



Economic Flash!

May 31, 2018

Royce Mendes (416) 594-7354

Canadian Quarterly GDP Misses, But Monthly Suggests Accelerating Momentum

Per/Per % chg, Annual Rate	2017	17:Q2	17:Q3	17:Q4	18:Q1	Q1 Y/Y
Real GDP (chained 2007\$)	3.0	4.6	1.7	1.7	1.3	2.3
Final Domestic Demand	3.0	3.2	3.6	4.1	2.1	3.2
Household Consumption	3.5	4.3	3.1	2.2	1.1	2.7
Government	2.6	0.5	4.8	4.5	3.3	3.3
Residential Investment	2.9	-1.3	-0.1	13.5	-7.2	0.9
Business Fixed Investment	2.8	7.5	5.9	8.0	10.9	8.1
Bus Inventory Investment (\$Bn)	14.0	12.4	18.3	15.9	15.2	NA
Exports	1.1	6.4	-9.9	3.9	1.7	0.3
Imports	3.6	4.1	1.3	7.7	4.9	4.5
GDP Implicit Chain Price Index	2.3	0.0	0.3	4.2	1.4	1.5
Pre-tax Profits	19.9	-6.6	-2.6	9.5	4.4	1.0
Real Disposable Income	3.7	5.9	6.8	1.8	0.8	3.8
Personal Savings Rate (%)	3.8	3.3	4.3	4.5	4.4	NA

- The first quarter wasn't something to remember for the Canadian economy, but things are looking up from here. While the Q1 numbers as a whole didn't have much to cheer about, outside of a healthy gain in business capital spending, March data suggests that momentum reaccelerated at the end of the period. That has us upgrading our second quarter GDP forecast to 2.8%.
- The economy underwhelmed expectations, advancing 1.3% over the first quarter, missing the street's mark by ½%-pt. Net exports provided the greatest drag on the numbers, but strong imports were also a contributor to the healthy capital spending growth seen during the quarter. Given that transportation bottlenecks were also a material factor holding back exports in Q1, the drag from trade is less negative than the headline numbers suggest.
- The decline in residential investment was the largest since the first quarter of 2009. Newly enacted B20 rules took a bite out of resale activity, while new construction also slowed during the period. The housing market is likely to stabilize in the quarters ahead, but the days of that sector being a pillar of growth may now be in the rearview mirror.

- Consumption, another stalwart of growth in recent years, decelerated for a third consecutive quarter. Higher interest rates combined with stretched balance sheets appear to be showing up in reduced household spending. However, incomes continue to grow in Canada, providing a healthy backdrop for spending to reaccelerate at least somewhat over the remainder of the year. Indeed, data released today on employee compensation showed another decent advance on the quarter.
- Furthermore, monthly GDP data on March suggest that underlying momentum in the economy is picking up. Indeed, part of the miss versus consensus on the quarter, came from a downward revision to January's reading (now -0.2% vs. -0.1% prev.). The period also ended on a decidedly better note, with March advancing 0.3%. That will set the second quarter up for a solid rebound in the range of 2.8%.

Implications & Actions

Re: Economic Forecast – The miss versus consensus on quarterly GDP doesn't seem as meaningful, when taken in the context of an economy that is set to grow between 2½% - 3.0% in the second quarter. As a result, we're still calling for the Bank of Canada to hike rates again in July.

Re: Market Impact – The Canadian dollar is trading weaker following the underwhelming news on first quarter GDP and steel/aluminum tariffs.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (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. MIs 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 in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

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.

© 2018 CIBC World Markets Inc. All rights reserved. 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.