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Canadian GDP (Q1): Stumbling but not falling

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2024	24:Q2	24:Q3	24:Q4	25:Q1	Q1 Y/Y
Real GDP (chained 2012$)	1.6	2.5	2.4	2.1	2.2	2.3
• Final domestic demand	2.1	2.9	3.2	5.2	-0.1	2.8
• Household consumption	2.4	1.7	4.4	4.9	1.2	3.0
• Government	4.2	5.8	5.3	3.1	-0.8	3.3
• Residential investment	-0.6	-9.4	5.4	16.8	-10.9	-0.1
• Business fixed investment	-2.4	15.0	-11.9	4.7	4.0	2.5
• Bus inventory investment ($Bn)	14.3	24.6	20.0	-6.0	3.4	NA
• Exports	0.6	-4.8	-0.6	7.1	6.7	2.0
• Imports	0.7	0.0	-1.0	2.5	4.4	1.5
GDP implicit chain price index	3.1	4.2	2.6	3.5	2.5	3.2
Pre-tax profits	-3.1	11.5	-7.8	27.9	5.4	8.5
Real disposable income	4.6	7.4	9.7	-0.2	0.4	4.2
Personal savings rate (%)	6.0	6.2	7.2	6.0	5.7	NA

Source: Statistics Canada

- The Canadian economy is stumbling, but not yet falling, in the face of tariff uncertainty. While headline GDP was solid in Q1, it was flattered by growth in exports and inventories as companies looked to front-run potential US tariffs. Domestic demand was weak during the quarter, and monthly data pointed towards only slight upward momentum heading into Q2. However, even that modest momentum is slightly better than the Bank of Canada feared in its April MPR projections and, combined with the recent upside surprise in inflation, suggests that interest rates will remain on hold for now.
- Headline GDP posted a 2.2% annualized advance in Q1, which was modestly above the consensus forecast and the BoC's April MPR prediction (1.7% and 1.8% respectively), although that did follow a downward revision to Q4 (to 2.1%, from 2.6%). However, growth during Q1 was driven by trade and inventories, probably linked to efforts front-running US tariffs. While exports and imports both rose, the former increased by more, and as a result net trade contributed 0.8%-pts to the headline growth rate. Meanwhile a build in inventories contributed the remaining 1.4%-pts.
- In contrast, final domestic demand was only flat on the quarter. Business and residential investment both fell, with the latter also down on a year-over-year basis as well. Consumer spending growth slowed noticeably relative to the second half of 2024, rising at a 1.2% annualized pace, but on a year-over-year basis spending was up by a solid 3%.
- Monthly GDP pointed to a 0.1% advance in March, and advance data suggested a similar increase in April. Mining, oil & gas was the primary source of growth in March, and Statistics Canada suggested it was also a contributor in April as well. In contrast, and perhaps unsurprisingly given the start of US tariffs, manufacturing activity fell in both months.
- Early tracking for Q2 (assuming flat readings for May and June) points towards modest growth of 0.5% annualized. While that would clearly be below the economy's long-run potential, suggesting that slack is building up again, it would

be better than the Bank of Canada's April MPR scenarios (scenario 1, 0.0%, scenario 2, -1.3%) as well as our previous expectation for a contraction.

Implications & actions

Re: Economic forecast — While the composition of Q1 growth was not particularly strong, overall it appears that the Canadian economy is faring better than we previously expected in the face of US tariffs and related uncertainty. That provides the Bank of Canada more time to judge incoming data, and should see the current pause in interest rates continue at next week's meeting.

Re: Markets — Financial markets were already pricing little chance of a BoC interest rate cut at next week's meeting, and as a result today's better-than-expected data had little impact on bond yields. The Canadian dollar appreciated slightly versus the greenback.

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