Economic Commentary

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central 1 Economics

Economic growth shows more signs of stalling

The Canadian economy may be wavering, but it hasn't fallen just yet. November industry gross domestic output (GDP) came in at 0.1 per cent m/m which was in line with Statistics Canada's preliminary estimate published last month. This was marginally lower than October growth, although the trend eased. The early December estimate is that the economy stalled due to a slowdown in commodities and wholesale trade. With this latest estimate, industry-GDP growth for Q4 is tracking about 1.6 per cent annualized which is higher than the Bank of Canada's recent Monetary Policy Report forecast.

Turning back to November data, the patterns reflect the theme of a weak housing market and some pullback in consumer goods spending as rates and inflation weigh. A scan shows 14 of 21 industry sectors expanded but the headline gain was driven by services-oriented output which continues to recover from pandemic weakness. Services-producing sectors expanded 0.2 per cent as goods-producing sectors contracted 0.1 per cent. Of the latter, the drag was led by construction (-0.6 per cent), particularly residential activity and repairs/maintenance. Manufacturing nudged lower on more significant declines in food, wood products, machinery, and motor vehicles and parts.

Among services, most segments grew led by sectors benefiting from the rebound in travel and recreational services. Transportation/warehousing expanded 1.0 per cent led by resurgent air travel with related transportation up 4.6 per cent. Accommodation services expanded 2.5 per cent which offset a drop in food services.

In contrast, retail trade fell 0.6 per cent m/m and extended a softer pattern since mid-year. Aside from an increase in motor vehicle sales, retail trade broadly declined specifically at home improvement stores and general merchandisers. The housing downturn continued to impact the real estate sector as activity at agent and broker offices fell 4.2 per cent, and 30 per cent lower than February before interest rates hammered activity. While the Canadian economy has remained resilient, we can expect growth to slow to trundle near zero and potentially dip into negative territory during the first half of the year. After quickly reverberating through the housing market and interest rate sensitive sectors, monetary policy will curb broader consumer and business investment spending through the first half. That said, a downturn is anticipated to be mild and we do not anticipate a recession.

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