Economic Commentary

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Economics

A sigh of relief as GDP growth stalls in Q4

A surprisingly downbeat report for Canadian Gross Domestic Product (GDP) will be welcomed by the Bank of Canada and its quest to curb inflation while boding well for its conditional policy rate pause. Expenditure GDP was unchanged in the fourth quarter, which was considerable miss from the consensus forecast for an annualized gain of 1.5 per cent and the Bank's projection for a 1.3 per cent increase. This also lagged the industry GDP estimate which showed a 1 per cent annualized increase during the quarter despite a slip in December.

Flat Q4 expenditure GDP follows a downward revised third quarter where the economy expanded 0.6 per cent (2.3 per cent annualized). This ended 5 consecutive quarterly gains. On a full-year basis, GDP rose 3.4 per cent.

Looking at the key patterns (data is not annualized unless noted), weaker growth reflected a sharp drop in inventory accumulation during the quarter after record numbers in the two prior quarters. Domestically, housing contracted again with residential investment down 2.3 per cent (nearly 9 per cent annualized) as mortgage rate induced declines in housing transactions and renovations curbed activity. Output is down 15 per cent since Q1 2022. Meanwhile, business investment was dragged lower by a drop in machinery and equipment of 7.7 per cent, which offset a bump in LNG project-related spending on structures. A huge inventory drawdown pulled down growth.

In contrast, consumer spending accelerated with a 0.5 per cent increase after slipping in Q3. Durable goods jumped 3.4 per cent but owed in part to improved supply chains as availability of supply led to fulfilment of vehicle orders. However, with spending on semi-durables and non-durable goods down, and slowdown in services spending (0.3 per cent from 1.1 per cent), demand looks to be easing outside of supply driven gains. On the trade front, exports edged higher by 0.2, while imports fell 3.1 per cent.

Excluding inventory and trade, growth in final domestic demand came in at 0.3 per cent (1.0 per cent annualized). While real GDP held flat, national income fell in the latest quarter by 0.7 per cent marking a second quarterly decline. Export prices have turned against Canada, particularly energy related, while consumer price growth also decelerated. Business gross operating surplus fell 5.6 per cent, although wage growth continued to lift employee compensation, which rose 1.2 per cent during the quarter, a similar rate to Q3. That said, nominal GDP for 2022 surged 11 per cent.

Canada's household savings rate rose to 6.0 per cent following a slowdown to 5.0 per cent in the previous two quarters. This reflected stronger household disposable income growth (3.0 per cent) and lift from the one-time GST credit top up and increase OAS payments to seniors. Savings rates remain elevated and well above pre-pandemic patterns.

On an industry-basis, GDP output fell 0.1 per cent m/m largely due to unplanned maintenance in the oil and gas sector. Early estimates for January for a 0.3 per cent increases points to a positive bounce.
Nevertheless, the big Q4 GDP miss and constructive CPI inflation numbers earlier this month will likely mean the Bank of Canada's conditional pause is safe for next week's meeting, but it will continue to emphasize the importance of inflation and the need for the economy to slow. Deviation from its projections to the upside for the economy and inflation could trigger more hikes at future meetings.

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