CIBC

CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

May 31, 2023

Canadian GDP: Stronger and broader than expected

by **Andrew Grantham** andrew.grantham@cibc.com

National accounts (period/period % chg, annual rate, unless otherwise noted)	2022	22:Q2	22:Q3	22:Q4	23:Q1	Q1 Y/Y
Real GDP (chained 2012$)	3.4	3.6	2.3	-0.1	3.1	2.2
• Final domestic demand	2.7	2.0	-0.9	0.2	2.6	1.0
• Household consumption	4.8	9.0	0.3	1.1	5.7	4.0
• Government	2.0	-2.5	3.2	3.5	0.6	1.2
• Residential investment	-11.2	-30.3	-18.4	-9.9	-14.6	-18.7
• Business fixed investment	8.0	13.9	1.0	-5.1	1.9	2.7
• Bus inventory investment ($Bn)	39.8	60.2	53.5	24.8	10.6	NA
• Exports	2.8	8.1	11.3	2.2	10.1	7.9
• Imports	7.5	29.0	-2.3	-12.6	0.9	2.7
GDP implicit chain price index	7.2	13.0	-4.8	-2.8	0.9	1.3
Pre-tax profits	8.4	48.3	-28.5	-41.3	-15.4	-14.9
Real disposable income	-0.4	-5.1	-0.7	5.2	-6.4	-1.9
Personal savings rate (%)	6.1	5.1	4.7	5.8	2.9	NA

Source: Statistics Canada

- The Canadian economy made a solid start to 2023, with annualized growth of 3.1% coming in modestly above the consensus and BoC's latest forecasts (2.5% and 2.3% respectively) and well above what most forecasters were anticipating at the start of the year. With the headline reading, composition of growth and handoff to Q2 all slightly stronger than we had expected, the odds of another Bank of Canada rate hike have increased. However, we still expect that they will want to wait and see more data and revise their forecasts (in the July MPR) before making a final decision on whether to raise rates again, rather than hike next week.
- Net trade was a big growth driver in Q1, reflecting a surge in exports but also sluggishness in imports which will have contributed to the drag on growth from inventories. While inventory accumulation slowed and represented a drag on growth, the economy-wide inventory-to-sales ratio held steady and remains well above the lows seen 2021 and early 2022 when supply chain issues were at their worst.
- Final domestic demand, and in particular consumer spending, looked much stronger than in the second half of 2022, posting growth rates of 2.6% and 5.7% respectively. This was partly aided by strong growth in durable goods, as an easing in supply chain issues meant that previously ordered cars could finally be delivered. However, there was also solid growth in services and semi-durable consumption, even if monthly GDP by industry data suggested that demand began to falter again later in the quarter, with accommodation & food services for example posting a monthly decline in March which offset roughly half of the gain seen in January. A slump in the household savings rate to 2.9% in Q1, from 5.8%, also suggests that maybe there isn't much more scope to increase spending, with that decline driven by higher consumption and lower government transfers.
- While the quarter ended on a weaker footing than it started, the flat reading for March GDP was still slightly better than the advance estimate and consensus expectation (-0.1%). Mining, oil & gas and public administration were the

main positives for March GDP, offsetting drags from manufacturing and accommodation & food among others. The +0.2% advance estimate for April was stronger than expected, particularly given the drag from a strike by federal workers. Statistics Canada noted that further growth in mining, oil & gas among other areas had helped offset the drag during that month from public administration. The better-than-expected end to Q1 and start to Q2 leave GDP for the current quarter tracking around 1% (assuming no growth in May and June).

Implications & actions

Re: Economic forecast — Growth in Q1 was stronger and broader-based than we had anticipated, while the second quarter appears to have started on a slightly firmer footing. Even though growth since January has still been only modest, the resilience of GDP raises the possibility of a further interest rate hike from the Bank of Canada. However, we still expect that they will want to wait and see more data, while also revising their forecasts in the July MPR, rather than pull the trigger on a further 25bp increase as early as next week.

Re: Markets — The better-than-expected growth rates in Q1 and advance estimate for April saw bond yields rise and the Canadian dollar gain versus its US counterpart, although the loonie remained weaker on the day owing to a slump in oil price amid China growth concerns.