Canada: Slightly Weaker-Than-Expected Growth at the Start of 2018

**HIGHLIGHTS**

- Real GDP rose an annualized 1.3% in Q1 2018.
- Domestic demand advanced 2.1%. The increases in consumer spending (+1.6%) and non-residential investment (+10.9%) were partially offset by a decrease in residential investment (-7.2%).
- Goods and services exports rose 1.7%, while imports climbed 4.9%. Deterioration in the trade balance contributed -1.1% to the annualized quarterly change in real GDP.
- The contribution from the change in inventories to real GDP is virtually nil at -0.1%.

**COMMENTS**

Although most forecasters were expecting fairly modest growth for Canada’s economy in the first quarter of 2018, the results published today by Statistics Canada are below expectations. Disappointments include significantly lower growth in household consumer spending (+1.1%). While disappointing results for retail trade suggest struggling goods consumption, the increase in services consumption spending was not as high as expected.

That said, the overall picture for the Canadian economy is largely as expected. Consumer spending and non-residential investment made a positive contribution to growth. Moreover, the 10.9% increase in investment in non-residential structures and in machinery and equipment is remarkable, reflecting current adjustments in response to the disappearance of excess production capacity. Conversely, the deterioration in the trade balance and declining residential investment have reduced real GDP growth. It is worth noting that higher business investment was accompanied by a steady rise in imports. In addition, existing home sales had a strong reaction to the new tighter mortgage rules and the gradual rise in interest rates.

**IMPLICATIONS**

With real GDP by industry up 0.3% in March, the carryover for the second quarter is looking fairly good, and an advance of between 2% and 3% can be expected. For example, consumer spending should start growing at a faster pace, buoyed by favourable conditions in the labour market and higher wages. The door is therefore expected to be open for a new key interest rate hike in July.

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