

Economics

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Canadian GDP (Q1): Foundering temporarily

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National accounts (period/period % chg, annual rate, unless otherwise noted)	2025	25:Q2	25:Q3	25:Q4	26:Q1	26:Q1 Y/Y
Real GDP (chained 2012\$)	1.9	-1.0	1.9	-1.0	-0.1	-0.1
• Final domestic demand	2.2	3.6	-0.5	2.7	-0.4	1.3
• Household consumption	2.4	4.4	-0.8	2.9	1.5	2.0
• Government	3.2	5.0	0.4	5.6	-2.4	2.1
• Residential investment	0.5	0.2	4.4	-9.4	-7.9	-3.3
• Business fixed investment	0.2	-0.4	-5.9	2.3	-3.2	-1.9
• Bus inventory investment (\$Bn)	7.6	26.9	13.6	-12.4	10.2	NA
• Exports	-1.4	-23.4	4.1	6.7	-0.5	-4.1
• Imports	-0.3	1.2	-10.9	2.0	12.0	0.7
GDP implicit chain price index	2.5	-0.6	4.1	4.1	4.6	3.0
Pre-tax profits	6.2	-14.3	18.2	10.7	9.6	5.3
Real disposable income	1.5	-0.9	-0.3	-0.7	0.1	-0.5
Personal savings rate (%)	4.4	4.3	4.4	3.7	3.5	NA

Source: Statistics Canada

- The Canadian economy continued to struggle in the first quarter, as GDP posted another decline. The 0.1% q/q annualized drop was in stark contrast to the consensus for a rebound to 1.5%. While there were increases in consumption and inventories, those were offset by broad-based weakness across other components. Stripping out the volatile trade and inventory components showed final domestic demand at -0.4% q/q annualized, down from 2.7% in Q4. And the quarter ended on a sour note, with March GDP declining by 0.1% m/m, although the advance estimate for April suggested that the second quarter got off to a better start, seeing a 0.4% m/m increase.
- Revisions to the prior year's data left the growth pace in 2025 at 1.9%, up from 1.7% previously, however, the upward revisions were concentrated in Q1 2025 (now 2.9% vs. 2.1% prev.), with net trade higher, as tariff front-running boosted exports by more than previously reported. Growth downgrades were seen for Q2 through Q4, showing that the economy was worse off in the post-tariff environment than thought. Indeed, Q4 2025 was revised down from -0.6% to -1.0% on larger drops in inventories and residential investment than first reported.
- Consumption eased off to a 1.5% pace in Q1, as spending on services slowed sharply, reflecting lagging discretionary spending given the weak labour market and higher gasoline prices later in the quarter, as consumption at restaurants and accommodations decelerated. Consumption of durable goods declined for the third quarter in a row, with autos down notably. That leaves the household saving rate at 3.5%, the lowest level seen in two years, which doesn't bode well for consumption in the coming quarter, along with no growth in real disposable incomes for the quarter.
- This marks the fifth drop in business investment in a row, as trade uncertainty continues to weigh on activity. Business investment fell sharply on lower spending on engineering structures, a category that is a proxy for investment in the oil sector, which shows that producers aren't increasing capex in response to the climb in oil prices as it is expected to be temporary.

- Residential investment continued to drop off, reflecting weak resale activity, while new housing construction was down slightly. Elevated mortgage rates are still leaving buyers on the sidelines, combined with a weak labour market. Weak housing market activity is also holding back spending on furniture and appliances, with that broad category declining by 2.4% q/q ann. The drop in home prices is also restraining consumption tied to home equity loans.
- The climb in imports was concentrated in gold, and coincided with faster inventory accumulation. Exports decreased as fewer auto shipments to the US weighed, in line with tariffs, but higher volumes of crude oil shipments were a material offset, trends that are set to continue in the second quarter.
- The drop in final domestic demand was compounded by a pull back in government investment following a large purchase of a weapons system in the prior quarter.

Implications & actions

Re: Economic forecast — Overall this was a very weak report from most angles that shows that trade uncertainty and tariffs are continuing to hold back growth, while consumers have little ammunition left for spending ahead, and interest-sensitive sectors are lagging. The report was also well below the BoC's MPR projection for 1.5% growth, but the positive momentum implied by the April reading will still leave policymakers on hold, with growth in Q2 likely to receive a lift as government investment normalizes. Our base case also assumes progress towards reducing some tariffs (namely aluminum and possibly steel) in the coming months, and if the oil price shock starts to fade over that period as well, GDP will return to sustainable growth for the rest of the year.

Re: Markets — The market looked past the downside headline miss given the positive revisions to the prior year, and left odds of a rate hike in place for the year.

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