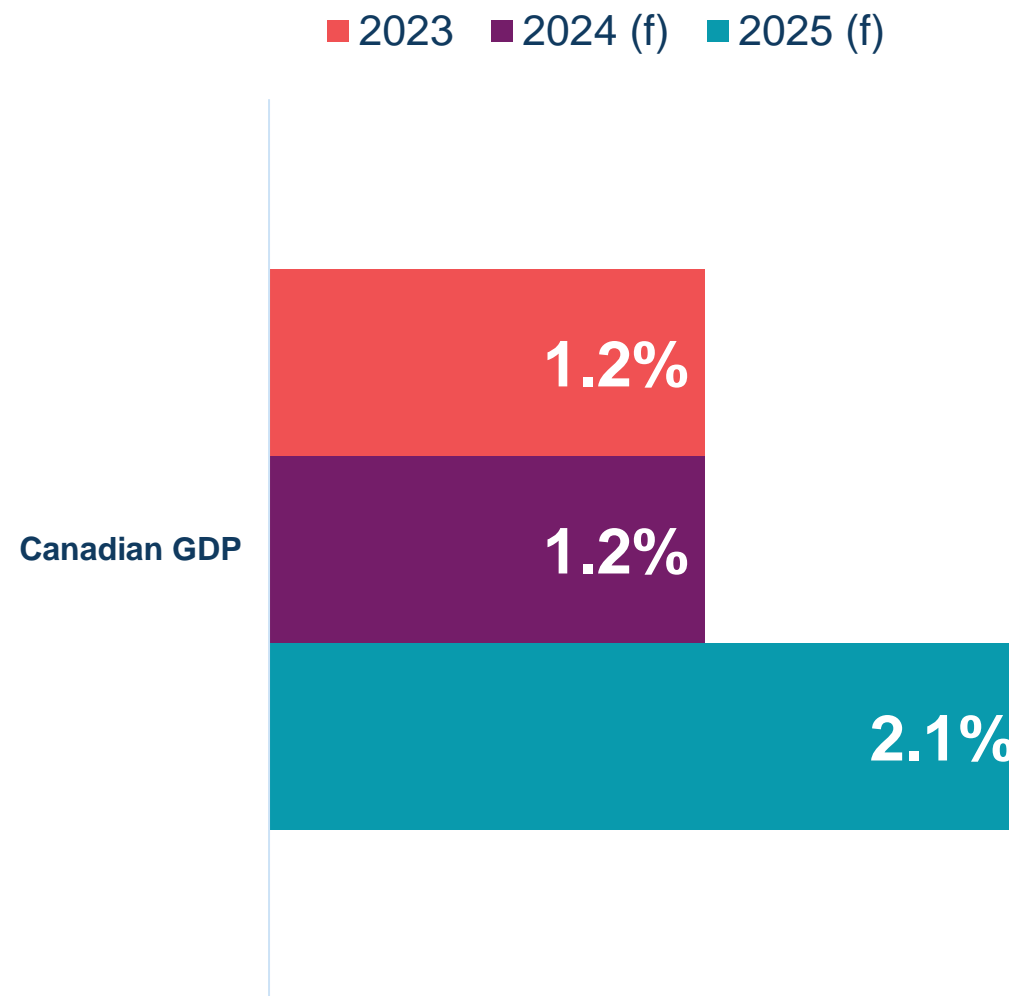
In its July Monetary Policy Report, the Bank of Canada revised its forecast for 2024 Canadian GDP down 0.3 percentage points to 1.2%. The outlook for 2025 (2.1%) is in line with previous estimates (2.2%). However, the forecast was completed before strong Q2 results were published.

General inflationary pressures have eased, and the consumer price index (CPI) has come down from 3.4% in December 2023 to 2.7% in June 2024, moving closer to the 2% target. The economy has shifted from excess demand to excess supply, contributing to the deceleration of prices.

After a period of overheating, the labour market stabilized with the unemployment rate at 6.4% in June 2024. However, the rate has started to rise among youth ages 15-19. Household spending moderated as a higher proportion of income is allocated to debt servicing, but economic growth is set to increase as interest rates gradually ease through 2025 and both household and business confidence rise.

In 2025, household spending should strengthen further as borrowing costs fall. Population growth is expected to slow due to new limits on the inflow of temporary residents, and excess supply will slowly be absorbed.

## Canadian forecasted GDP growth (annual % change)



f: forecast

Source: Bank of Canada, Monetary Policy Report, July 2024.

**Table 1: Canadian trade by industry sector**  
(\$ millions)

	Exports			Imports		
	Q2 – 2024	Q/Q %	Y/Y %	Q2 – 2024	Q/Q %	Y/Y %
<b>Goods</b>	<b>193,882</b>	<b>0.9%</b>	<b>3.3%</b>	<b>196,069</b>	<b>2.0%</b>	<b>1.4%</b>
<b>Resource products</b>	<b>113,017</b>	<b>0.6%</b>	<b>6.7%</b>	<b>61,861</b>	<b>1.3%</b>	<b>-1.0%</b>
Energy products	44,648	0.7%	13.2%	9,217	-13.5%	-10.5%
<b>Non-resource products</b>	<b>75,489</b>	<b>1.1%</b>	<b>-1.3%</b>	<b>126,763</b>	<b>2.1%</b>	<b>2.4%</b>
Industrial machinery & equipment	12,590	0.4%	-1.6%	22,150	-2.0%	-0.3%
Electronic machinery & equipment	8,627	3.5%	4.4%	21,927	1.4%	0.3%
Motor vehicles and parts	23,933	-3.1%	-7.8%	36,964	5.3%	4.9%
Aircraft & other transportation equipment	8,207	12.7%	5.3%	7,378	12.8%	1.8%
Consumer goods	22,132	1.3%	2.2%	38,344	0.0%	2.8%
<b>Services</b>	<b>51,043</b>	<b>1.5%</b>	<b>3.5%</b>	<b>54,266</b>	<b>-0.6%</b>	<b>5.5%</b>
Travel	13,125	0.5%	-0.4%	14,579	-0.8%	13.5%
Transportation	4,962	-2.1%	1.5%	9,058	0.4%	2.9%
Commercial	32,553	2.6%	5.6%	30,140	-0.9%	2.8%
Government	403	-6.3%	-10.6%	489	1.5%	4.3%
<b>Total Goods and Services</b>	<b>244,925</b>	<b>1.0%</b>	<b>3.4%</b>	<b>250,335</b>	<b>1.4%</b>	<b>2.3%</b>

Note: "Q/Q %" is the change from the previous quarter; "Y/Y %" is year-over-year change.

Sources: Statistics Canada Table 36-10-0019-01 & 36-10-0021-01. Balance of payments basis, seasonally adjusted.

**Table 2: Canadian goods trade by trading partner**  
(\$ millions)

	Exports			Imports		
	Q2 – 2024	Q/Q %	Y/Y %	Q2 – 2024	Q/Q %	Y/Y %
United States	148,210	1.4%	2.3%	122,897	1.4%	1.4%
Mexico	2,346	0.3%	-3.4%	7,559	8.4%	7.7%
European Union	7,918	-2.3%	-11.3%	17,873	-1.5%	-5.4%
France	1,069	-6.1%	-7.4%	1,591	0.6%	2.6%
Germany	1,372	-14.5%	-20.7%	5,112	6.4%	-6.5%
United Kingdom	7,087	11.3%	145.6%	2,348	-7.7%	-26.2%
Indo-Pacific	17,638	-4.8%	-1.7%	28,633	4.4%	7.7%
China	7,447	3.0%	7.3%	15,888	4.9%	3.3%
Japan	3,901	1.9%	-3.5%	3,928	-4.4%	6.2%
South Korea	1,816	-13.1%	-9.3%	3,973	14.8%	58.2%
India	1,340	-12.8%	-9.9%	1,535	5.7%	8.3%
Rest of the world	10,683	-0.9%	1.3%	16,759	5.0%	2.1%
<b>Total Goods Trade</b>	<b>193,882</b>	<b>0.9%</b>	<b>3.3%</b>	<b>196,069</b>	<b>2.0%</b>	<b>1.4%</b>

Note: The Indo-Pacific region total includes only the 9 markets for which data are available. “Q/Q %” is the change from the previous quarter; “Y/Y %” is year-over-year change.  
Source: Statistics Canada, Table 36-10-0023-01. Balance of payments basis, seasonally unadjusted.

**Table 3: Canadian services trade by trading partner**  
(\$ millions)

	Exports			Imports		
	Q2 – 2024	Q/Q %	Y/Y %	Q2 – 2024	Q/Q %	Y/Y %
United States	26,895	1.2%	2.2%	31,606	0.8%	3.4%
Mexico	713	-3.0%	-11.2%	1,119	-24.6%	-11.1%
European Union	5,659	-5.4%	7.2%	6,583	-5.5%	0.9%
France	1,339	-19.7%	-1.5%	973	-14.0%	-1.8%
Germany	937	-9.7%	-5.5%	1,029	-5.2%	-2.8%
United Kingdom	2,286	-1.7%	8.0%	2,794	12.9%	19.5%
Indo-Pacific	8,017	8.2%	8.5%	6,183	1.2%	16.4%
India	3,277	17.3%	28.6%	882	-2.3%	7.7%
China	1,827	9.7%	-3.3%	995	5.6%	1.5%
Hong Kong	712	4.9%	4.1%	1,595	4.2%	22.1%
Australia	669	3.6%	-3.0%	340	-22.2%	11.1%
Rest of the world	7,473	3.1%	0.5%	5,981	-3.9%	10.4%
<b>Total Services Trade</b>	<b>51,043</b>	<b>1.5%</b>	<b>3.5%</b>	<b>54,266</b>	<b>-0.6%</b>	<b>5.5%</b>

Note: The Indo-Pacific region total includes only the 9 markets for which data are available. “Q/Q %” is the change from the previous quarter; “Y/Y %” is year-over-year change.  
Source: Statistics Canada, Table 12-10-0157-01. Balance of payments basis, seasonally unadjusted.