

September 29, 2022

Canadian GDP growth leveling off in the summer

- Monthly GDP was up 0.1% from June to July, with strength in oil production offsetting weakness in retail and manufacturing
- Service sector rebound is losing steam ahead of fall; advance estimate was for a flat reading in August
- More slowing to come following more rate hikes, with a recession in the year ahead increasingly likely

The 0.1% monthly increase in GDP over June to July was slightly better than the 0.1% decline in the advance estimate a month ago, but still adds to a softening growth trend after the surge out of winter pandemic lockdowns. Strength was seen in oil and gas extraction (+2.7%) after shutdowns due to unplanned maintenance lowered oil production in earlier months. But weakness was seen in multiple sectors, including wholesale sales (-0.7%) where output fell for the fifth time in the last 6 months. Retail activity also pulled back sharply (-1.9%) and real estate activities continued to retrench as higher interest rates bite. Growth for high-contact service activities also appears to be losing steam, with accommodation and food services posting the first decline since January (-1%) after a rapid rebound in the spring.

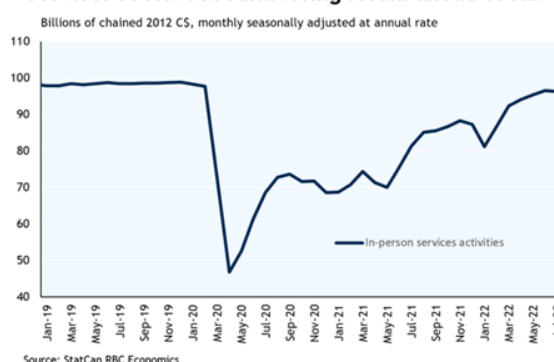
The advance estimate of August output was flat from July. That, on balance, still leaves the third quarter tracking of GDP a tad lower than our forecast for a 1.5% annualized increase, and the Bank of Canada's 2% estimate from its July MPR. The Bank of Canada has continued to hike interest rates aggressively – including 175 basis points increase over the third quarter this year that pushed the overnight rate into 'restrictive' territory. The latest data in August showed some early tentative signs of moderating inflation trends. But pressures remain incredibly elevated and broad-based. Consumer spending has been plateauing into early fall according to our own internal tracking of RBC card data, but was also at levels still well-above pre-pandemic. More interest rate hikes are coming to further slow demand and bring inflation back to target. We look for the overnight rate to reach 4% by December, and expect GDP growth to slow through the rest of this year before the economy tips into a recession in the first half of 2023.

Canada Monthly GDP Summary

	m/m % change				% change from Feb/20
	Apr-22	May-22	Jun-22	Jul-22	
GDP	0.2	0.0	0.1	0.1	1.5
Goods	0.7	-1.0	0.1	0.5	1.0
Oil & gas extrac.	3.7	-1.8	-1.3	2.7	-0.5
Mining ex-oil & gas	0.7	2.6	1.6	0.4	2.5
Construction	-0.1	-2.0	-0.5	-0.2	5.3
Manufacturing	-0.1	-1.6	0.4	-0.5	-1.2
Services	0.1	0.4	0.1	-0.1	1.7
Retail	0.7	0.5	0.0	-1.9	5.1
Art/ent/rec	7.1	2.1	1.9	0.6	-25.3
Accom/food	1.1	1.4	1.1	-1.0	-11.0

Source: Statistics Canada, RBC Economics Research

Services sector rebound losing steam ahead of fall



Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639

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