



Daily Economic Update

May 31, 2019

Canadian Q1 GDP increased 0.4% but details stronger

- Canadian GDP increased 0.4% in Q1, essentially matching a 0.3% increase in Q4
- Details were firmer and a 0.5% surge in March GDP bodes well for a return to stronger growth rates in Q2.

Q1 growth was widely expected to come in on the soft side. The 0.4% increase was a touch below market expectations and more in line with the Bank of Canada's last call for a 0.3% gain. More importantly, much of the softness in Q1 can still be traced to disruptions to oil & gas activity in the wake of lower prices last year and mandated production cuts in Alberta. Oil prices have since bounced back and the mandated production cuts have already begun to be eased – indeed, oil & gas output jumped by 3.3% in March, in line with at least a partial bounce-back in the sector in Q2. Excluding the oil & gas sector, output rose by ~1½% in Q1 and that was despite a big weather-related dip in output in February. A 0.5% surge in GDP on a monthly basis in March is right in line with calls for a pickup in growth in Q2 – leaving if anything some near-term upside risk to our own call for a 2.2% increase. And the composition of Q1 GDP growth on an expenditure basis was generally better than feared. A 3.5% jump in Q1 consumer spending is tough to square with earlier-released soft retail spending numbers but household disposable income also posted a decent 3.5% (nominal) increase after an upwardly revised Q4 gain. A significant chunk of a 13.5% jump in business investment reflected lumpy increases in aircraft purchases flagged earlier in the international imports data but Statistics Canada noted that spending rose in 8 of 9 sub-categories of equipment investment.

Net trade was, as expected, the main drag on growth in Q1 with lower oil production weighing on exports. It is also where concerns about future growth prospects are still centered, though. As the Bank of Canada noted in their policy decision this week, negative fallout from the ongoing US-China trade war has the potential to spill over into Canada. And new threats of US tariffs on Mexico – even as passage of the new USMCA (NAFTA replacement) seemed to be getting closer – is a reminder that no trade agreement or past indications of goodwill is really full protection against a re-emergence of tensions with the US under the Trump administration. That uncertainty will remain a headwind for business investment spending in particular. The current economic backdrop still looks okay, and better than quarterly GDP growth headlines in the last couple of quarters would imply, but there is still plenty uncertainty about the outlook to keep the BoC on the sidelines in terms of any future interest rate hikes for now.

Contributions to Canadian GDP Growth

	Q/Q ppt contributions, annualized			Y/Y ppt cont
	2018/Q3	2018/Q4	2019/Q1	2019/Q1
Consumer spending	0.8	0.5	2.0	1.1
Government	0.6	-0.1	0.7	0.5
Res Investment	-0.2	-0.8	-0.5	-0.4
Business investment	-1.2	-0.7	1.1	-0.2
Net trade	3.4	0.3	-3.9	0.4
Inventories	-1.1	1.3	0.7	0.1
Canada GDP	2.1	0.3	0.4	1.3

*Source: Statistics Canada, RBC Economics

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