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Canadian GDP (Feb, Mar adv.): Momentum fading quickly

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GDP (period/period % chg)	23:Q3[1]	23:Q4[1]	Dec	Jan	Feb	**Feb Y/Y**
GDP (at basic prices)	-0.6	0.6	-0.1	0.5	0.2	0.8
• Goods-producing	-4.2	0.7	-0.5	-0.1	0.0	-1.6
• Services-producing	0.6	0.6	0.0	0.7	0.2	1.6
• Business	-1.5	1.3	0.1	0.2	0.1	0.6
• Non-business	3.2	-2.1	-1.2	2.0	0.2	1.5

Source: Statistics Canada

- Momentum in the Canadian economy appears to have faded quickly as the first quarter progressed, with February GDP posting only a modest 0.2% gain and the advance estimate for March suggesting activity stalled in that month. We always suspected that strength at the start of the year largely reflected an easing of previous supply constraints and the positive effects of better than normal winter weather, and that the economy could stall again thereafter. Today's data appear to support that view.
- While GDP rose by 0.2% in February, that was a tick below the consensus forecast and two-ticks weaker than the advance estimate. The relatively modest growth in February also followed a slightly downwardly revised 0.5% increase in January (previously +0.6%). The advance estimate for March suggests little change in GDP, leaving growth for Q1 as a whole now tracking a 2.5% annualized pace. That's still a solid advance, albeit almost a full percent weaker than it was tracking following last month's release.
- Mining, oil & gas, transportation and the public sector led growth in February. The 2.5% increase in mining, oil & gas offset a decline of similar magnitude in January when extreme cold weather in the Prairies impacted activity. Air transportation rose 4.8% on the month, which was the sharpest increase since May 2022 and reflected an expanded number of flights to Asia. While public sector activity continued to increase, it is doing so at a slower pace with the year-over-year growth rate a modest 1.8% (a slowdown from over 3% a year ago).
- Growth in these areas was partially offset by declines in utilities and manufacturing. The drop in the latter largely reflected a 2.9% decline in transportation manufacturing. Statistics Canada suggested that retooling shutdowns continued to impact activity. Following the latest monthly decline, production in that area is now also down (-1.7%) on a year-over-year basis as well.
- The advance estimate for March suggested a flat reading for that month, with activity held back by a further decline in manufacturing and also a drop in retailing.
- While there is often a difference between today's industry figures and the expenditure data released next month, at the moment Q1 growth is still tracking close to the 2.8% forecast by the Bank of Canada in its April MPR. However, the weak end to the quarter could mean downside risk for the Bank's expectation for 1.5% annualized growth in Q2.

[1] Annualized.

Implications & actions

Re: Economic forecast — We suspected that strength in GDP at the start of the year largely reflected an easing of previous supply constraints as well as better than normal winter weather, and the waning of momentum since January supports that view. If growth remains sluggish at the start of Q2 as we expect, and inflation doesn't heat up again in April, the Bank of Canada should start gradually reducing interest rates at the June meeting.

Re: Markets — Even though today's GDP data were slightly weaker than had been anticipated, bond yields rose following the release as higher than expected wage data for the US further pushed back expectations for Fed rate cuts. The Canadian dollar weakened against its US counterpart.

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