Canada: GDP took a breather in May
By Matthieu Arseneau and Alexandra Ducharme

A stagnant economy is usually not good news, but in this case, it is. Canadian GDP’s flat print in May is welcomed as preliminary estimate from Statistics Canada was rather indicating an outright pullback. In May, there was a continuation of the recovery of pandemic impacted sectors with accommodation/food services, arts/entertainment/recreation and transportation registering steep increases in output during the month. Accommodation/food services has fully recovered from its pre-pandemic level while the two other sectors have yet to do so. But some weaknesses are starting to appear: Real estate declined for a third month in a row in May, a first since 2017. We expect this sector to further cool as borrowing costs rise and resale market activity slows. We won’t be surprised if the pullback in construction activity in May is not the last one this year, with new home construction and renovations being highly sensitive to interest rate hikes. Looking at the quarterly picture based on Canadian monthly GDP by industry data (including preliminary estimate of 0.1% in June), the second quarter stands at 4.6% annualized following an increase of 3.7% in the first quarter of the year. This above-potential growth contrasts with the situation in the United States, where the economy has just recorded two consecutive quarters of contraction. In light of this morning report surprising on the upside, the central bank must continue to feel that its work is not done after rising its policy rate by 100 bps (the 4.0% forecast by the BoC for Q2 GDP should be beaten). This makes observers understandably nervous about the continuation of the economic cycle. While we expect growth to moderate significantly in H2 2022, we continue to believe that a recession is still avoidable if rates do not become overly restrictive (we see the policy rate peaking at 3.25% in September). The Canadian economy is well positioned on a relative basis with a large resource sector benefiting from high commodity prices, strong public finances and households enjoying a strong labour market and an accumulation of excess savings.

HIGHLIGHTS:

- Canada’s real GDP was flat in May, a result better than consensus expectations and two ticks above the Statistics Canada’s preliminary estimate calling for a decline (-0.2%). Even though the economy has stalled, production rose in no less than 14 of the 20 industrial sectors covered in May.
- Goods sector output declined 1.0% as sizeable declines occurred in manufacturing (-1.7%) and construction (-1.6%) while utilities (-0.2%) and mining/quarrying/oil & gas extraction (-0.1) posted smaller pullbacks. Conversely, agriculture/forestry jumped in May (+1.6%). Industrial production was down 1.0% m/m.
- Output in services-producing industries, meanwhile, jumped 0.4%, with strong prints for arts/entertainment/recreation (+2.6%), accommodation and food services (+1.9%), and transportation/warehousing (+1.9%) while management (-4.7%) and real estate lagged (-0.1%).
- Finally, Statistics Canada’s preliminary estimate showed GDP increasing 0.1% m/m in June.
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