

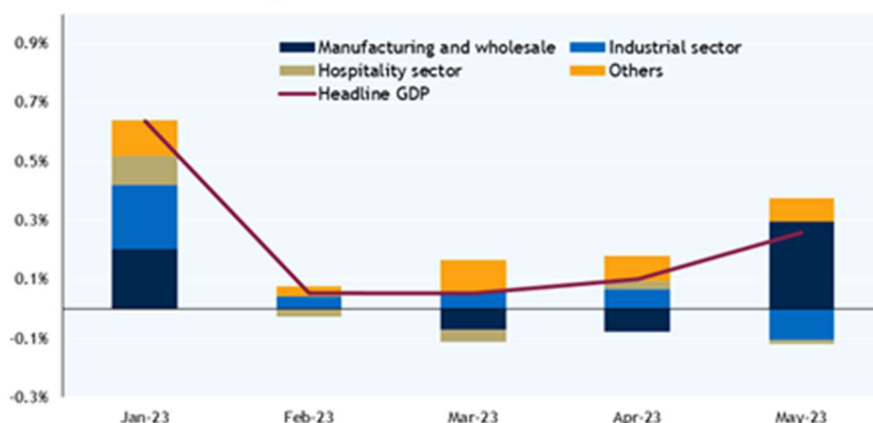
July 28, 2023

## Canadian GDP growth picked up pace in May

- StatCan estimated that GDP in Canada grew by a 0.3% in May but returned some of that gain in June. The preliminary estimated was for a 0.2% subtraction in June's GDP.
- Overall, the advance estimate for Q2 GDP growth now stands at 1.0% (annualized). That's slightly above our own tracking but below the BoC's forecast (+1.5%) in June.

### Canada GDP growth by industry

% contribution to mom change in headline GDP



Source: StatCan, RBC Economics

- Back to May, more-than a third of the output gain was driven by public sector workers returning to work following the end of the PSAC strike. That was partially offset by weaker oil and gas extraction activities (-3.6%) due to disruptions from wildfires in western Alberta.
- Manufacturing and wholesale sales both posted larger increases in May as well, up 1.6% and 2.9%, respectively. Statistics Canada credited the strength with ongoing easing in supply chain conditions, that allowed for more parts and equipment especially for the automotive sector to come through. Although earlier estimates are that sales in both sectors softened in June.
- The still-heated home resale market in May also boosted real estate agent and broker activities again (+7.6%). June saw slower growth in home resales with the BoC responding to persistent economic strength with additional interest rate hikes.
- Bottom line:** Canadian GDP remained resilient in Q2. But growth is starting to look weaker by the end of the quarter - wholesale sales posted one of the largest declines in history in June. The resilience in consumer demand we've seen to-date is not to be overlooked, adding to sticky inflation

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639s

For more economic research, visit our website at <https://thoughtleadership.rbc.com/economics/>

pressures. But momentum in services spending also appears to be waning – gross sales at food services and drinking places have been trending at levels below this January for months. The BoC won't hesitate to hike interest rates further if necessary, but we maintain the view that the worst is yet to come for households with pressure from near-record high (and still rising) debt service expenses. We expect that will soften spending, push inflation lower, and keep the BoC to the sideline over the second half of this year.

Canada Monthly GDP Summary					
	<i>m/m % change</i>				<i>y/y % change</i>
	<u>Feb-23</u>	<u>Mar-23</u>	<u>Apr-23</u>	<u>May-23</u>	<u>May-23</u>
<b>GDP</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>4.3</b>
<b>Goods</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.3</b>	<b>4.8</b>
Oil & gas extrac.	1.4	1.1	0.6	-3.6	5.3
Construction	-0.4	0.0	0.2	-0.8	2.7
Manufacturing	0.3	0.0	0.0	1.6	4.1
<b>Services</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>4.1</b>
Wholesale	-0.6	-1.3	-1.5	2.9	-0.1
Accom/food	-0.3	-2.4	0.8	-1.1	18.7
Public admin	0.3	0.3	-0.9	1.4	3.9

Source: Statistics Canada, RBC Economics Research