

Economics

ECONOMIC FLASH!

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June 30, 2022

Canadian GDP (Apr, May adv): How? vs. how much?

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GDP (period/period % chg)	21:Q4 ¹	22:Q1 ¹	Feb	Mar	Apr	Apr Y/Y
GDP (at basic prices)	6.8	3.6	0.8	0.7	0.3	5.0
• Goods-producing	6.9	7.9	0.8	1.0	0.9	4.3
• Services-producing	6.7	2.1	0.8	0.5	0.1	5.3
• Business	8.1	4.3	0.9	0.8	0.5	5.5
• Non-business	1.6	0.7	0.7	0.0	-0.2	2.9

Source: Statistics Canada

- Growth in the Canadian economy is cooling, but not entirely in a way that will convince policymakers that inflation will do the same. Monthly GDP increased by 0.3% in April (in line with the consensus forecast), but advance data for May points to a decline of 0.2% during that month. However, declines in mining, oil & gas and manufacturing suggest that the monthly drop in May was at least partly due to supply issues rather than slowing demand, which could add to, rather than subtract from, current inflationary pressures.
- Real estate was unsurprisingly a drag on growth in April, given the impact of higher rates on transaction volumes, with finance and wholesaling also seeing declines. However, outside of housing, other signposts for domestic demand remained strong, with retail sales, accommodation & food services and arts, entertainment & recreation all up on the month.
- The continued recovery in accommodation & food services brought inflation-adjusted activity in that sector within a hair of its December 2019 level. Transportation & warehousing (-11%) and arts, entertainment & recreation (-12%) still have some ground to make up to get back to pre-pandemic levels of activity although, particularly in certain parts of the transportation sector, lack of supply is as much of an issue as still-recovering demand.
- For May, mining, manufacturing and construction were listed as drags on growth, with the advance industry data for manufacturing released last week suggesting that the recovery in auto production had slipped into reverse again. While housing starts have remained strong, a slowdown in renovation activity is starting to weigh on the construction sector as a whole.

Implications & actions

Re: Economic forecast — For Q2 as a whole, GDP appears to be tracking just below a 4% annualized pace, compared to the 6% rate the Bank of Canada had forecast in its April MPR. However, other than perhaps a quicker retreat in housing activity, the slower than projected growth appears to be due to supply rather than demand side factors. As a result, it will do little to ease the Bank of Canada's concerns regarding current inflationary pressures. A slowing in other elements of domestic demand, including in retail sales and consumer-facing services, is expected to show up more during

¹ Annualized.

the second half of the year, with households currently able to use the excess savings put aside during the pandemic to cushion the blow of high inflation and interest rate increases.

Re: Markets — While bond yields and the C\$ fell slightly immediately after today's data, those moves were quickly reversed, with both higher than their pre-release levels by 9am.

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