

June 30, 2022

Canadian GDP growth starting to slow

- Growth in monthly GDP slowed to 0.3% in April; advance estimate was for a 0.2% decline in May
- Near-term growth momentum supported by recovery in travel and hospitality services, softening housing blow
- Growing headwinds for household spending with Bank of Canada aggressively hiking interest rates

Canadian GDP growth slowed in April with a 0.3% monthly print, following an average pace of 0.8% over

February and March when restrictions from the winter wave of virus spread and restrictions just started to ease. It was again the recovery in high-contact industries including accommodation and food services (+4.6%) together with strength in the mining, oil and gas extraction sector (+3.3%) that supported the expansion in April, the latter buoyed by higher global energy commodity prices. Real estate, rental and leasing activities, after having fallen by 1.2% over March and April, are expected to show more weakness in coming months as home resales continued to retrench following interest rates rises.

StatCan's advance estimate was for a small 0.2% contraction in GDP in May, with weakness

concentrated among goods-producing sectors. That leaves overall Q2 growth tracking around 4% annualized, above the 3.1% increase in Q1 but below our forecast for a 6.5% gain. Despite the surprise decline in May's advance GDP the economy is still running firmly above long-run capacity limits, evident by decade-low unemployment rates. And inflation remains uncomfortably high at levels well above central bank's target. The Bank of Canada is determined to "act more forcefully" to restore some balance into an overheating economy. Markets have priced in almost 75bp worth of increase in the overnight rate for the bank's meeting in July. We expect growth to slow more significantly as the year progresses as high inflation and rising borrowing costs biting more into households' spending power.

Canada Monthly GDP Summary					
	m/m % change				% change from
	Jan-22	Feb-22	Mar-22	Apr-22	Feb/20 Apr-22
GDP	-0.1	0.8	0.7	0.3	1.5
Goods	0.6	0.8	1.0	0.9	1.0
Oil & gas extrac.	-1.6	1.6	2.0	3.9	-0.5
Mining ex-oil & gas	-3.4	5.5	-2.1	0.2	2.5
Construction	2.2	1.2	1.1	0.0	5.3
Manufacturing	0.3	0.5	1.5	0.3	-1.2
Services	-0.4	0.8	0.5	0.1	1.7
Retail	2.8	-0.4	-0.2	0.9	5.1
Art/ent/rec	-11.1	8.0	12.9	7.0	-25.3
Accom/food	-13.2	14.0	10.9	4.6	-11.0

Source: Statistics Canada, RBC Economics Research

GDP growth to slow as the year progresses



Source: StatCan, RBC projections

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