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Canadian GDP: A soft curveball

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

National accounts (period/period % chg, annual rate, unless otherwise noted)	2021	21:Q2	21:Q3	21:Q4	22:Q1	Q1 Y/Y
Real GDP (chained 2012$)	4.5	-3.1	5.3	6.6	3.1	2.9
• Final domestic demand	5.6	-0.3	7.3	3.7	4.8	3.8
• Household consumption	5.0	-0.8	20.1	1.8	3.4	5.8
• Government	5.6	1.1	2.7	2.9	2.3	2.2
• Residential investment	15.3	-12.7	-30.3	12.4	18.1	-5.2
• Business fixed investment	2.3	16.8	2.3	10.2	9.0	9.5
• Bus inventory investment ($Bn)	-2.5	10.3	-12.7	4.0	9.4	NA
• Exports	1.4	-17.1	6.6	13.6	-9.4	-2.3
• Imports	7.7	2.4	-1.2	16.9	-2.8	3.5
GDP implicit chain price index	1.5	9.6	5.2	7.9	12.3	16.1
Pre-tax profits	11.1	-3.5	-22.2	28.7	33.7	46.2
Real disposable income	1.6	2.6	-4.3	-9.0	7.2	-1.1
Personal savings rate (%)	16.6	14.5	9.5	6.9	8.1	NA

Source: Statistics Canada

- Statisticians threw the Bank of Canada a soft curveball a day before it's policy decision, with GDP growth in Q1 coming in shy of previously released industry data and consensus expectations. However, the modest disappointment is unlikely to deter the Bank from hitting a double (50bp hike) at tomorrow's meeting, with economic growth over the first half of the year as a whole still tracking close to its April MPR projections, and inflation well ahead of previous expectations.
- GDP grew at an annualized 3.1% in Q1. While that was well below the run rate suggested by previously released industry data (5.6%) and below the consensus forecast (5.2%), it is still an impressive performance given the headwinds presented by Omicron related restrictions and worker absenteeism early in the quarter. Moreover, the main negative to overall GDP came from net trade, with exports falling faster than imports during the quarter. Final domestic demand rose by a solid 4.8%.
- Household spending increased by 3.4%, representing a modest acceleration from the 1.8% growth rate seen in the prior quarter. That included a continued recovery in spending on services, despite the restrictions imposed by some larger provinces in January, and some improvement in auto sales as supply chain issues eased slightly. Judging by high frequency data on air passengers, restaurant bookings etc, the recovery in services spending has continued into Q2.
- However, one area of strong growth in the first quarter that will not continue in Q2 and throughput the balance of the year, is residential investment. That area saw an 18% annualized increase in Q1, driven mainly by home resales and renovation activity, which are already showing signs of easing due to the impact of higher interest rates.

- On the income side, household disposable incomes saw a 14% annualized increase in Q1, to more than offset the declines seen in Q3 and Q4 as government support programs were coming to an end. However, after accounting for the strong inflationary pressures seen during the quarter, real disposable incomes were up by a somewhat less impressive 7.2%. That said, the savings rate was higher than in Q4 and well above pre-pandemic norms, suggesting households were able to put aside more funds to support spending on services ahead or to protect against rising inflationary pressure.
- In terms of the monthly industry report, the previously puzzling 0.2% growth rate in January was revised lower to -0.2%, which makes much more sense given the restrictions to some services industries and Omicron-related worker absenteeism seen in that month. The good news was that Q1 ended on a stronger note than previously expected, with March GDP printing at +0.7%, versus the advance estimate for a 0.5% gain. The economy managed to build on that slightly in April, with a flash estimate of +0.2%, despite statisticians noting a drag from real estate during the month.

Implications & actions

Re: Economic forecast — There were a lot of moving parts in today's report, but through all of the noise little has really changed for the Bank of Canada. The growth rate in Q1, while disappointing relative to heightened expectations, was still in line with the April MPR projections. For Q2, growth appears to be tracking in the 4.5-5% range, which would be only modestly below the 6% projected by the Bank in that previous MPR. As such, there is little to deter the Bank from another 50bp hike tomorrow, and likely a further outsized move in July. We forecast a deceleration in growth and inflation in the second half of the year, which will be the catalyst for the Bank to slow and then ultimately pause this rate hike cycle.

Re: Markets — There was little market reaction to today's downside miss in Q1 GDP, likely due to some of the stronger underlying detail.