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Canadian GDP (Jan, Feb adv.): Starting fast…again

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GDP (period/period % chg)	23:Q3[1]	23:Q4[1]	Nov	Dec	Jan	**Jan Y/Y**
GDP (at basic prices)	-0.5	0.8	0.2	-0.1	0.6	0.9
• Goods-producing	-4.2	1.1	0.8	-0.5	0.2	-1.1
• Services-producing	0.7	0.7	0.1	0.0	0.7	1.6
• Business	-1.5	1.5	0.5	0.1	0.3	0.7
• Non-business	3.2	-2.1	-0.7	-1.2	2.0	1.7

Source: Statistics Canada

- The Canadian economy appears to have started 2024 in the fast lane, and even though January's growth was flattered by a rebound in the public sector following strike activity in Quebec, solid momentum appears to have extended to February as well. With growth for Q1 as a whole tracking well above the Bank of Canada's previous expectation, there is clearly no urgency for policymakers to cut interest rates at the next meeting in two week's time. However, a June move is still possible if labour market conditions continue to loosen and core inflation maintains its downward momentum.
- The 0.6% increase in January GDP was two ticks above the advance estimate and consensus expectation, although it came off a slightly downwardly revised -0.1% print for the prior month. Roughly two-thirds of the growth in January was driven by a rebound in the public sector, and in particular in educational services following the ending of strike activity in Quebec. However, even though the public sector rebound was the main driver, there were broad based increases in other areas as well, with 18 of 20 sectors posting an advance in activity.
- Manufacturing rebounded from a December decline, due largely to growth in the auto industry following retooling shutdowns in the prior month. Utilities production increased as a drop in temperatures mid-month increased demand. Real estate activity rose for a third consecutive month.
- The most surprising news today was the advance estimate for February, which pointed to a further solid 0.4% increase in activity, suggesting that (excluding the public sector rebound from January's growth rate) underlying momentum actually accelerated further in that month. Statistics Canada alluded to broad-based increases once again, led by mining, oil & gas, manufacturing and finance.
- The strong January and February figures mean that Q1 growth as a whole is now tracking well above the Bank of Canada's January MPR forecast (3.5% vs 0.5%). However, it should be remembered that Canadian GDP data are often volatile, and last year we also witnessed a fast start which then quickly faded. Indeed, even after January and February's surprisingly strong results, GDP is only 1.2% higher on a year-over-year basis, which still represents a big drop in per-capita terms given population growth north of 3%.

[1] Annualized.

Implications & actions

Re: Economic forecast — The strength in GDP during Q1 suggests there is no urgency for an immediate reduction in interest rates. However, with inflation also undershooting the Bank's prior expectations, it appears that much of the growth we are seeing is coming from an easing of supply constraints rather than necessarily a pick-up in underlying demand. If underlying inflation continues to ease and labour market conditions loosen further, a rate reduction in June is still possible.

Re: Markets — Despite the fairly sizeable upside surprise in today's data, bond yields and the Canadian dollar rose only modestly following the release, with investors seemingly awaiting further news on the labour market and inflation before changing their views on the timing and magnitude of interest rate cuts.

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