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Economics

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Canadian GDP (Apr, May adv.): Good but not great

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GDP (period/period % chg)	23:Q4[1]	24:Q1[1]	Feb	Mar	Apr	**Apr Y/Y**
GDP (at basic prices)	0.4	2.5	0.2	0.0	0.3	1.1
• Goods-producing	0.1	-0.5	0.2	-0.1	0.3	-1.1
• Services-producing	0.5	3.5	0.3	0.0	0.3	1.8
• Business	1.1	1.6	0.2	-0.1	0.4	0.7
• Non-business	-2.5	6.2	0.3	0.2	0.2	2.6

Source: Statistics Canada

- Growth within the Canadian economy was good, but not great, over the spring, particularly when viewed in the context of strong labour force and population growth. A solid advance in April, combined with more modest growth in May, leaves Q2 GDP tracking around a 1.8% annualized pace. That's a similar pace of growth to that recorded in the first quarter, but would still represent a decline in per-capita terms. We continue to view next week's employment data, and next month's CPI figures, as more important in determining whether the Bank of Canada will trim interest rates by a further 25bp at the late-July meeting.
- April GDP rose by 0.3%, which was in line with the advance estimate and consensus forecast. The increase in activity was fairly broad-based, with 15 of 20 sectors posting an advance on the month. Wholesale and mining, oil & gas posted the largest positive contributions, although areas of discretionary spending such as accommodation & food services, recreation and retail also saw solid increases.
- The 0.9% increase in arts, entertainment and recreation was driven largely by spectator sports, linked to the start of NHL playoffs as more Canadian teams made it through to that stage this year. The 2% increase in accommodation services still left activity in that area 1% below year-ago levels. The 0.9% rise in food services took the level of activity to a new post-pandemic high, but it remains below its 2019 levels.
- The advance estimate for May suggested that momentum in overall GDP waned slightly that month, slowing to a 0.1% advance. For May, increases in manufacturing and real estate offset declines in retail and wholesale.
- Today's data leaves Q2 tracking roughly 1.8% annualized growth, which is marginally stronger than the Bank of Canada's April MPR projection albeit after a weaker Q1 than they had expected at that time. The 1.1% year-over-year increase in GDP for April remains well below the over 3% pace of population growth, suggesting that GDP continues to fall sharply in per-capita terms.

Implications & actions

Re: Economic forecast — Through the monthly volatility the Canadian economy appears to be evolving broadly as the Bank of Canada expected in its April Monetary Policy Report, with Q2 GDP (tracking 1.8% vs 1.5% estimate) and CPI (tracking 2.8%y/y vs 2.9% forecast) tracking very close to those prior expectations. The slowing in May GDP growth suggests that the reacceleration in inflation during that same month likely reflected supply issues or volatility in the data,

[1] Annualized.

rather than demand pressures, and a follow up interest rate cut at the July meeting is still possible if core inflationary pressures cool again next month.

Re: Markets — Bond yields fell in response to the soft May GDP estimate, alongside US data showing subdued core inflationary pressures. The Canadian dollar was little changed against its US counterpart.