Economic Commentary

June 30 2022

Growth prospects dim despite solid April GDP

Canada's economy continued to expand at a solid pace through April, but early signs point to a slip in May activity. Gross domestic product (GDP) rose 0.3 per cent m/m, which was significantly slower than the March gain of 0.7 per cent but in line with consensus forecast.

Industry output patterns were mixed with 13 of 20 sectors expanding. Key to the increase was a strong upswing in resources as mining, quarrying, and natural gas extraction rose 3.3 per cent. Strong commodity prices and global supply shocks have supported growth for key Canadian energy commodities, although slowing global economic conditions could temper momentum. Meanwhile, key pandemic-sensitive services sectors continued to rebound as consumer spending rotated back towards tourism and in-person social events including restaurants, live performances, and business conferences. By extension, the accommodations/foodservices sector expanded by 4.6 per cent (albeit sharply slower than the March increase of 10.9 per cent), while the arts/entertainment/recreation sector rose at 7.0 per cent (compared to 12.9 per cent in March). Other notable expansions included retail trade (0.9 per cent) and transportation/warehousing (2.2 per cent), which was buoyed by a surge in air travel (20 per cent) as tourism picked up.

In contrast, areas of notable weakness included finance and insurance (-0.7 per cent) and real estate/rental/leasing (-0.8 per cent), which likely reflects a slower housing market and tighter financial conditions.

April's expansion pushed industry- GDP above February 2020 levels by 2.2 per cent. That said there remains uneven growth with some sectors still well below pre-pandemic levels. Arts/entertainment/recreation is still 11.5 per cent lower, while air transportation is down 48 per cent. Hotels are back to normal. In contrast, construction output is up 4.4 per cent on residential activity (13.5 per cent), retail is up 5.3 per cent, while professional/scientific/technical services gained 7.5 per cent.

Preliminary May data points to a mild slip of 0.2 per cent in GDP as resources sector retreats. We also anticipate a slowing in housing related sectors as higher interest rates shave activity, although other services expanded. That said, the economy is still on track for a near four per cent annualized growth during the quarter. While headwinds are mounting for the economy and global growth is slowing in H2, we anticipate the Bank of Canada to stay on it rate hike path owing entirely to high inflation and risks of rising inflation expectations. We currently peg a 75- basis point hike at the July meeting with a terminal rate of 2.75 per cent at year end.

Bryan Yu
Chief Economist
Central 1 Credit Union
byu@central1.com