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Economics

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December 22, 2023

Canadian GDP (Oct, Nov adv.): More naughty than nice

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GDP (period/period % chg)	23:Q2[1]	23:Q3[1]	Aug	Sep	Oct	**Oct Y/Y**
GDP (at basic prices)	1.1	-0.2	0.0	0.0	0.0	0.9
• Goods-producing	-0.8	-2.7	-0.3	0.3	0.0	-1.0
• Services-producing	1.8	0.6	0.1	0.0	0.1	1.5
• Business	1.0	-1.2	-0.1	0.0	0.0	0.3
• Non-business	1.4	4.0	0.3	0.2	0.2	3.1

Source: Statistics Canada

- Today's data were more naughty than nice, with monthly GDP pointing to little rebound in the economy in the fourth quarter following Q3's contraction. While supply constraints, including most recently the US auto strike and St. Lawrence Seaway strike, continue to disrupt activity, there is evidence of weak domestic demand as well. That weakness should see inflation ease more sustainably next year, and we still see a first interest rate cut from the Bank of Canada in Q2 2024.
- October GDP was flat on the month, which was worse than the 0.2% gain expected by the consensus and shown in the advance estimate. The prior month was also revised down to a flat reading, from a 0.1% gain previously. Manufacturing, transportation and wholesaling weighed on activity during October, albeit in part reflecting strike activity in the US auto sector and in the St Lawrence Seaway at home. Retail, mining, oil & gas and the public sector posted growth to counteract the declines in other sectors. The public sector has recorded annualized growth of 2.4% since 2019, easily outstripping the muted 0.9% average pace of the business sector.
- Outside of the largest movers in October, real estate activity fell for a third consecutive month, with that coinciding with the peak of mortgage rates. Some of the areas of the economy that were hardest hit by the pandemic continue to see only sluggish progress back to pre-pandemic levels. Air transportation posted a 1.9% gain in October, but activity remained 38% below its December 2019 level. Accommodation & food services activity rose by 0.9% on the month, but remained 9% below the pre-pandemic peak.
- Advance data for November pointed to growth of 0.1%, driven by rebounds in manufacturing and transportation. Retail trade is likely to weigh on November GDP, at least partially giving back October's gain. Assuming a flat reading for December, Q4 is tracking a 0.5% annualized pace, which is close to the Bank of Canada's October MPR projection (+0.8%) although historic revisions since that forecast was made make it somewhat stale.

Implications & actions

Re: Economic forecast — The supply issues that constrained activity in October will add rather than subtract from inflation, and were likely a contributing factor behind the higher than anticipated CPI reading already received for November. However, there is evidence of weakness in demand as well, and that will likely persist as more homeowners refinance at higher interest rates and the unemployment rate continues to edge higher. While we don't forecast an outright

[1] Annualized.

recession, the level of economic activity will likely remain weak enough to bring inflation down more sustainably next year and allow interest rate cuts starting in Q2.

Re: Markets — Bond yields were little changed on the release, but the Canadian dollar was marginally stronger against the greenback due to US inflation data printing below expectations.

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