

Economics

ECONOMIC FLASH!

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Canadian GDP (Apr & May adv): Not quite as resilient

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GDP (period/period % chg)	22:Q4 ¹	23:Q1 ¹	Feb	Mar	Apr	Apr Y/Y
GDP (at basic prices)	1.0	2.8	0.1	0.1	0.0	1.7
• Goods-producing	-2.6	0.6	0.2	0.3	0.1	0.2
• Services-producing	2.2	3.6	0.0	0.0	0.0	2.3
• Business	0.1	2.6	0.0	0.0	0.1	1.4
• Non-business	4.5	3.8	0.3	0.3	-0.4	3.3

Source: Statistics Canada

- The Canadian economy wasn't quite as resilient to the headwinds it was facing in April as was first indicated, with GDP flat on the month. That is in contrast to the 0.2% advance estimate and consensus forecast. While a strike of federal workers weighed on activity in April, that should have been factored into the advance estimate. The advance estimate for May points to a solid 0.4% gain, although even with that the tracking for Q2 as a whole still stands only modestly higher than the Bank of Canada's April MPR forecast of 1.0%, at 1.4%. That doesn't make a particularly compelling case for another rate hike as soon as the July meeting, although the Bank's own outlook surveys and next week's labour force release could still tip the scales on that call.
- A large, albeit temporary, decline in public administration owing to the Federal strike was the biggest drag on growth during the month. However, there was also weakness in wholesale and manufacturing as well. Statistics Canada noted that the decline in the wholesale sector was largely due to a normalisation in activity after a number of high-value agricultural supply shipments were made in the prior month. The decline in manufacturing was partly driven by production curtailments in paper manufacturing in BC.
- Offsetting those drags were positive contributions from real estate and mining, oil & gas. While the increase in real estate activity may raise some eyebrows in a high interest rate environment, it should be noted that the level of activity within real estate agents is still down 17% on a year-over-year basis and lower than in 2019 (despite the demands for housing due to rapid population growth). Another positive contributor to growth in April was air travel (+1.6%), although again the level of activity remains depressed (-30%) compared to the pre-pandemic peak.
- The advance estimate for May pointed to a healthy 0.4% gain, although that will partly reflect a rebound in public administration after the strike ended. Manufacturing and wholesale were also said to have rebounded in May, while further growth in real estate was also cited.
- The quarter as a whole is now tracking at a 1.4% annualized pace, which is only slightly above the Bank of Canada's April MPR forecast of 1.0% and a clear deceleration from the growth rate seen in Q1.

¹ Annualized.

Implications & actions

Re: Economic forecast — While the strike by federal workers has created some noise within the data, the underlying trend still appears to show a weakening of growth following the very swift start to the year. With absolute levels of activity getting closer to pre-pandemic norms in some of the sectors that have been recovering over the past year, and with interest rate hikes still having a lagged impact, growth rates for the economy as a whole will likely weaken further during the second half of the year and into 2024. For now we retain our call for no hike in July, and a final 25bp move in September, but the BoC's surveys later this morning and labour force survey next week could still tip the balance on that call.

Re: Markets — Bond yields fell after today's release, as markets slightly pared back expectations for further rate hikes, with that move reflecting the weaker April GDP data out of Canada but also some below consensus data out of the US as well. The Canadian dollar was little changed against the greenback, but weaker on other crosses.

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