

ECONOMIC NEWS

Canada: October GDP serves up more growth

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Real GDP advanced by 0.1% in October, in line with our call and consensus expectations while beating Statistics Canada's flash estimate for a flat print.
- ▶ Services-producing sectors posted a 0.3% gain in the month. Sizeable monthly increases in arts, entertainment and recreation (2.2%), wholesale trade (1.3%), accommodation and food services (1.0%), and transportation and warehousing (0.8%) led the charge.
- ▶ In contrast, goods-producing sectors took a step back in October, falling 0.7%, led by lower activity in mining, quarrying and oil and gas extraction (-1.6%). Manufacturing output also contracted 0.7% in the month.
- ▶ On a year-over-year basis, real GDP was up 3.1% from its October 2021 level, although that largely reflected gains seen earlier in 2022.
- ▶ Statistics Canada's flash estimate is for real GDP to advance by 0.1% in November, in line with our tracking. This followed a correction by the statistical agency, which now points to gains in the utilities, wholesale, and finance and insurance sectors that were partially offset by declines in the construction, retail, and mining, quarrying, and oil and gas extraction sectors.
- ▶ Real GDP was revised up a tick for September to 0.2%.

COMMENTS

Services-producing sectors continued to drive monthly real GDP growth in October, registering the sixth consecutive monthly advance. It's notable that those sectors which took a beating during the pandemic and benefitted most from the subsequent reopening of the economy, such as accommodation and food services and arts and culture, were at the top of the leader board in October. One would expect the combination of high inflation and interest rates would take the shine off these industries, but they don't look to have yet. Instead, goods-producing sectors are holding back headline real GDP growth, although not in the sectors we would have expected either. Indeed, construction activity hasn't contracted sharply since May. It was rather

GRAPH

Canada's economy keeps gaining ground in the second half of 2022



Sources : Statistics Canada and Desjardins, Economic Research

manufacturing and resource extraction that held back goods output in October.

IMPLICATIONS

Today's release combined with upward historical revisions is consistent with Q4 real GDP growth tracking at roughly 1.5% annualized. This is well above the Q4 growth of 0.5% projected in the Bank of Canada's October Monetary Policy Report. However, it's only one indicator of many tracked by the Bank. Policymakers would have had some indication that their forecasts were too low when they hiked rates 50bps in December, which was more than the market was anticipating. The slowing pace of inflation and job gains also provide an offset to the better-than-expected growth in real GDP in Q4. As such, we continue to expect the Bank to settle in for a prolonged pause following its outsized rate hike in December. But it remains data dependent, so we'll be watching the data flow closely in the coming weeks – the December Labour Force Survey, quarterly surveys of consumer and business expectations, and another CPI reading – to get a sense of how hawkish that Bank may be at its January meeting.