

DATA COMMENTARY · MARCH/Q1 GDP

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Economy edges down 0.1% annualized in first quarter

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THE TAKE

“Sounding the alarm on a so-called “technical recession” is premature, but further economic weakness this year could force the Bank of Canada back into easing mode.”

— JAY ZHAO-MURRAY · CHIEF ECONOMIST · SIBLEY CREEK

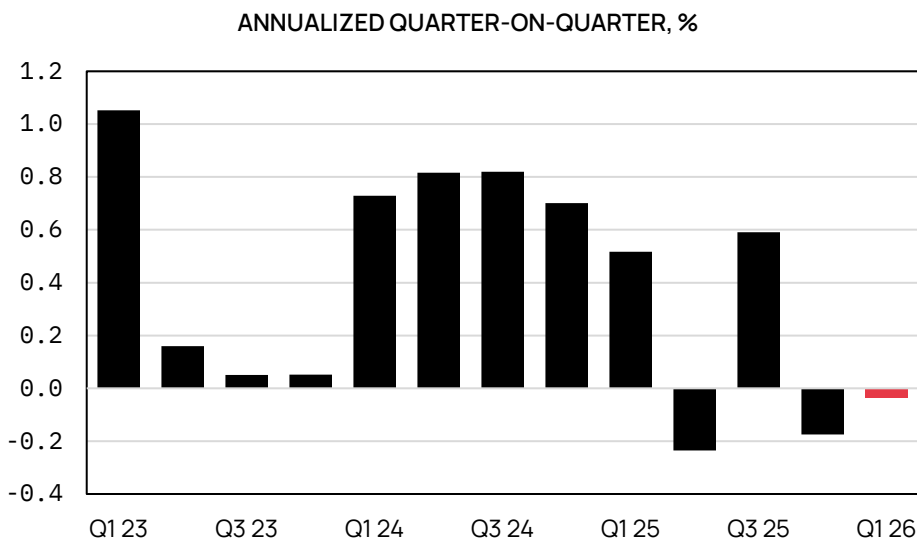
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First quarter GDP edges down -0.1% annualized

The Canadian economy came to a halt in the first quarter, with real gross domestic product at 2017 prices falling by C\$893 million on an annualized basis. Given the overall size of the economy, a drop of that size is a rounding error. In terms of contributions, a surge in imports was the main contributor to lower growth, while inventories provided an offset—rebounding from the previous quarter’s decline.

Household consumption held up, posting a 1.5% annualized gain. Government spending fell, with government consumption down -1% and investment down nearly -10% annualized. More worrying was a second quarterly decline in housing investment: business gross fixed capital formation in residential structures fell nearly -8% annualized following a -9.4% drop in the fourth quarter.

Canada’s economy weakened slightly in Q1



Source: Statistics Canada. Seasonally adjusted, annualized.

On a monthly basis, the economy edged down by -0.1% in March, and is currently tracking 0.4% higher than March of last year. Weakness was driven by goods sector (-0.8% m/m), with mining, quarrying, and oil and gas extraction falling -2.1%. Services were an offset, rising 0.1%. The most notable point about the March decline was the breadth of the contraction—8 of 20 sectors declined that month.

All in all, calls of a “technical recession” are premature at this stage, but the economy is definitely on a weaker footing. The biggest potential issue would be if household spending rolled over next quarter, in which case discussion of a recession might be warranted.

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