November 29, 2022

Canadian Q3 GDP up more than expected, but details soft

- GDP rose 2.9% (annualized) in Q3, but with growth coming mostly from a rebound in net trade and another large inventory build
- Consumer spending declined for the first time since Q2 2021 and housing markets continued to retrench
- Growth softening into Q4 with outright declines in output still likely to follow next year

The increase in Q3 GDP was larger-than-expected but details continue to point to cracks forming in the economic backdrop. The gain was largely the result of a rebound in net trade that reversed a pullback in the prior quarter and another large build in inventories. That increase in stocks added to Q3 output, but means weaker growth ahead if demand from domestic purchasers continues to soften as expected. The Q3 economy-wide stock to sales ratio hit its highest level since Q1 2020 in Q3.

Domestic final purchases declined by 0.6%. Consumer spending fell for the first time since Q2 2021 as another quarter of recovery in services spending after pandemic lockdowns eased was offset by a pullback in purchases of goods. And housing markets continued to retrench - residential investment fell by 15.4% to build on a 31.5% Q2 drop. Business investment edged higher as spending on a large natural gas project in British Columbia picked up pace, but purchases of equipment declined.

Momentum was flagging towards the end of Q3. Monthly GDP data showed most of the Q3 growth came earlier in the quarter - output growth slowed to 0.1% in September from 0.3% and 0.2% increases in August and July, respectively. And the preliminary estimate for October was "essentially unchanged." Those monthly readings have proven to be very revision-prone (the July GDP increase was initially reported as a -0.1%) but employment growth has also softened over the last half year, on balance, notwithstanding a large increase in October.

Consumer confidence has softened along with the pullback in housing markets, weaker financial markets, surging inflation, and higher borrowing costs. And higher interest rates will continue to gradually feed through more significantly to actual household borrowing costs in quarters ahead. Some early signs that broader inflation pressures have started to ease, and indications that domestic demand is softening, mean the Bank of Canada could be close to the end of the current interest rate hiking cycle. But today's data remains consistent with our own outlook for softer GDP growth in Q4 and a 'moderate' contraction in output in the first half of 2023.

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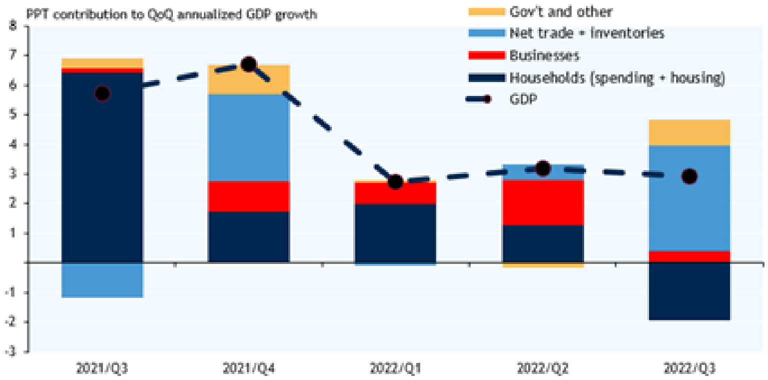
Canada GDP Growth Contributions



Source: Statistics Canada, RBC Economics Research

Canadian GDP Growth

	Q/Q annualized %			*% from Q4/2019 (pre-shock)*
	2022/Q1	**2022/Q2**	**2022/Q3**	**2022/Q3**
Consumer spending	2.3	9.5	-1.0	2.7
Goods	3.7	0.4	-6.5	3.3
Services	1.1	17.8	3.8	2.6
Government	0.5	-2.0	5.3	8.7
Res Investment	8.8	-31.5	-15.4	1.6
Business investment	7.7	17.0	4.3	3.7
Net trade (ppt cont, annualized)	-2.6	-5.8	3.3	
Inventories (ppt cont, annualized)	2.5	6.4	0.2	
Canada GDP	**2.8**	**3.2**	**2.9**	**3.0**
	Q/Q percent change			*% from Q4/2019 (pre-shock)*
Household disposable income	4.2	0.9	0.8	16.7
Saving rate	8.8	5.1	5.7	

*Source: Statistics Canada, RBC Economics