October 28, 2022

Canadian GDP growth slowed over the summer

- GDP edged up 0.1% in August
- Output of goods-producing industries declined with offset from a bounce-back in services.
- Preliminary September GDP estimate up 0.1% from August - leaving Q3 growth at ~1.6% annualized
- Economy is continuing to grow but at a slowing pace and with the full impact of higher interest rates yet to come.

The service-producing side of the economy bounced back 0.3% after declining 0.1% in July. Higher wholesale and retail sale volumes and further gains in the hospitality sector offset another month of weakness in the resale housing market. But goods production retraced about half of a 0.6% July increase, declining 0.3% in August. Production in the manufacturing sector pulled back 0.8% and construction output declined. Consumer spending for services has remained resilient, but slower spending on goods - particularly in the U.S. (the world's largest consumer market) - is filtering through supply chains and cutting into expected growth in the manufacturing sector.

And the impact of central bank interest rate hikes to fight inflation have yet to fully feed through to broader economic activity. The early impact from those interest rate increases has been felt most directly in the housing market. But higher interest rates will continue to filter through to higher household debt servicing costs. We expect the economy to eke out another quarter of positive growth in Q4. But with a moderate recession to follow in the first half of next year.

Slower growth momentum was a key reason the BoC opted for a smaller-than-expected (but still large) 50 bp rate hike earlier this week. That could see the Bank of Canada further tapering its rate-hiking cycle later this year. But that is also still contingent on inflation pressures showing further signs of easing.

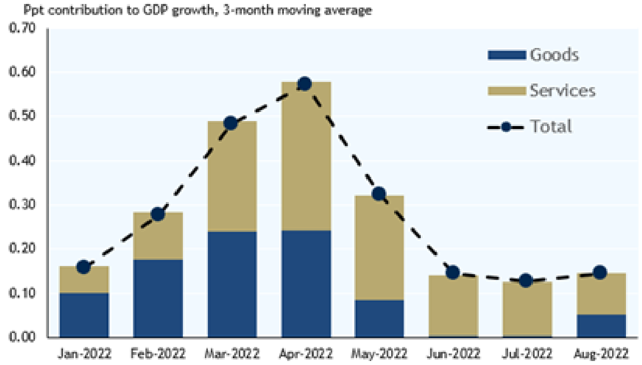
Canada Monthly GDP Summary

	m/m % change				*% change from Feb/20*
	May-22	Jun-22	Jul-22	Aug-22	Aug-22
GDP	0.1	0.2	0.1	0.1	2.6
Goods	-0.8	0.2	0.6	-0.3	1.3
Oil & gas extrac.	-1.9	-1.1	3.0	-2.0	1.7
Construction	-1.5	-0.2	-0.1	-0.7	0.7
Manufacturing	-1.3	0.4	-0.2	-0.8	-1.0
Services	0.4	0.1	-0.1	0.3	3.0
Retail	1.0	0.0	-1.7	1.2	5.8
Accomodation & food services	1.2	1.1	-1.2	0.4	-0.5
Arts, entertainment & recreation	2.2	1.9	0.4	1.5	-8.0

Source: Statistics Canada, RBC Economics Research

Canada GDP growth slowed sharply over the summer

Ppt contribution to GDP growth, 3-month moving average



Source: Statistics Canada, RBC Economics Research

Nathan Janzen | Assistant Chief Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-0569

For more economic research, visit our website at *https://thoughtleadership.rbc.com/economics/*