ECONOMIC NEWS

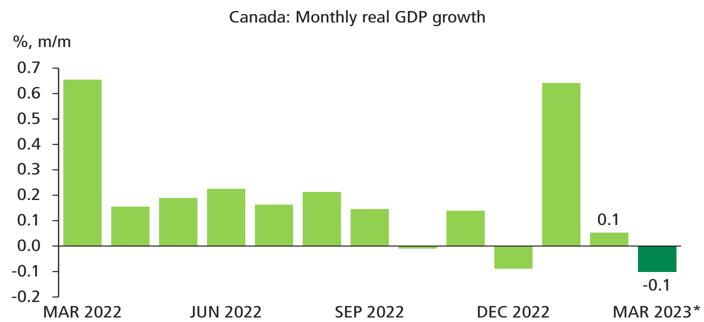
Canada: Real GDP Growth Momentum Is Fading Fast

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- Real GDP advanced by 0.1% in February, coming in below consensus expectations (0.2%) and well below Statistics Canada's flash estimate (0.3%). The slight advance was roughly divided between goods- and services-producing sectors (each advancing by 0.1% in the month). There was, however, an upward revision to January's outstanding advance (now 0.6%, prev. 0.5%).
- An expected drop in manufacturing activity (-0.1%) in February wasn't enough to offset the gains in the goods-producing sector from utilities (0.6%), construction (0.3%) and mining and oil and gas extraction (0.1%). Notably, construction activity advanced for the fifth consecutive month despite a sluggish housing market while agricultural output fell for the fifth time in a row.
- Looking to services-producing sectors, some of the sectors that saw outsized rebounds in January from weather-induced weakness in December experienced some of the largest setbacks in February. These included arts, entertainment and recreation (-1.4%), accommodation and food services (-0.1%), and transportation and warehousing (-0.2%). Activity in retail (-0.5%) and wholesale (-1.3%) trade also shifted lower, as falling auto sales led a decline in consumer goods purchases. However, this was largely offset by gains in public-sector-dominated industries, such as education, health care and social services, and public administration.
- On a year-over-year basis, real GDP was up 2.5% from its year-ago level.
- Statistics Canada's flash estimate for real GDP is for a contraction of 0.1% in March. The statistical agency expects declines in mining and oil and gas extraction as well as retail and wholesale trade to outpace gains in public administration and professional services. If this comes to pass, real GDP by industry will advance by 2.5% annualized in Q1 2023.

GRAPH
Real GDP Growth Slowed Sharply at the End of Q1 2023



*Statistics Canada's flash estimate
Sources : Statistics Canada and Desjardins Economic Research

IMPLICATIONS

The February real GDP data contained a lot of information that should be considered supportive to the Bank of Canada's prolonged pause on interest rates. The first is that, at +0.1%, the month's advance came in below expectations and Statistics Canada's flash estimate. The second is that the flash estimate for March is for a modest contraction, teeing up a weaker start to Q2 2023. And while Q1 looks as though it could be stronger than the 2.3% annualized advance anticipated by the Bank of Canada (we're tracking closer to 3.0%), this is entirely a tailwind from earlier in the quarter. We expect a sharp slowdown in Q2, in part because the month of April is likely to be disrupted by the impact of power outages in Quebec and the public sector strike. Indeed, there is a possibility that the latter could also spill over into May. As such, a combination of slowing growth, decelerating inflation and financial instability should help to keep the Bank on the sidelines until the turn of the year.