



Economic Commentary

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Economy finds life heading into 2024

There is some life yet in the Canadian economy as industry-Gross Domestic Product (GDP) surprised in the upside in November with broad-based growth among sectors, and early data for December pointed to an acceleration in output to end off the year. Total industry output rose 0.2 per cent in November to best the consensus forecast for a 0.1 per cent increase and followed three flat months. December's gain reflects goods-sector growth. While preliminary estimates are likely to change, the latest data suggests Q4 growth of 0.3 per cent (1.2 per cent annualized) and an annual gain of 1.5 per cent.

Industry output growth was seen in most sectors in November with 13 of 20 reporting higher activity from October, although some notable increases were owed to rebounds after prior months' shocks. Substantial gains were recorded in the goods-producing sectors led by a 0.9 per cent increase in manufacturing and a 1.4 per cent increase in utilities. Manufacturing growth represented about one third of net overall growth, with notable growth in sectors like petrochemicals and metals manufacturing. Gains in both owed to increases following third quarter maintenance shutdown, but strength in the U.S. economy could be lifting activity.

Services producing sector growth lagged with an increase of 0.1 per cent. Stronger gains were seen in wholesale trade, which bounced back after two months of declines, while tourism oriented and discretionary sectors like accommodations and foodservices (0.5 per cent) and arts/entertainment/recreation (0.4 per cent) added to growth. Retail spending fell 0.1 per cent. Transportation and warehousing jumped 0.8 per cent as impacts from strikes on the St. Lawrence Seaway port in Quebec reversed. There was minor change in the real estate sectors, and flat activity among professional services, suggesting greater weakness among more "white collar" domestically driven industries. Public sector activity was also subdued.

Broadly, November's GDP points to an economy with some life in the fourth quarter and positive momentum heading into 2024 without any significant weakness percolating through the latest numbers. At a 1.2 per cent annualized rate, Q4 output growth is outpacing the Bank of Canada's GDP estimate of no change. That said, the Bank forecasts expenditure GDP which contracted 1.1 per cent in the third quarter, and fourth quarter patterns will differ contingent on inventory adjustments. Nonetheless, this was a stronger end to the year and creates more upside risk for expenditure growth. Adding to firmer inflation in December, we could see rate cuts pushed to mid-year. Central 1 currently forecasts an April cut. This will depend upon the path of the labour market slack and wages, and inflation.

Our recent national forecast pegs GDP growth at 1.1 per cent for 2023 and 0.8 per cent in 2024.

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