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April 28, 2023

Canadian GDP (Feb & Mar adv): Hitting a wall

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GDP (period/period % chg)	22:Q3[1]	22:Q4[1]	Dec	Jan	Feb	Feb Y/Y
GDP (at basic prices)	2.3	0.9	-0.1	0.6	0.1	2.5
• Goods-producing	2.9	-2.8	-0.8	0.6	0.1	1.4
• Services-producing	2.0	2.2	0.1	0.6	0.1	2.9
• Business	1.9	0.0	-0.2	0.7	0.0	2.2
• Non-business	3.9	4.6	0.3	0.4	0.3	3.7

Source: Statistics Canada

- After sprinting out of the gate to start 2023, the Canadian economy had already hit a wall by March. Monthly GDP rose by 0.1% in February, which was a tick below the consensus forecast and a noticeable deceleration from an upwardly revised 0.6% gain in January. Moreover, the March advance estimate suggests that GDP fell slightly to end the quarter, implying little momentum heading into the second quarter. A slowing economy should keep the Bank of Canada on hold for the remainder of this year, rather than pulling the trigger on another rate hike, before cuts arrive early next year.
- The main positive contributors to growth in February were the public sector and professional & scientific services. The gain in the public sector was the thirteenth consecutive monthly increase, although that winning record will be broken in April given the ongoing strike. The increase in professional & scientific was the third in succession and leaves activity within that sector up 5.6% on a year-over-year basis. Construction made the largest positive contribution on the goods side of the economy, helped by a pick-up in renovation activity which is stabilising following declines throughout much of 2022.
- Wholesaling was the largest drag in February, although the 1.3% decline only offset approximately half of the gain seen in the prior month. A decline in retail sales, alongside discretionary services such as air travel, accommodation & food services and arts & entertainment, suggests that consumer spending was fading once again after a surprisingly strong start to the year in January.
- The advance estimate for March suggests that GDP fell by 0.1%, owing to declines in retail, wholesale and mining. For Q1 as a whole, the 2.5% growth rate is very close to the 2.3% forecast that the Bank of Canada had in its April MPR, and as such today's data shouldn't change the narrative of policymakers.

Implications & actions

Re: Economic forecast — The weak end to the first quarter, combined with the negative but temporary impact of the public sector strike on Q2 GDP, increases the risk of a contraction in economic activity during the second quarter. However, the Bank of Canada will look through that volatility, and focus instead on trying to get and keep inflation and inflation expectations under control. While a weakening economy should prevent policymakers pulling the trigger on another interest rate hike, we don’t see cuts forthcoming until early next year.

[1] Annualized.

Re: Markets — Bond yields had risen just before today's data release, but retraced that move afterwards. The Canadian dollar remained weaker versus on the greenback on the day.