

Economics

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Canadian GDP: A thaw, but not basking in the sun

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2023	23:Q2	23:Q3	23:Q4	24:Q1	Q1 Y/Y
Real GDP (chained 2012\$)	1.2	0.7	-0.3	0.1	1.7	0.5
• Final domestic demand	0.5	1.2	0.2	0.0	2.9	1.1
• Household consumption	1.7	0.5	0.1	3.2	3.0	1.7
• Government	2.1	0.0	4.3	-1.6	2.1	1.2
• Residential investment	-10.3	-4.1	9.8	-2.3	1.3	1.1
• Business fixed investment	-0.8	15.5	-16.8	-13.5	3.5	-3.7
• Bus inventory investment (\$Bn)	38.8	36.1	42.8	38.8	29.0	NA
• Exports	5.4	3.1	-3.2	3.2	1.9	1.2
• Imports	0.9	5.7	-0.2	0.9	1.5	1.9
GDP implicit chain price index	1.5	3.0	6.4	6.0	-1.3	3.5
Pre-tax profits	-17.4	-24.6	23.7	17.1	-29.4	-6.3
Real disposable income	1.9	2.1	6.3	2.4	5.2	4.0
Personal savings rate (%)	5.5	4.9	6.5	6.2	6.9	NA

Source: Statistics Canada

- The Canadian economy thawed in the first quarter following a freeze in activity in the second half of 2023, but we're not yet basking in the sun. The 1.7% annualized pace of growth in Q1 was weaker than the 2.2% consensus expectation, and although the details of the report revealed a robust climb in final domestic demand, that follows a string of weak readings. Per-capita GDP is still sitting 2.6% below year-ago levels, and this is the fourth consecutive quarterly decline in GDP per-capita. Moreover, the monthly GDP figures showed that the momentum faded over the quarter, as March showed no growth, following a boost at the start of the year from milder than normal winter weather and the end of strikes. Given the weaker trend in GDP, and the cooling in inflation, the Bank of Canada remains on track to deliver the first interest rate cut at next week's meeting.
- The top growth contributor in Q1 was household spending on services, which posted the fastest growth rate seen since H1 2022 at 4.3% annualized, with the increase largely tied to higher spending on telecommunications, rent, and air transportation. Goods consumption moderated due to a sharp slowdown in durable goods consumption, which followed a bump in auto consumption in Q4 as supply disruptions faded.
- Business investment rebounded following two consecutive quarterly declines, with non-residential structures and machinery/equipment investment both seeing increases. That was the result of an increase in engineering structures investment in the oil and gas sector. Still, business investment remains 3.7% below year-ago levels. Business investment in inventories was the one notable negative in the report, with slower inventory accumulation, mainly in the retail auto sector, which likely reflected production disruptions tied to auto plant retooling for new models in the quarter. The inventory-to-sales ratio in Q1 was 1.1, well above the pre-pandemic norm of 0.8-0.9, suggesting that GDP in the second quarter may not see a big boost from a replenishment of inventories, and if it does, that will likely come from higher imports, limiting the boost to GDP.

- Resale housing activity perked up in Q1, which supported housing investment through ownership transfer costs (real estate agent fees), while new housing construction was essentially flat. Some of this was tied to mild winter weather, but we expect resale activity will increase ahead as interest rates are trimmed. Consumer caution tied to higher mortgage rates was on display in the higher savings rate, which at 7.0% is well above the last economic cycle's average of roughly 3%. The compensation data suggests that wages and salaries were running at 3.5-4.5% annualized pace in Q1, still a little too hot for the BoC's tastes.
- Net trade was a marginal positive for GDP, but that category played a larger role in the downward revision to the Q4 data. That quarter was revised down to 0.1% annualized from 1.0% previously, as imports were revised higher and exports lower. Two-way trade in autos will rebound in Q2 as retooling at auto plants finishes, and higher energy exports tied to the operation of the new TMX pipeline are also on the horizon.
- The monthly GDP figures suggested a 0.3% increase in April. That leaves the second quarter tracking for better growth than our prior forecast, but in effect only making up for the lower than expected Q4 and Q1 data released today.

Implications & actions

Re: Economic forecast — The Q1 figure was well below the Bank of Canada's last published MPR forecast (2.8%), and activity looks even more sluggish when accounting for population growth, as the surge in domestic demand looks to be a one-off in the broader trend of weak readings seen last year. Policymakers are therefore on track to deliver the first dose of interest rate relief at next week's meeting.

Re: Markets — Bond yields fell on the downside surprise, but a broad weakening of the greenback on subdued inflation data for the US, released at the same time, left the loonie largely unchanged.

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