Economic Commentary

October 28 2022

central 1 Economics

Economy shows growth through September but expected to stall into 2023

Canadian economic activity nudged higher in August, and by early estimates, again in September in what should be the last bit of momentum heading into a more pronounced slowdown. Growth in gross domestic product (GDP) reached by 0.1 per cent to slightly outpace July's increase as services-oriented sectors drove gains. Preliminary data for September points to another 0.1 per cent increase led by oil and gas, manufacturing and the public sector. If this holds, third quarter GDP on a production basis is tracking 1.5 per cent, annualized.

August GDP growth was highlighted by a 0.3 per cent increase in services- sector activity. Specifically, wholesale (up 0.7 per cent) and retail (up 1.2 per cent) trade both rebounded after retreating in July. Population growth and a tight labour market continued to support growth. Ongoing recovery in tourism and events added to arts/entertainment/recreation (up 1.5 per cent) and accommodations/ foodservices (up 0.4 per cent). There were negligible gains (0.1 per cent) in finance/insurance and real estate and leasing, pointing to the effects of a weaker housing market. Goods- sector output fell 0.3 per cent on broad declines in construction, manufacturing, and resources extraction.

While September growth looks to be positive, a more pronounced slowdown is expected in the fourth quarter. The Bank of Canada's hiking cycle added 125 basis points in September and October, and we expect the policy rate to reach 4.25 per by year-end or early 2023. This will continue to add pressure to the housing market downturn and slow broader consumer demand. A slowdown in the global economy, specifically an anticipated recession in the U.S., will contribute to a weaker export performance. Growth is forecast to slow to near zero in the fourth quarter 2022 and first quarter of 2023.

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