

Economics

ECONOMIC FLASH!

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Canadian GDP (Feb, Mar/Q1 advance): Far from running on all cylinders

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GDP (period/period % chg)	25:Q3	25:Q4	Dec	Jan	Feb	Feb Y/Y
GDP (at basic prices)	2.6	-0.3	0.2	0.1	0.2	1.0
• Goods-producing	5.7	-2.4	0.1	0.4	0.4	0.8
• Services-producing	1.3	0.6	0.2	0.0	0.1	1.1
• Business	3.6	-0.2	0.2	0.1	0.3	1.2
• Non-business	-2.0	-0.7	0.2	0.1	-0.3	-0.1

Source: Statistics Canada

- Growth in the Canadian economy appears to have reignited in the first quarter, although it is far from running on all cylinders, and March's advance estimate points to a stall again at the end of the quarter. The continued uneven paths for GDP growth and employment suggest that slack within the economy is not being absorbed, and will continue to act as an offset to higher energy prices in keeping core measures of inflation grounded. Because of that we continue to believe that the Bank of Canada can look through the current spike in headline inflation, and keep interest rates on hold throughout this year.
- Monthly GDP data for February pointed to a 0.2% increase, which was in line with the consensus forecast and the advance estimate. The manufacturing sector was easily the largest contributor, aided by a rebound in the auto industry following a contraction in January. An easing of supply bottlenecks in the auto industry also helped drive growth in wholesaling and trucking in February.
- However, trends were decidedly more mixed outside of those sectors. Activity at real estate agents fell for a fourth consecutive month, while public administration was down for a second straight month potentially reflecting cutbacks at both the federal and provincial level. There may have been some initial signs of consumer spending easing again following a few strong months, with retail spending broadly flat and food & accommodation partly giving back the increase seen in the prior month. Spectator sports also fell, but that coincided with a break in the NHL schedule for the Winter Olympics.
- The advance estimate for March GDP pointed to a flat reading for that month, with Statistics Canada suggesting that increases in the wholesale and transportation sectors were broadly offset by declines in retailing and mining, oil & gas. For the first quarter as a whole, today's advance estimate suggests annualized growth of 1.7%, which is very close to the Bank of Canada's MPR projection of 1.5%.
- Released alongside today's GDP data, the SEPH survey of employment pointed to a 60K decline in February, which more than offset the 44K increase seen in the prior month and left the workforce broadly unchanged on a year-over-year basis. Job vacancies were little changed, which meant that the number of unemployed people per job vacancy ticked up slightly further.

Implications & actions

Re: Economic forecast — While growth in Q1 appears close to the Bank of Canada's MPR projection, the apparent stall again in March is a concern regarding momentum heading into the spring. Consumer spending appears to be slowing again, which is understandable given the squeeze from higher gasoline prices as well as a still sluggish labour market. We continue to believe that there's enough slack within the economy to keep core measures of inflation fairly muted, even as the impact of higher energy prices passes through in some areas, which will enable the BoC to leave interest rates on hold through 2026.

Re: Markets — Bond yields fell following today's release to partly unwind the surge seen yesterday in reaction to the perceived hawkish tone from the Bank of Canada.

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