Canada: Even Though High, First Quarter Growth Is Below Expectations

HIGHLIGHTS

- Real GDP rose by an annualized 3.7% in the first quarter of 2017, following the previous quarter’s 2.7% gain.
- Domestic demand is very strong, increasing 4.7% after advancing just 0.1% the quarter before.
- Household consumption expenditure rose 4.3%, the highest since the beginning of 2010. Non-residential investment jumped 10.3%, while residential investment was up 15.7%.
- Goods and services exports slipped 0.3%, while imports climbed 13.7%. Trade balance deterioration trimmed 4.4% from real GDP’s quarterly change.
- The change in inventories sharpened over the quarter, adding 3.6% to real GDP growth.

COMMENTS

With 3.7% growth, which is well above the Canadian economy’s growth potential (which the Bank of Canada evaluates at between 1.0% and 1.6%), can we really talk about disappointment? It’s just that most forecasters expected a much faster advance. We were among the most optimistic, with a projection of 4.7%.

This gap is due to the statistical discrepancy between the two measures of real GDP, namely real GDP by industry and real GDP based on demand. As such, the 4.6% rise in real GDP by industry seen in the first quarter is much more in line with analysts’ forecasts, who largely relied on this measure to make their projections.

That said, the overall picture for the Canadian economy is as expected. Domestic demand was exceptionally vigorous thanks to significant contributions from households and businesses.

IMPLICATIONS

While growth was exceptionally strong in the winter, spring could end up a disappointment for the Canadian economy. Difficult weather conditions in several regions of the country in April and May have no doubt reined in certain seasonal activities. In addition, it would be surprising for domestic demand to maintain such a high growth rate, particularly since the beneficial effect of the federal government’s fiscal measures on household disposable income is waning.

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