

## Economics

# ECONOMIC FLASH!

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## Canadian GDP (Oct & Nov adv): A small dose of Christmas Cheer

**Andrew Grantham** [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

GDP (period/period % chg)	22:Q2 <sup>1</sup>	22:Q3 <sup>1</sup>	Aug	Sep	Oct	Oct Y/Y
GDP (at basic prices)	4.2	2.9	0.3	0.2	0.1	3.1
• Goods-producing	5.1	3.8	0.0	0.3	-0.7	3.6
• Services-producing	3.8	2.5	0.3	0.1	0.3	3.0
• Business	4.7	2.5	0.2	0.2	0.0	3.2
• Non-business	2.1	4.4	0.3	0.1	0.4	2.8

Source: Statistics Canada

- Statistics Canada provided a small dose of Christmas cheer, with news that the Canadian economy continued to grow (albeit only modestly) at the start of the fourth quarter. Combined with a slight upward revision to September, today's data leave Q4 as a whole tracking around 1.3%. That's above the Bank of Canada's October projection for growth of only 0.5% during the quarter, although not by enough on its own for us to project a further interest rate hike. Employment figures and the Bank's own business and consumer surveys in the New Year will be more important in determining whether a further rate increase is forthcoming.
- Monthly GDP pointed to a gain of 0.1% in October (in line with consensus), following a slightly upwardly revised increase of 0.2% in the previous month. Increased activity in October was driven by services (+0.3%) with gains in wholesale, transportation, arts & entertainment and accommodation & food services.
- Arts & spectator sports saw a large 4.7% increase, although Statistics Canada suggested that this was influenced by playoff games for the Toronto Blue Jays and a late pre-season start for the National Hockey League, and as such activity in this areas could weaken again ahead. Accommodation and food services increased by 1.0%, with gains at restaurants more than offsetting a weakening in hotels relative to the previous month. Air transportation rose by a further 5.5%, but remained 34% down on its pre-pandemic levels.
- Partly offsetting growth in services, goods sectors saw a 0.7% decline, including drops in mining, oil & gas and manufacturing. Oil extraction fell by 2.0%, which offset continued growth in potash production due to higher demand for Canadian product following Russia's invasion of Ukraine.
- Statistics Canada caused a little Christmas confusion in its advance estimate for November GDP. Having initially said it was "essentially unchanged" that view was upgraded slightly to show growth of 0.1%. Increases in utilities, wholesale, and finance were said to have been largely offset by declines in construction, retail, and mining, oil & gas.
- The upward revision to September and modest growth in October/November leaves Q4 GDP tracking between 1-1.5%, which is above the BoC's October MPR forecast of 0.5%.

<sup>1</sup> Annualized.

## Implications & actions

**Re: Economic forecast** — Growth during the fourth quarter as a whole appears to be tracking above the Bank of Canada's MPR forecasts, with industry data also suggesting that domestic demand (particularly consumer services) may have improved relative to Q3. However, the industry data can sometimes diverge from the final expenditure figures, and we suspect that the employment data for December and the BoC's own business and consumer surveys will be more important in determining if policymakers raise interest rates any further. We maintain our view for a hold at the January meeting, and feel that the Bank has already done enough to slow the economy and inflation notably in 2023.

**Re: Markets** — Bond yields were rising heading into the data release, and continued to increase after, with markets now pricing in a slightly higher than 50% chance of a 25bp hike at the January BoC meeting.

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