Economic Commentary

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central 1 Economics

Economy stalls in February, March contraction likely

Canada's economy eked out another month of growth in February but showed signs that an anticipated slowdown is underway. Growth in industry gross domestic product (GDP) fell from 0.6 per cent in January to 0.1 per cent (m/m) in February, which was below consensus forecast of 0.2 per cent. Just over half of the subsectors recorded gains during the month. Early March data points to a contraction of about 0.1 per cent, which would pare quarterly growth to a still strong 0.6 per cent (2.6 per cent annualized).

February's slowdown was broad with both goods- and services-producing industries slowing to 0.1 per cent. Among goods, the farming and logging fell more than one per cent during the month. Manufacturing slipped 0.1 per cent after a one per cent gain in January, with a slowdown in food production, transportation equipment and broadly among other manufacturing segments. This could reflects slowing business investment.

Services-sector decline were led by retail activity, down 0.5 per cent after a 1.3 per cent gain in January, led by a contraction in sales among gasoline stations and decelerated growth among motor vehicle and parts dealers and home furnishing. Wholesale trade fell 1.3 per cent. There were signs that rebound in pandemic hit services also slowed with air travel slipping albeit with travel arrangement activity still rising. Arts/entertainment/recreation and hospitality also slowed. A weak housing market continued to curb activity at real estate offices, although activity in the financial and insurance sector increased.

On the upside, professional/scientific/technical services continued to grow at a strong pace of 0.6 per cent with stronger growth in technology.

The latest GDP data points to slowing economic conditions despite what will be a strong data print in Q1 that is slightly ahead of the Bank of Canada forecast for a 2.3 per cent increase. That said, deceleration is underway as tighter monetary conditions pass through to consumer spending and business spending. Early March data is dragged by retail/wholesale trade and mining, while being offset by the public sector and professional services. The interest rate hit will continue, while the public-sector will likely be a drag if the federal public service strike continues or spreads. The Bank of Canada will look at this data as a sign to hold the policy rate steady despite higher than target inflation and some signs that home prices are picking up.

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