

Economics

ECONOMIC FLASH!

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Canadian GDP (Feb, Mar adv): life in the fast lane

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GDP (period/period % chg)	21:Q3 ¹	21:Q4 ¹	Dec	Jan	Feb	Feb Y/Y
GDP (at basic prices)	5.3	6.6	0.1	0.2	1.1	4.5
• Goods-producing	-3.0	6.8	0.6	1.0	1.5	4.1
• Services-producing	8.5	6.5	0.0	-0.1	0.9	4.6
• Business	5.2	7.8	0.1	0.3	1.2	4.8
• Non-business	5.5	1.6	0.1	-0.2	0.5	3.0

Source: Statistics Canada

- After hitting the fast lane in February, advance data suggests growth eased to a steadier pace in March. The 1.1% gain in February was even larger than the consensus and advance estimate (+0.8%), and was followed by a steadier, but still solid, 0.5% gain in March. This puts Q1 as a whole on track for a 5.6% annualized growth rate, well above the 3% forecast contained within the Bank of Canada's latest MPR. However, we have seen in the past that the final expenditure figures don't always tally with the advance estimate from industry data (most notably in Q2 last year). Moreover, the Bank also forecast a stronger second quarter growth rate this year than the consensus, which may be more difficult to obtain from a higher starting level of GDP. That said, another stronger-than-expected data release supports the case for another non-standard 50bp hike in interest rates at the next BoC meeting.
- For February, the gains were broadly based, with 16 of 20 industries seeing activity increase relative to the prior month. Reopening services bounced back, with accommodation and food notably contributing a quarter of the total monthly advance. There is still much room, however, for high-contact services to be back to pre-Omicron levels, let alone pre-pandemic, and that should continue to support growth in coming months. The goods sector also grew by a strong 1.5%, led by construction, which advanced for the second consecutive month (+2.7%), and mining, quarrying, and oil and gas extraction, which grew at its fastest pace since December 2020 (+3.4%). Utilities contracted (-2.3%) following the weather-induced January surge. Meanwhile, wholesale (-1.1%) and retail (-0.2%) trade also declined.
- The advance estimate for March pointed to a steadier 0.5% gain, led by the continued rebound in client-facing industries with the easing of restrictions, as well as increases in the manufacturing and construction sectors. The wholesale sector is expected to have continued to decline. If that gain is confirmed when the final data are released, the level of GDP would stand 2.1% higher than its pre-pandemic (February 2020) level, although that would still represent a shortfall relative to the pre-pandemic trend, which over two years would typically have seen the economy grow by something closer to 4%..

Implications & actions

Re: Economic forecast — The Canadian economy continues to surprise and the Q1 number now seems much stronger than expected. This would put our annual forecast at around 4%, all else equal, a few ticks higher than our last projection. However, we've seen on occasion big gaps between these monthly data on GDP by industry data and the subsequent quarterly GDP figures, which are measured by the sources of expenditures, most notably in Q2 2021. We continue to

¹ Annualized.

expect a deceleration in growth over the balance of the year as impact of high inflation and rate hikes put a squeeze on Canadians' spending power and slow the housing market.

With another strong release in hand, the Bank has even more ammunition to justify a non-standard 50 bp interest rate hike at the next meeting, and likely the one thereafter. However, with growth likely to slow in the second half of the year and inflation poised to decelerate, we still think that the path higher for interest rates won't be as steep as financial markets are currently expecting, and we still see a peak of 2.5% reached in early 2023.

Re: Markets — Despite already pricing in a very quick tightening cycle, today's surprisingly strong data sent bond yields higher, although 2-year yields remained below highs set earlier this month, and the Canadian dollar didn't sustain any reaction.

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