

Economics

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Canadian GDP: A surprise stall

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2022	22:Q1	22:Q2	22:Q3	22:Q4	Q4 Y/Y
Real GDP (chained 2012\$)	3.4	2.4	3.6	2.3	0.0	2.1
• Final domestic demand	2.7	3.1	2.1	-0.8	1.0	1.3
• Household consumption	4.8	2.1	9.3	-0.4	2.0	3.2
• Government	2.0	3.8	-2.4	3.1	3.8	2.0
• Residential investment	-11.1	7.2	-30.3	-18.9	-8.8	-13.8
• Business fixed investment	7.8	3.6	12.9	3.9	-5.5	3.5
• Bus inventory investment (\$Bn)	37.9	19.9	57.4	52.3	22.1	NA
• Exports	2.6	-7.5	6.9	10.6	0.8	2.5
• Imports	7.2	1.3	27.5	-1.8	-12.0	2.8
GDP implicit chain price index	7.4	13.0	12.6	-4.5	-2.8	4.2
Pre-tax profits	8.9	20.5	51.1	-30.0	-40.7	-6.7
Real disposable income	-0.6	7.0	-2.3	-1.0	7.7	2.8
Personal savings rate (%)	6.0	8.1	5.0	5.0	6.0	NA

Source: Statistics Canada

- The Canadian economy surprisingly stalled in the final quarter of 2022, but early indications suggest that it started the New Year on a better footing. The flat growth in Q4 2022 was in contrast to the Bank of Canada's January MPR forecast for 1.3% and the consensus expectation for a 1.6% advance. Even though the advance estimate for January pointed to solid growth to start 2023, signs of a weaker than expected economy and easing inflationary pressures should be enough to keep the Bank of Canada on hold.
- While the economy overall was weaker than anticipated in the fourth quarter, in contrast to Q3 some of the underlying details were better. Domestic demand rebounded (+1.0%) following the surprise drop in the prior quarter, as consumer spending increased and the pace of decline in residential investment slowed. However, even though real consumer spending rebounded modestly (+2.0%), households in Canada still appear to be exhibiting more spending restraint than their US counterparts, with the household savings rate increasing to 6.0%, from 5.0%, and remaining well above pre-pandemic norms. Real disposable incomes rebounded in Q4, after two quarters of declines thanks to the inflationary pressures seen last spring/summer.
- Inventories were a larger drag on growth in Q4 than anticipated, offsetting a positive contribution from net trade. The positive contribution from net trade was, however, largely due to a decline in imports which no doubt contributed to the weaker inventory build. Real exports advanced by only 0.8%, following a 10.6% surge in the previous quarter.
- Even though inventory building was weaker than expected, and as such represented a sizeable drag on growth in Q4, the economy-wide stock-sale ration still edged up and there was a particularly big improvement in this ratio for autos. Because of that, the negative to growth from inventories should not be a concern in terms of future inflationary pressures.

- Lower commodity prices during the quarter contributed to a decline in the GDP deflator and a drop in nominal GDP (-2.7% annualized) for a second consecutive quarter. However, for 2022 as a whole, nominal GDP still managed a very healthy 11% increase relative to 2021, aided by rising prices and a 3.4% increase in real GDP.
- The monthly GDP figures showed a 0.1% decline in December (consensus 0.0%), but a healthy 0.3% advance in January. That would leave Q1 GDP tracking around 1% annualized growth, which would be slightly above the Bank of Canada's January MPR forecast. However, given the Q4 disappointment, the level of activity would still be tracking modestly below the BoC's prior projections.

Implications & actions

Re: Economic forecast — The stall in GDP during the final quarter of last year was a surprise, but a rebound in domestic demand led by consumer spending shows that the bottom is certainly not falling out of the economy. The advance estimate for January points to a rebound in growth during the first quarter, albeit not to the sort of pace that will add to inflationary pressure or concern the Bank of Canada. Indeed, Q4 and the early tracking for Q1 combined suggest that the economy is now growing below its long-run potential, which should help to further ease inflationary pressures.

Re: Markets — Following recent upside surprises in employment reading, markets appear to have been anticipating another positive surprise today. The weaker-than-anticipated result saw bond yields decline and the Canadian dollar weaken against the US\$, albeit fairly modestly.

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