Canada: Domestic Demand Remains Very Strong

HIGHLIGHTS

- Real GDP was up 1.7% (quarterly annualized) in Q4 2017, an advance that fell slightly below expectations.
- Domestic demand is still lively, advancing by 3.9%. Residential investment soared by 13.4% while non-residential business investment was up 8.2%. Investments by public administrations also shot up, by 10.3%. Household consumer spending increased 2.1%.
- Exports rose 3.0%. At 6.3%, import growth was sharper, however, triggering trade balance deterioration and a negative contribution (-1.1%) to the change in real GDP.
- The change in inventories slowed during the quarter, making for a negative contribution (-0.7%) to the change in real GDP.

COMMENTS

Domestic demand’s quarterly growth stayed between 3.6% and 4.5% throughout 2017; this is exceptional. Some elements, however, suggest that such advances could slow in 2018.

On one hand, the significant growth in residential investment recorded in Q4 can be partly explained by increased purchases in the Toronto area, after last summer’s difficulties. Several buyers also seem to have moved up their transactions to the fall to avoid the new restrictive measures that took effect in January 2018. This decision to move up purchases, combined with the impact of the new restrictive measures, should trigger a significant slowdown in the housing market at the beginning of 2018.

On the other, consumer spending could be more tepid. The vitality of the labour market, wage growth and high household confidence will remain positive factors. However, the gradual rise in interest rates should be felt, and spending tied to developments in the housing market could suffer as a result.

IMPLICATIONS

Economic advances in Canada will remain slightly above potential, which is estimated by the Bank of Canada at about 1.4% for 2018. In such conditions, further key rate increases will eventually be necessary, but the exact timing of their announcement will depend on the change in risks.

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