Economics

ECONOMIC FLASH!

economics.cibccm.com

June 27, 2025

Canadian GDP (Apr, May adv): Fading resilience

Andrew Grantham andrew.grantham@cibc.com

GDP (period/period % chg)	24:Q4	25:Q1	Feb	Mar	Apr	Apr Y/Y
GDP (at basic prices)	1.5	1.6	-0.2	0.2	-0.1	1.3
• Goods-producing	0.6	3.7	-0.4	0.4	-0.6	0.9
• Services-producing	1.8	0.9	-0.1	0.1	0.1	1.5
• Business	1.8	1.7	-0.2	0.2	-0.2	1.1
• Non-business	0.2	1.3	-0.1	0.1	0.4	2.3

Source: Statistics Canada

- The resilience that the Canadian economy was previously showing in the face of US tariffs and related uncertainty appears to be fading. While the economy is certainly not falling off a cliff, marginal declines in activity in April and May leaves Q2 GDP tracking between the two scenarios that the Bank of Canada laid out in its April MPR. That's somewhat supportive of our current call for a July interest rate cut, although upcoming employment and inflation data will be more important in determining whether policymakers feel comfortable making a move at that time.
- April GDP posted a 0.1% decline, which was two ticks weaker than the marginal increase alluded to by the advance estimate and also slightly worse than the flat reading expected by the consensus. However, that disappointment was partially offset by an upward revision to March, now showing a 0.2% increase in activity for that month (previously +0.1%).
- Unsurprisingly, manufacturing was the largest drag on activity in April, with the 1.9% drop the largest monthly decline seen since April 2021. However, unfortunately there's probably further weakness in come in that sector given continued tariff uncertainty and reports of certain industries scaling back operations. Moreover, even after April's decline, overall production is (for now at least) still higher than it was in December, before manufacturers geared up production to try and front-run tariffs. Wholesaling activity was also down sharply in April, and like manufacturing the decline was sharpest in the transportation sub-sector.
- Increases in finance and public administration offered a partial offset to the weakness seen in manufacturing and wholesaling, although increased activity in the latter was due to the federal election and as a result will be unwound in May.
- The advance estimate for May pointed to a further 0.1% drop in overall economic activity, driven by declines in mining, oil & gas, public admin and retail. While the April and May declines are only marginal, and the economy is certainly not falling off a cliff, Q2 GDP is now tracking a modest 0.3% contraction which is between the two scenarios the Bank of Canada laid out in its April MPR (0.0% and -1.3% respectively).

Implications & actions

Re: Economic forecast — A modest contraction in GDP during the second quarter of the year wouldn't be a huge surprise given the backdrop of US tariffs, and also factoring in that some activity was pulled forward to Q1 as manufacturers looked a get ahead of those tariffs. However, an average growth rate of only around 1% for the first half of the year as a whole, and weak momentum heading into the summer, suggests that slack in the economy is continuing to build and that further interest rate cuts from the Bank of Canada will be needed to support a recovery later in the year.

Re: Markets — Bond yields fell as investors priced in a slightly greater chance of further interest rate cuts, although the Canadian dollar was little changed against the greenback as today's GDP release coincided with some weak data out of the US as well.