

December 23, 2022

Canadian GDP growth stalling into the winter

- October GDP edged up 0.1% as strength in service sectors was offset by weakness in manufacturing and oil & gas extraction
- StatCan reported a flat reading for November; Q4 GDP growth on track for a small increase
- Rate hikes of 2022 will further weaken consumer demand in 2023, pulling inflation lower but at the cost of a weaker economy

October's 0.1% increase in GDP was slightly stronger than StatCan's "essentially unchanged" prelim estimate a month ago. Growth was entirely accounted for by service-sector industries, and was the strongest in wholesale trade (+1.3%). A surge in arts, entertainment and recreation activities (+2.2%) was mostly tied to Toronto Blue Jays playoff games and higher attendance to NHL games due to a late start to the 2022 season. But a robust increase in accommodation and food services (+1) also contributed to the monthly gain. Countering that were weaker manufacturing activities (-0.7%) and lower output from oil & gas extraction (-2%). Sentiment in the manufacturing sector has been weakening for months according to the global PMI reports, as demand for goods starts to recede both domestically and elsewhere. Slower home resale activities also continue to see residential construction output contract (-0.4%). Momentum in household spending on services that's extending into the holidays should continue to put a floor under growth in the very near-term, while the goods-producing side of the economy continue to soften.

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Statcan's prelim estimate for November is for a flattish reading. That's roughly in line with the benign 0.1% gain in total hours worked, and leaves the quarterly tracking for Q4 running above our and the Bank of Canada's estimate for a 0.5% annualized increase. Still, growth has been slowing on balance, and the central bank looks increasingly likely to be nearing a pause in its current hiking cycle. The effect of the 400 bp Bank of Canada interest rate hikes in 2022 has yet to be felt fully by

Canada Monthly GDP Summary					
	m/m % change				% change from Feb/20
	Jul-22	Aug-22	Sep-22	Oct-22	Oct-22
GDP	0.2	0.3	0.2	0.1	1.1
Goods	0.7	0.0	0.3	-0.7	-0.1
Oil & gas extrac.	2.6	-1.9	1.9	-2.0	-2.1
Mining ex-oil & gas	-0.3	-1.0	-0.1	-0.7	3.4
Construction	0.5	0.0	0.1	0.0	2.7
Manufacturing	-0.5	-0.6	0.1	-0.7	-0.6
Services	0.1	0.3	0.1	0.3	1.6
Art/ent/rec	0.7	2.2	0.3	2.2	-27.3
Accom/food	-0.4	0.8	0.1	1.0	-12.7

Source: Statistics Canada, RBC Economics Research

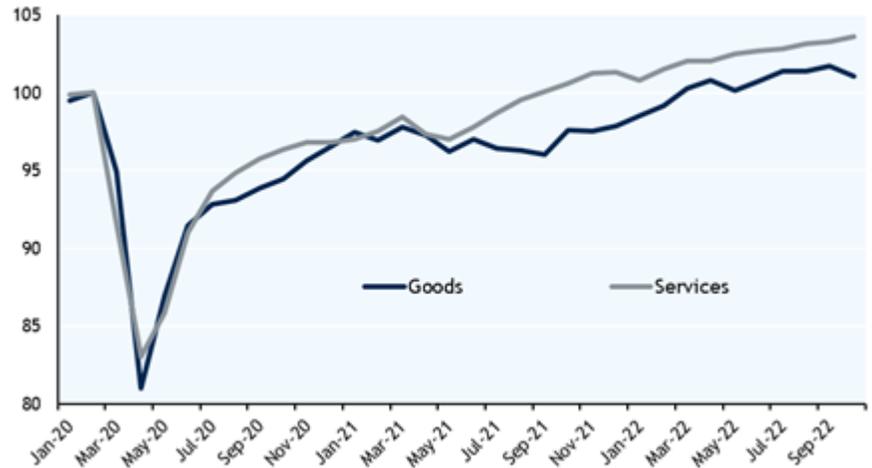
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households and businesses. More will face higher debt costs and that will lower spending more broadly and significantly, tipping the Canadian economy into a recession somewhere over the first quarter of 2023. Labour markets conditions that are currently overheating should see some temporary reprieve over the next quarters as well. Inflation readings should continue off the monetary policy brakes quickly. We expect the overnight rate will stay at currently restrictive level throughout 2023.

Strength in services sectors counter weakening goods production

Millions of Chained 2012 C\$, SAAR, Feb/2020 = 100



Source: StatCan, RBC Economics