

ECONOMIC NEWS

Canada: The Economy Shrugs Off High Rates to Start 2023

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HIGHLIGHTS

- ▶ Real GDP advanced by 0.5% in January, besting consensus expectations (0.4%) and coming in much better than Statistics Canada's flash estimate (0.3%). This is the strongest monthly move since March 2022, when reopening spurred economic gains.
- ▶ Services-producing sectors led the charge forward in January. A 0.6% increase in the month was driven by a surge in accommodation and food services activity (4.0%) and a rebound in transportation and warehousing (1.9%) after rail traffic ground to a halt due to inclement weather in December. Solid gains in wholesale (1.8%) and retail (1.0%) trade were nothing to sneeze at either. Outturns in other services-producing sectors were more mixed.
- ▶ That said, goods-producing sectors were no slouch to start the year, moving 0.4% higher. This was on the back of a 1.1% bump in mining and oil and gas extraction that unwound the weakness in December due to unplanned maintenance. Construction (0.7%) and manufacturing (0.5%) edged up as well. In contrast, the remaining goods-producing sectors took a step back in the month.
- ▶ On a year-over-year basis, real GDP was up 3.0% from its year-ago level, although this was boosted somewhat by the drop in real GDP growth due to COVID-19 lockdowns in January of last year.
- ▶ Statistics Canada's flash estimate for real GDP is for another solid advance of 0.3% in February. Resource extraction looks as though it may top the leader board again, along with manufacturing and finance and insurance. In contrast, construction, wholesale trade, and accommodation and food services are expected to beat a retreat after solid January prints.

GRAPH

January Real GDP Starts 2023 Off on a High Note



*Statistics Canada's flash estimate
Sources : Statistics Canada and Desjardins Economic Studies

IMPLICATIONS

Today's outsized move in January real GDP and continued momentum through February leaves little room to equivocate. The Canadian economy started the year on a very strong footing. We are now tracking real GDP growth approaching 3% annualized in Q1, well above the Bank's 0.5% tracking in the January 2023 Monetary Policy Report. As such, expect substantial upward revisions to the central bank's near-term forecast when it's published in a week and a half. But with the recent global banking sector volatility and inflation coming in below expectations in February, there are plenty of good reasons for the Bank to stay on the sidelines for the foreseeable future. However, the data suggest the central bank should reiterate its hawkish-leaning forward guidance.