



Commodity sector growth masks broader economic slowdown in July

Statistics Canada's latest estimates pegged monthly industry gross domestic product (GDP) growth at 0.1 per cent in July. While the pace of growth was unspectacular, this still marked a surprising uptick amidst declining employment and housing market weakness. Statistics Canada own advanced estimate was for a -0.1 per cent decline. With preliminary August data coming in flat, Canada's economy looks to have settled into a holding pattern in the third quarter.

July's GDP increase was owed entirely to expansion in the goods sector, which surged 0.5 per cent from June on gains in the resource sector. Forestry, hunting, and agriculture jumped 3.2 per cent due to a surge in crop production (7.2 per cent), reflecting higher crop yield and export demand. Alberta led a 1.9 per cent increase in other resource extraction during the month with a 5.9 per cent increase in oil sands production.

Excluding these sectors, growth was far less sanguine even with the lift from soaring population growth during the second quarter. Both construction and manufacturing declined suggesting pressures from weakening global growth and slowing housing market. Moreover, the bite from high inflation and interest rates shows signs of curbing consumer activity. Retail trade sank 1.9 per cent and wholesale trade declined 0.7 per cent, while tourism-sensitive sectors like transportation/warehousing (-0.1 per cent) and accommodations and foodservices (-1.0 per cent) also contracted. That said arts/entertainment and recreation rose 0.6 per cent pointing to a lift from in-person events. Public-sector driven sectors like education (0.8 per cent) and public administration (0.5 per cent) gained.

Advance August data suggests a rebound in retail and wholesale trade. That said, we can expect a slowdown in GDP during the second half of the year as higher domestic interest rates flow through the economy and more aggressive interest rate hikes in the U.S. drive a recession down south. This will slow Canadian exports, although we still see Canada skirting an outright recession but with low growth through mid-2023.

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