

## Economics

# ECONOMIC FLASH!

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## Canadian GDP (Nov & Dec adv): Cooler, but not ice cold

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GDP (period/period % chg)	22:Q2 <sup>1</sup>	22:Q3 <sup>1</sup>	Sep	Oct	Nov	Nov Y/Y
GDP (at basic prices)	4.2	2.9	0.2	0.1	0.1	2.8
• Goods-producing	5.1	4.2	0.3	-0.5	-0.1	3.8
• Services-producing	3.9	2.4	0.1	0.4	0.2	2.5
• Business	4.6	2.5	0.2	0.1	0.0	2.8
• Non-business	2.1	4.4	0.1	0.5	0.3	2.9

Source: Statistics Canada

- Much like the weather, the Canadian economy cooled during the final quarter of last year but was far from ice cold. A 0.1% increase in GDP during November, combined with a marginal upward revision to the prior month and a flat estimated reading for December, resulted in a 1.6% annualized growth rate for the quarter as a whole. While that is a clear deceleration relative to the pace of growth seen earlier in the year, it is still better than most forecasters were anticipating before the quarter began.
- The detail for November pointed to a 0.2% gain in services activity that was slightly offset by a 0.1% decline on the goods side. On the services side, many of the areas most negatively impacted by the pandemic continued their slow recovery. That included a 4.6% increase in air transport, 2.5% rise in accommodation services and a 0.6% gain in arts & entertainment. However, all three of those areas remain well below their December 2019 levels ( -33%, -3.9% and -10.5% respectively). Moreover, there was a 2.9% decline in food services during November which could be an early indication of households cutting back due to the bite from rising interest rates and inflationary pressures.
- On the goods side, the decline during November was mainly driven by construction and in particular residential building (-1.8%) and repair (-1%). Mining, oil & gas increased to partly offset the drag from construction, led by another rise in potash production thanks to strong global demand for Canadian product.
- The advance estimate for December indicated a broadly flat reading to finish the quarter, with gains in retail and utilities offset by declines in wholesale and finance.
- For Q4 as a whole, GDP was estimated to have increased at a 1.6% annualized pace. While that's a fairly modest growth rate in comparison to the pace seen earlier in the year, it is still better than most forecasters were expecting before the quarter began due to the rising interest rate environment. It is also very slightly above the Bank of Canada's MPR forecast (+1.3%), although there can often be wide discrepancies between the monthly industry data and the quarterly expenditure figures that will be released later.

## Implications & actions

**Re: Economic forecast** — While the Canadian economy hasn't cooled as quickly as we (and others) previously expected given the rapid rise in interest rates, there are growing signs of fragility. The recovery in many services has slowed even with activity still well below pre-pandemic levels, and a dip in restaurant activity could be an early sign of consumers

<sup>1</sup> Annualized.

changing their behaviour in the face of inflationary pressures and rising interest rates. Because of that we suspect that the economy will stall and possibly even contract modestly in Q1, which will keep the Bank of Canada on the sidelines.

**Re: Markets** — Bond yields fell slightly after the release, although that appears to be in reaction to US data signaling that labour costs cooled a little more than anticipated in the final quarter of 2022. The Canadian dollar strengthened slightly against the greenback.

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