

July 29, 2022

Canadian GDP growth remained flat in May

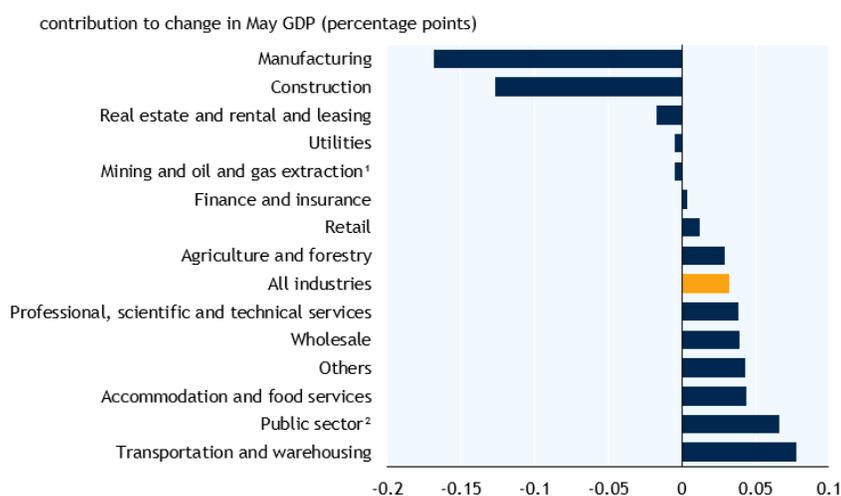
- Monthly GDP was unchanged in May (+0.0%); advance estimate was for a 0.1% increase in June
- Strength in transportation and warehousing alongside a recovery in travel and hospitality spending offset declines in manufacturing and construction
- GDP growth still tracking a solid 4.5% (annualized) increase in Q2, but pace of growth is slowing

Canadian GDP growth was flat in May at 0.0% -- above Statistics Canada's preliminary -0.2% estimate a month ago. Declines in goods-producing sectors (-1.0%) offset higher services output (+0.4%). The transportation sector (+14.1%) as the recovery in travel and hospitality spending continues. A 1.7% drop in manufacturing output was broadly-based by industry but led by a pullback in motor vehicle and parts production due to ongoing semi-conductor shortages and factory retooling closures. A 1.6% drop in construction activity was impacted by a strike by construction workers in Ontario. Oil production declined, in part due to maintenance at major oil sands facilities.

StatCan's advance estimate for June output showed relatively flat monthly growth, up +0.1%. Construction, manufacturing, and accommodation and food services are expected to post gains. Production disruptions, reportedly, persisted in oil and gas extraction, although that will reverse going forward with oil prices high and drilling activity continuing to rise.

Overall Q2 output growth tracking in line with our 4.5% (annualized) forecast. Evidence continues to suggest that the Canadian economy is operating above long-run capacity limits. The unemployment rate remains extremely low, at 4.9%. Labour market tightness persists, though early signs point to strength beginning to ease in the near term. Job postings data suggest fewer open positions listed in June and July. At the same time, we are seeing growth in consumer spending plateauing in June and July as inflation remains too high and the Bank of Canada continues to move along an aggressive hiking path. More interest rate hikes are still on the way to help further cool consumer demand and inflation pressures. We anticipate GDP growth will continue to slow towards the end of the year before outright declining in mid-2023.

May services sector growth offset by goods sector weakness



Source: Statistics Canada, RBC Economics

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