

ECONOMIC NEWS

Canada: Soft GDP headline with mixed messages in the details

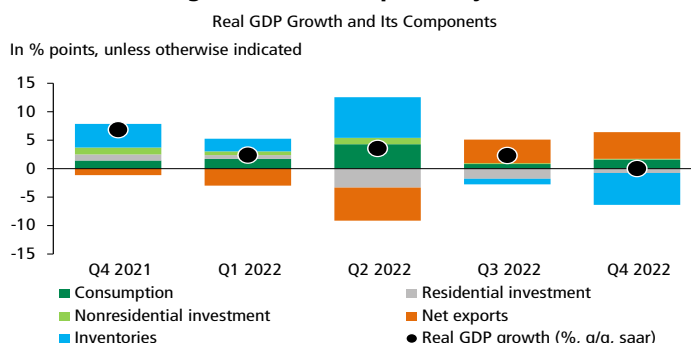
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HIGHLIGHTS

- ▶ Real GDP was roughly flat in the fourth quarter of 2022, well below the expectations of forecasters. This left real GDP growth at 3.4% in 2022 and provided a soft handoff to 2023.
- ▶ Domestic demand advanced by 1.0% annualized in Q4, after contracting in the prior quarter. Household consumption underpinned the rebound (2.0%), as delivery of autos ordered during the pandemic pushed durable goods consumption higher (14.4%). However, given how concentrated the gain was, we don't expect it to last much beyond the start of the year.
- ▶ In contrast but as expected, residential investment contracted again in the fourth quarter, falling 8.8% for the third consecutive quarterly decline. Non-residential business investment also moved lower in the quarter (-5.5%), as a sharp drop in investment in machinery and equipment (-27.6%) was only partly offset by a gain in investment in non-residential structures (10.2%).
- ▶ While domestic demand posted a modest but still respectable advance in Q4, trade and inventory data continued to experience volatility. Indeed, net exports contributed 2.3ppts to growth in the fourth quarter, almost entirely due to a 12.0% contraction in real imports. And as real imports fell and domestic demand advanced, inventories were naturally drawn down significantly. The resulting -5.6 ppts drag on Q4 growth was the largest drawdown since Q4 1981.
- ▶ In nominal terms, GDP fell by 2.7% in Q4 as prices contracted for the second consecutive quarter. Terms of trade dropped by 12.2% thanks to still-lower commodity prices. This hit corporate profits (net operating surplus), which fell by 40.7%, the largest quarterly decline since oil prices plummeted in 2015. In contrast, compensation of employees rose 4.7% in Q4, the smallest quarterly gain since reopening after 2020 pandemic lockdowns but still respectable. Consequently, the savings rate edged higher to 6.0% from 5.0% in Q3.
- ▶ Monthly real GDP fell by 0.1% m/m in December, below consensus and Statistics Canada's flash estimate of 0.0%.

GRAPH

Flat Q4 real GDP growth was underpinned by mixed details



Sources: Statistics Canada and Desjardins Economic Studies

Statistics Canada's flash estimate is for a 0.3% print in January 2023. Assuming flat real GDP growth in February and March, this would put Q1 growth in real GDP by industry at 1.0% annualized.

IMPLICATIONS

Q4 real GDP growth underperformed the Bank of Canada and consensus calls, and the details relay a mixed message. The largest positive contributions to growth came from the long-delayed delivery of motor vehicles and falling import volumes, neither of which are a great sign. The difficult-to-predict contribution from inventories also played an outsized role. That said, the data so far in January suggest the first quarter of 2023 is likely to come in stronger than 0.5% annualized advance the Bank of Canada projected back in January. Indeed, while we pencilled in a 1.0% upward move in our recent [Economic and Financial Outlook](#), the flash estimate for January suggests it could come in even stronger. The red-hot Canadian labour market is also reinforcing that view. However, pairing today's GDP print with inflation that came in below expectations in January, the Bank will be under little pressure to move from its current prolonged pause at the upcoming March meeting.