Canadian economy continued to expand in May despite mounting trade uncertainty

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The Bottom Line:

The stronger-than-expected 0.3% increase in Canadian GDP in May (and early estimate of another 0.2% increase in June) added to evidence that the economy bounced back at a solid pace in the second quarter after growth stalled over the winter.

Growth was broad-based across both goods-producing and services-providing industries, with gains in mining, quarrying and oil and gas extractions, construction, manufacturing, real estate and rental and leasing, and public administration.

The May report builds on a stronger-than-expected start to the second quarter. While some trade-sensitive industries continued to face headwinds, including a decline in wholesale trade activity, growth elsewhere remained relatively resilient, supported by a second consecutive increase in manufacturing output, continued gains in the resource sector, and emerging green shoots in housing market activity.

Monthly GDP readings and advance estimates are notoriously revision-prone, but the preliminary estimate, including the June advance, points to annualized quarter-over-quarter growth of 3.4% in Q2, more than a percentage point above our 2.2% forecast.

Looking ahead, escalating trade tensions and the latest U.S. tariff announcements pose downside risks to the outlook, particularly for targeted industries. Still, signs of a bounce-back in Q2 growth and stabilization in labour markets are encouraging. We continue to expect the economy to gradually improve on a per-person and per-worker basis this year.

The Details:

Goods-producing industries expanded 0.6% in May, following a robust 1.4% advance the prior month, led by mining, quarrying and oil and gas extraction, construction and manufacturing.

Manufacturing output rose 0.3%, building on April’s 0.7% gain, with broad-based strength across 10 of 18 subsectors.

Construction GDP growth climbed another 0.8%, extending April’s 1.3% growth, driven primarily by engineering and other construction alongside residential building.

Services-producing industries rose 0.2%, matching the previous month’s pace, with real estate and rental and leasing, and public sectors leading the way, while wholesale trade posted declines.

More specifically, real estate and rental and leasing output rose 0.4% in May, marking a fourth consecutive monthly gain and aligning with strong home resale volumes during the period.

Statistics Canada’s advance estimate (highly revision-prone) indicated GDP edged up 0.2% in June. Gains in wholesale, finance and insurance, and retail trade were partially offset by losses in utilities and agriculture, forestry, fishing and hunting.

Taken together, available data suggest economic momentum remained broadly positive through the second quarter, although uncertainty surrounding global trade policy continues to weigh on the outlook for the second half of the year.

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