

January 31, 2023

Canadian GDP growth continuing to slow

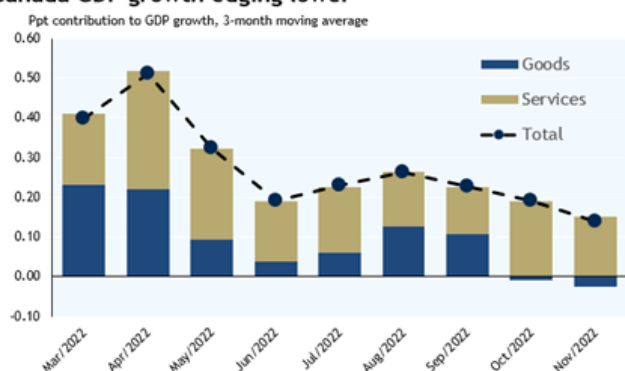
- GDP edged up 0.1% in November; early estimate for December 'essentially unchanged'
- Output grew 0.2% in service-producing industries in November, but fell 0.1% in goods producing industries
- Interest rate hikes to-date will further weaken consumer demand in 2023, pulling inflation lower but at the cost of a weaker economy

The 0.1% November GDP increase was in line with the early estimate a month ago. The early estimate of December output was "essentially unchanged." That implies a Q4 increase of ~1.6% at an annualized rate (broadly in line with our prior expectation for a 1.5% increase). That marks a slowing to ~half the 3% average per-quarter increase over the first three quarters of 2022.

Output in service-producing industries in November rose 0.2% with partial offset from a 0.1% dip in goods production. A second straight drop in nonconventional oil production (-1.2%) probably had more to do with temporary maintenance at some facilities than an underlying slowing. But manufacturing output edged 0.1% lower and earlier-released PMI survey data has shown deteriorating sentiment about future sales in the sector. Residential construction slowed for a fourth straight month.

There were early signs of cracks in the consumer spending backdrop. Retail trade and accommodation & food service sales both declined in November. Consumer spending is still running at a high level, but the Bank of Canada's Q4 survey of consumer expectations showed that higher inflation and interest rates were cutting into household purchasing plans, particularly for travel and hospitality services. The BoC has announced plans to pause interest rate hikes at current levels, but the 425 basis points of increases to the overnight rate over the last year has yet to fully pass through household purchasing power. We continue to expect household spending to slow going forward as debt servicing costs rise. That means early signs of easing inflation pressures are likely to persist, but also that GDP growth will likely dip into negative territory over the first half of this year.

Canada GDP growth edging lower



Source: Statistics Canada, RBC Economics Research

Canada Monthly GDP Summary

	m/m % change				% change from Feb/20
	Aug-22	Sep-22	Oct-22	Nov-22	Nov-22
GDP	0.3	0.2	0.1	0.1	3.1
Goods	0.0	0.3	-0.5	-0.1	1.2
Oil & gas extrac.	-1.9	1.8	-1.5	0.3	0.3
Mining ex-oil&gas	-1.0	0.0	-1.7	1.1	1.0
Construction	0.1	0.0	0.2	-0.7	1.6
Manufacturing	-0.6	0.3	-0.3	-0.1	-0.5
Services	0.3	0.1	0.4	0.2	3.8
Retail	0.8	-0.4	0.0	-0.6	4.0
Accommodation & food services	0.6	0.1	1.1	-1.4	-6.6
Prof/Sci/Technical services	0.6	0.6	0.4	0.2	10.7
Real estate, rental, & leasing	0.1	0.0	0.0	0.0	3.9

Source: Statistics Canada, RBC Economics Research

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