Economics

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July 28, 2023

Canadian GDP (May & Jun adv): Ups and downs

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GDP (period/period % chg)	22:Q4[1]	23:Q1[1]	Mar	Apr	May	**May Y/Y**
GDP (at basic prices)	1.0	2.7	0.1	0.1	0.3	1.9
• Goods-producing	-2.4	0.3	0.2	0.3	-0.3	0.5
• Services-producing	2.2	3.5	0.0	0.1	0.5	2.3
• Business	0.1	2.4	0.0	0.2	0.2	1.5
• Non-business	4.5	3.7	0.3	-0.3	0.6	3.5

Source: Statistics Canada

- The Canadian economy had its ups and downs during the second quarter, but through the monthly volatility it appears that growth cooled a little more than the Bank of Canada had assumed in its July MPR. However, disruptions in the public sector early in the quarter, and to the energy sector later, weighed on growth and as such underlying momentum within the economy was likely a little stronger than the 1% annualized growth rate that we are now tracking for Q2.
- May GDP posted a 0.3% increase, which was in line with the consensus forecast and followed a slightly upwardly revised 0.1% advance in April. Manufacturing and wholesale were large contributors to the monthly increase, while real estate activity rose for a fourth consecutive month. Growth during May was also aided by a rebound in public administration, which had fallen in April due to strike activity among federal government workers.
- Activity in the energy sector, however, fell by 2.1% in May as forest fires in Alberta negatively impacted oil and gas production. The 6.6% decline in oil & gas extraction was the sharpest monthly contraction since April 2020, but appears to have partially rebounded in June. Construction activity also fell in May, led by a continued slide in residential building but also with declines in other areas as well.
- Of the areas still trying to recover from the pandemic, activity with air transport and leisure & hospitality continued to only edge higher. While accommodation & food services had made a fuller recovery than those aforementioned areas, activity in that sector fell in May to move further away from its January peak.
- The advance estimate for June pointed to 0.2% decline in GDP, due to retreats in wholesale and manufacturing following May's gains. Those declines appear to have counteracted a partial rebound in oil & gas production and further growth in real estate.
- For Q2 as a whole, growth appears to be tracking around a 1% annualized pace, which is a half point below the Bank of Canada's MPR forecast. However, supply disruptions have clearly impacted the pace of growth during the quarter, and there is scope for a rebound in the energy sector in particular to help support activity in Q3.

[1] Annualized.

Implications & actions

Re: Economic forecast — With today's data suggesting that growth was a little weaker than the Bank of Canada's MPR projection in Q2, there is a clear risk that policymaker's won't hike interest rates one more time as we had previously anticipated. However, because the slowdown in growth during Q2 was at least partly driven by supply side disruptions within public admin and the energy sector, we suspect that signs of continued loosening in the labour market and the trend in core inflation will be more important for the Bank as it determines whether to raise rates again or move back onto the sidelines. We will get more information on that front with the labour force survey next week.

Re: Markets — Bond yields and the Canadian dollar were little changed after today's data despite the somewhat weak advance estimate for June and Q2 as a whole.

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