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Canadian GDP: Playing catch up

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

National accounts (period/period % chg, annual rate, unless otherwise noted)	2023	23:Q1	23:Q2	23:Q3	23:Q4	Q4 Y/Y
Real GDP (chained 2012$)	1.1	2.6	0.6	-0.5	1.0	0.9
• Final domestic demand	0.5	2.2	0.4	0.8	-0.7	0.6
• Household consumption	1.7	4.1	-0.7	0.5	1.0	1.2
• Government	2.1	3.5	-0.4	6.1	-1.1	2.0
• Residential investment	-10.2	-14.0	-3.5	8.7	-1.7	-3.0
• Business fixed investment	-0.7	1.8	15.0	-16.3	-9.5	-3.0
• Bus inventory investment ($Bn)	33.5	34.9	34.0	34.7	30.4	NA
• Exports	5.7	14.1	4.3	-1.3	5.6	5.5
• Imports	1.0	3.7	4.6	1.1	-1.7	1.9
GDP implicit chain price index	1.6	-2.9	2.7	7.1	5.6	3.0
Pre-tax profits	-18.1	-39.2	-25.1	22.1	19.9	-9.7
Real disposable income	1.8	-1.2	1.2	5.8	1.4	1.8
Personal savings rate (%)	5.5	4.5	5.0	6.3	6.2	NA

Source: Statistics Canada

- The Canadian economy rebounded in Q4 from its mid-2023 slump, and appears to have seen a brisk start to 2024 as well. However, much of this improvement has been driven by an easing of previous supply constraints bringing some catch up growth in exports and auto sales, whereas the detail of today's data suggests that domestic demand remained weak. So even though aggregate GDP is running stronger than the BoC's prior projections, today's data haven't changed our forecast for a first interest rate cut in June.
- GDP rose by an annualized 1.0% in Q4 (consensus +0.8%), following a smaller than initially reported 0.5% contraction in the prior quarter. Net trade was the main contributor to growth, with exports rising by 5.6% but imports declining. Exports were bolstered by trade in oil, which was disrupted by wildfires over the summer, as well as exports of transportation goods and travel services.
- However, final domestic demand was down slightly on the quarter, falling at a 0.7% annualized rate. Consumer spending growth remained only modest (+1.0%), despite a sharp increase in durable goods spending as prior supply disruptions in the auto industry eased. Real consumer spending in other areas was much more muted, with consumption of semi and non-durable goods, as well as services, broadly flat on the quarter. With the household savings rate holding broadly steady at 6.2%, it remains well above its pre-pandemic average suggesting that consumers remain cautious in this higher interest rate environment. Per-capita consumer spending fell for a third consecutive quarter.
- Declines in government spending, as well as business and residential investment, all weighed on domestic demand in Q4. The reduction in government spending followed a large increase in the prior quarter when provincial governments had to spend more than normal to fight wildfires. Even after the Q4 decline, government spending was still up 2.0% on a year-over-year basis. Residential investment was driven lower by reduced resale activity in the housing market,

although that appears to have started to pick up again in December and January. The decline in business investment reflected lower spending on aircraft, although the impact on overall GDP was muted because this also weighed on imports.

- Monthly GDP by industry data suggested that the quarter ended on a weaker note than expected, with December showing only a flat reading (consensus +0.2%). However, that softness was largely due to a decline in public administration thanks to strike activity in Quebec, and a rebound there appears to be supporting growth in January. The advance estimate for the first month of 2024 pointed to a healthy 0.4% increase in GDP, which leaves Q1 as a whole tracking a solid 1.8% annualized pace assuming flat readings for the final two months. Milder than normal weather this January may have also bolstered activity.
- For 2023 as a whole, GDP posted a 1.1% increase relative to the prior year, with exports driving much of that growth. Domestic demand rose by a muted 0.5%, with a large decline in residential investment partly offsetting growth in government and household spending. While overall activity in Q3 didn't fall as much as previously estimated, there was an offsetting downward revision to growth in Q2.

Implications & actions

Re: Economic forecast — Growth in the final quarter of last year, combined with early tracking for Q1, is running somewhat stronger than the Bank of Canada had assumed in its January MPR. However, activity has been driven largely by an easing of previous supply constraints helping exports and car sales, rather than necessarily an improvement in domestic demand. Moreover, GDP is still falling on a per-capita basis. Because of that, and given that inflation is actually running below the Bank's January MPR projections, today's data doesn't change our forecast for a first interest rate cut in June.

Re: Markets — The Canadian dollar strengthened against its US counterpart following the data release, but yields were lower as US inflation data printed no higher than consensus expectations and continued to ease on a year-over-year basis.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC