

**February 28, 2023****Canadian GDP growth paused in Q4 before January gain**

- GDP growth flat in Q4 – stronger household spending offset slower residential and business investment activities as interest rates rise higher
- Inventory accumulation softened after record build in prior quarters; imports declined
- Growth in Q1 on course to be stronger than expected – weakness to emerge later this year

**Growth in the Canadian economy ground to a halt in Q4 2022.** That's lower than the 1.5% annualized increase we had expected. Underlying details on the expenditure accounts painted a mixed picture, as resilience in household consumption offset weaker than expected business investment activities. In Q4, household goods consumption rose by 3% with the growth entirely accounted for by stronger durable goods spending. Services consumption meantime also continued to edge higher, growing by 1.3%. Another quarter of sluggish housing market activities on the back of rising borrowing costs pulled residential investment lower again in Q4, down 8.8%. That's a third consecutive decline after the Bank of Canada started to raise interest rates more aggressively at the beginning of 2022. Also in Q4, business investment dropped lower by 5.5% thanks to a sharp decline in machinery and equipment investment activities (-27.6%). A slower inventory build, mostly from durable goods also subtracted from growth. But that was after two quarters of record inventory accumulation and was partially offset by positive contribution from net trade, driven primarily by slumping imports.

**StatCan's preliminary estimate for January was that activities grew by 0.3% following a 0.1% drop in December.** That's in line with strength observed in data elsewhere – total hours worked rose by 0.8% in January. Manufacturing, wholesale and retail sales all posted larger increases as well. Alongside the prelim estimate StatCan highlighted mining, quarrying, and oil and gas extraction and wholesale trade as key contributors for the January gain, offsetting weaker activities in construction and retail. From a quarterly perspective, the larger January print adds upside to our Q1 call with a small increase looking more likely than the 0.5% decline we've been expecting. But that's not enough to alter our baseline expectation that weaker demand is yet to come. Household debt service ratio has been rising and will continue to increase into the end of 2024. That combined with moderating wage gain and rising borrowing costs will continue to drive consumer spending lower, keeping a downward pressure on inflation as the economy heads into a mild recession later in 2023.

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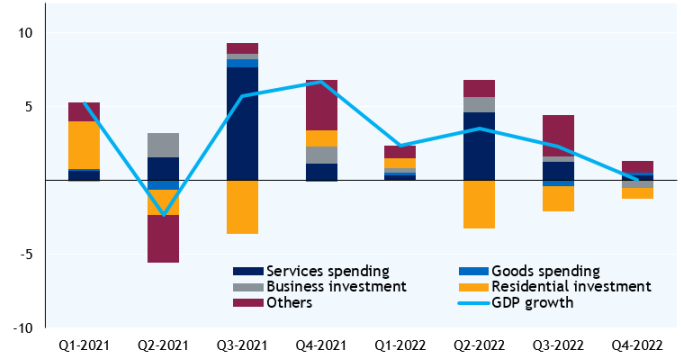
## Canada Quarterly GDP Summary

Q/Q annualized percent change

	Q1-2022	Q2-2022	Q3-2022	Q4-2022
Household consumption	2.1	9.3	-0.4	2.0
Nonprofit institutions consumption	0.7	6.1	2.5	0.4
Government G&S spending	2.9	-2.3	4.8	2.4
Government fixed investment	8.6	-3.0	-6.2	11.9
Business Fixed Investment	5.0	-10.1	-6.8	-5.3
Residential	7.2	-30.3	-18.9	-8.8
Nonresidential	3.6	12.9	3.9	-5.5
Nonprofit institutions fixed investment	1.2	17.9	-16.4	-6.5
Final domestic demand	3.1	2.1	-0.8	1.0
Exports	-7.5	6.9	10.6	0.8
Imports	1.3	27.5	-1.8	-12.0
Change in inventories	19421	57592	52072	22290
GDP	2.4	3.6	2.3	0.0
GDP (Y/Y percent change)	3.1	4.7	3.8	2.1

## Canadian GDP growth ground to a halt in Q4 2022

% contribution to annualized quarter over quarter GDP growth



Source: StatCan, RBC projections