Economics

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Canadian GDP (Q4): Just about good enough

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2025	25:Q1	25:Q2	25:Q3	25:Q4	25:Q4 Y/Y
Real GDP (chained 2012$)	1.7	2.1	-0.9	2.4	-0.6	0.7
• Final domestic demand	2.1	-0.1	3.8	-0.5	2.4	1.4
• Household consumption	2.3	1.2	4.7	-0.8	1.7	1.7
• Government	3.0	1.0	5.2	0.0	5.7	2.9
• Residential investment	1.0	-11.1	2.0	5.0	-4.4	-2.3
• Business fixed investment	-0.3	-0.6	-2.4	-5.3	2.0	-1.6
• Bus inventory investment ($Bn)	7.5	1.2	25.3	13.2	-9.8	NA
• Exports	-1.7	4.0	-23.6	3.8	6.1	-3.3
• Imports	-0.4	4.0	0.4	-11.0	1.0	-1.6
GDP implicit chain price index	2.5	3.8	-0.6	3.8	2.8	2.4
Pre-tax profits	5.7	7.3	-17.8	20.4	7.6	3.4
Real disposable income	2.3	0.8	1.1	1.1	-0.9	0.5
Personal savings rate (%)	4.9	5.4	4.5	5.2	4.4	NA

Source: Statistics Canada

- The Canadian economy contracted modestly in Q4, although much of the weakness was driven by lower inventories and GDP ended the quarter on a slightly better footing than originally estimated. So even though GDP seems to once again be modestly undershooting the Bank of Canada's latest MPR forecasts, today's release is still just about good enough to justify the current on hold policy stance.
- The 0.6% annualized contraction in the fourth quarter was slightly worse than the consensus and Bank of Canada forecast (-0.2% and 0.0% respectively), although the decline was driven almost entirely by a reduction in inventories that subtracted more than 4% annualized from the headline figure. That offset a 1.5%-pts positive contribution from net trade, driven by a partial recovery in exports. Even though exports rose by 6.1% annualized in the fourth quarter, they were still down by 3.3% on a year-over-year basis.
- Underneath the swings in inventories and trade, final domestic demand was a solid 2.4% annualized in Q4. That was flattered somewhat by a continued surge in government investment, linked to investment in weapons systems. However, household spending also rebounded by 1.7% annualized following a slight decline in the prior quarter. Business fixed investment edged up following three consecutive declines, although investment remains 1.6% lower than year-ago levels as companies remain cautious in the face of trade uncertainty.
- While consumer spending rose in Q4, that came despite an easing in disposable income growth and therefore was the result of a drop in the household savings rate. Real personal disposable incomes fell for the first time since Q1 2023. Because of this there is some concern regarding how sustainable the pick-up in consumer spending will be.
- Residential investment fell to reverse most of the increase seen in the prior quarter, and was also down by a modest 2.3% on a year-over-year basis as well. Even though the Bank of Canada cut interest rates again at the start of the

quarter, lower rates don't appear to be doing much to help interest-sensitive sectors of the economy such as residential investment and durable goods consumption. Household spending on durable goods fell for the second consecutive quarter and was also down modestly on a year-over-year basis.

- Monthly data showed that the quarter as a whole ended on a stronger footing than initially estimated, with December GDP rising 0.2% (consensus +0.1%). Manufacturing and wholesaling led the advance, although these gains only partly reversed declines seen in prior months and industry data for January points to renewed weakness in both areas. The advance estimate of economy-wide GDP for January suggests a flat reading. Even with a stronger than expected handoff from December, Q1 GDP is still tracking only around 1% (assuming modest growth rates in February and March), which would be below the Bank of Canada's MPR forecast of 1.8%.
- For 2025 as a whole, the economy is shown to have expanded by 1.7% in real terms, with growth held back by reductions in exports and business investment.

Implications & actions

Re: Economic forecast — The Canadian economy continues to struggle and track somewhat weaker than the Bank of Canada's latest MPR projections, although some of the underlying detail in today's report was admittedly stronger than the headline figure. While the Bank of Canada has suggested that weak GDP readings are largely the result of structural rather than cyclical factors, that explanation will be harder to sell if progress on reducing unemployment stalls or reverses. Overall, though, the more positive composition of Q4 GDP and solid December reading make today's data good enough for policymakers to maintain their current on-hold stance.

Re: Markets — Bond yields were slightly lower on the headline miss, but the Canadian dollar was little changed.

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