

Economics

ECONOMIC FLASH!

economics.cibccm.com

May 30, 2025

Canadian GDP (Q1): Stumbling but not falling

by **Andrew Grantham** andrew.grantham@cibc.com

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.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("FPO") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC