Economic Commentary

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Economics

Resources, retail and… hockey? Broad drivers lift GDP growth in January

Canada's economy accelerated faster than expected in January with industry-GDP up a sharp 0.5 per cent (compared to expectations for a 0.3 per cent increase) and followed a 0.1 per cent slip in December. While a slowing of growth and potentially mild recession is expected later this year, early-February estimates point to another solid 0.3 per cent expansion.

January's strong pick up was partly due to a rebound in December's poorly performing sectors but there was broad expansion with 17 of 20 sectors growing. Indeed, with the labour market steam and huge immigration numbers, at least some of that had to be captured by economic activity. Some of the big gainers for the month included rebounds in mining and oil and gas extraction (1.1 per cent) on oil sands extraction, transportation/ warehousing (1.9 per cent), and arts/entertainment/recreation (2.1 per cent) after relatively steep contractions in December. Construction rose 0.7 per cent. Growth also surged in the hospitality sector by 4.0 per cent. while retail trade rose 1.0 per cent and wholesale trade increased 1.8 per cent and likely a reflection of the labour market, people inflows and according to Statistics Canada – more hockey played in the country (World Juniors, and more NHL hosting of home games in Canada). Manufacturing expanded 0.5 per cent but propped up by a 20 per cent increase in motor vehicle manufacturing, while petroleum refineries and machinery manufacturing increased. In contrast, wood products contracted.

Growth in consumer demand also offset weakness in the housing market as real estate broker activity plunged 4.5 per cent during the month. Activity has declined since April, with year-over-year activity down 43 per cent, reflecting a plunge in home sales.

Broadly goods-production rose 0.4 per cent after contracting 0.7 per cent in December, while the services-sector which makes up 72 per cent of output expanded 0.6 per cent from 0.1 per cent the prior month.

With preliminary February data for a 0.3 per cent increase from resources, manufacturing and finance/insurance, GDP in Q1 is coming in strong. If GDP holds steady in March, we could see a near 3 per cent annualized increase, although some slowing in March likely pares this. While further slowing of the economy is likely as monetary policy feeds through, we are clearly on a stronger than expected trajectory. Consistent with this, we see no immediate need for the Bank of Canada to even entertain the idea of rate cuts.

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