

April 28, 2023

Canada GDP growth slowing after January surge

- Canadian GDP growth slowed to 0.1% in February - less than the 0.3% advance estimate a month ago and down sharply from a 0.6% surge in January. And the initial estimate for March was for an outright decline of 0.1%.
- Construction spending remained firm in February, and oil & gas extraction rose. But manufacturing, wholesale and retail sales all declined after rising in January.
- With the March flash GDP estimate, the initial count of GDP in Q1 as a whole is still up a relatively solid 2.5% (annualized) -- but with virtually all of that increase coming in January.
- March output is already slightly below the Q1 average and April output looks likely to fall further with the federal workers' strike lowering hours worked. Softening momentum is consistent with our base-case expectation that GDP will post 'mild' GDP declines in Q2 and Q3.
- **Bottom line:** The surge in GDP in January increasingly looks to have been a head-fake, with activity softening over February and March. And consumer spending headwinds continue to build as higher interest rates flow gradually through to household borrowing costs with a lag. With GDP growth tracking weak momentum into Q2, the BoC isn't expected to hike interest rates again. Although inflation is also still too firm to justify a quick shift to cuts, even with the economy showing signs of softening.

Canada Monthly GDP Summary					
	m/m % change				% change from
	Nov-22	Dec-22	Jan-23	Feb-23	Feb/20
GDP	0.1	-0.1	0.6	0.1	3.4
Goods	0.2	-0.8	0.6	0.1	0.5
Oil & gas extrac.	0.2	-2.7	1.4	1.1	-0.9
Construction	0.2	0.1	0.8	0.3	2.3
Manufacturing	0.2	-0.3	1.0	-0.1	0.2
Services	0.1	0.1	0.6	0.1	4.4
Retail	-0.8	1.4	1.3	-0.5	5.3
Accommodation & food services	-0.7	0.2	3.8	-0.1	-4.0
Prof/Sci/Technical services	-0.2	0.6	0.4	0.6	11.8

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/>

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.