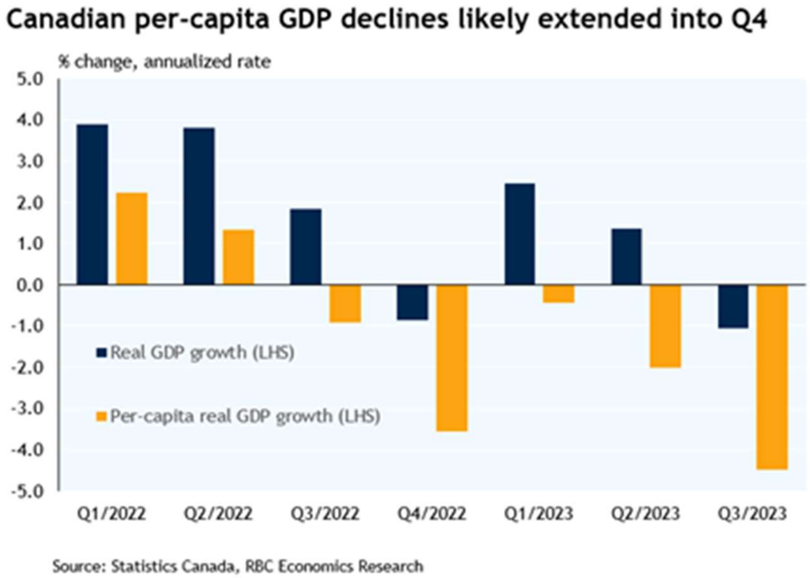
December 22, 2023

Run of softer Canadian GDP data extended in October

- GDP was unchanged in October for a third straight month - softer than the 0.2% increase in the preliminary estimate from Statistics Canada a month ago. GDP has now failed to increased for five straight months (June and July readings were both small declines)
- Consumer sensitive sectors were firmer in October, with retail output up 1.2% and accommodation & food services up 0.9%.



- But manufacturing output fell for the fourth time in five months (-0.6% in October), engineering construction (a key indicator of domestic business spending) fell by 1.3%, and cooling housing markets pushed real estate agents and brokers activity down another 6.8%.
- The preliminary estimate for November GDP was up 0.1%, but those prelim estimates have been highly revision prone and earlier-released labour market data showed a 0.7% drop in hours worked in November. Statistics Canada's advance estimate for retail sales suggests November activity was flat, and our own tracking for accommodation and food services sector spending in November is also unchanged.

Bottom line: The flat October GDP print and early November estimate leaves output tracking little changed in Q4 as a whole, but with risks tilted to the downside of that given the earlier reported softening in hours worked and rising unemployment rate. And whether or not total GDP growth ends up as a small negative or small positive in Q4 as a whole, per-capita output will almost certainly post a

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sixth consecutive quarterly decline given still surging population growth. The BoC wants to be cautious about declaring victory over inflation too early, but softening economic growth and labour markets should boost confidence that price growth will continue to slow towards the central bank's target range. Additional interest rate hikes are increasingly unlikely and we expect the BoC to pivot to interest rate cuts in Q2 of next year.

Canada Monthly GDP Summary					
	m/m % change				
	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
GDP	**-0.2**	**-0.1**	**0.0**	**0.0**	**0.0**
Goods	**-0.3**	**-0.3**	**-0.3**	**0.3**	**0.0**
Oil & gas extrac.	3.1	1.9	0.0	-1.9	0.4
Mining ex-oil&gas	-2.1	2.4	0.2	-0.3	2.4
Manufacturing	-0.6	-1.2	-0.5	0.6	-0.6
Services	**-0.1**	**0.0**	**0.1**	**0.0**	**0.1**
Retail	-0.3	0.0	-0.3	0.1	1.2
Wholesale	-2.0	0.7	0.9	-0.4	-0.7
Accomodation & food services	-1.3	1.0	-1.0	0.7	0.9
Wholesale	-2.0	0.7	0.9	-0.4	-0.7
Real estate, rental, & leasing	0.3	0.0	0.0	-0.1	-0.2

Source: Statistics Canada, RBC Economics