HIGHLIGHTS

- Real GDP rose an annualized 2.5% in Q1 of 2013.
- However, domestic demand advanced only 0.6%, the worst performance since the last recession.
- Household consumption increased just 0.9%, due to a substantial drop in durable goods.
- Consumption by public administrations fell 2.0%.
- Residential investment retreated 4.7%, while investment by the non-residential sectors rose 0.9%. Capital spending by public administrations dropped 2.0%.
- Exports jumped 6.2%, while imports advanced by only 1.2%. The trade balance therefore improved by $6.0B in 2007 dollars, making for a 1.4% contribution to the quarter’s real GDP growth.
- The variation in inventories picked up speed over the quarter, providing for a +0.5% contribution to real GDP growth.

COMMENTS

As forecast, real GDP grew 2.5% in the first quarter of 2013, much faster growth than the mixed results that have been recorded since the end of 2011. This is good news, but it unfortunately does not guarantee a lasting improvement to the Canadian economic outlook.

As shown by the sluggish advance by domestic demand, the problems in Canada’s economy are increasingly being felt. The budget deficit battle is creating an overall slowdown in public administrations’ current expenditures and investment. The real estate market downturn seems to be entrenched. Household spending continues to rise, but the cleanup of consumer balance sheets means that the potential for growth by consumption is lower than it used to be. The household savings rate also continued to improve in the first quarter, reaching 5.5%. Despite the drop in investment in machinery and equipment noted in early 2013, the outlook for business non-residential investment remains positive, although it is lower than it has been in previous years. Note that the uncertainty about the Keystone XL pipeline could prompt some businesses to postpone their investments.

It is clear that Canada’s economy will have to turn to international trade to support growth and this is exactly what it managed to do in the first quarter of 2013. The question, however, is whether it can continue to do so in the coming quarters. Despite some signs of improvement, many problems remain in the United States and the recession in Europe continues to make itself felt. Global demand for Canadian exports should therefore remain somewhat bumpy in the next few months.

Implications: As they are in line with our expectations, the results for the first quarter economic accounts do not change our growth forecasts for Canada’s economy. We still expect real GDP to rise by about 1.8% for 2013 as a whole.

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