# Economic Commentary

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central 1 Economics

## GDP growth slows in Q1 as exports falter, incomes continue to rise

Canadian economic growth disappointed in Q1, missing consensus by a wide margin as export weakness offset strength in building investment and acceleration in consumer spending during the quarter. Expenditure-based real gross domestic product (GDP) rose **0.8 per cent q/q or an annualized rate of 3.1 per cent** and compared to 6.6 per cent growth in Q4. This compared to consensus for annualized growth was 5.4 per cent. This divergence from expectations owed to downward revisions in production which was tracking 6 per cent after February, but revisions lowered industry- GDP to a 3.4 per cent pace as January estimates were lowered sharply. Nevertheless, continued growth exceeds performance south of the border where the U.S. economy contracted 1.5 per cent in Q1.

Consumers remained active during the quarter as they brushed off the Omicron wave. Household consumption accelerated to 3.4 per cent (annualized) from 1.8 per cent in Q4. Demand for durable goods (+10.8 per cent) was particularly strong as sales of vehicles picked up, while services spending rose 3.0 per cent. Investment spending jumped with residential investment surging 18 per cent after a two-quarter lull and despite slowing resale market housing, while investment in non-residential structures rose 12 per cent with lift from the B.C. Kitimat LNG plant. Exports were the main drag and down 9.4 per cent (annualized) while imports eased only 2.8 per cent. Final domestic demand remained a strong 4.8 per cent.

While real growth slowed, income growth held steady. Gross income came in at 3.7 per cent q/q, compared to the real gain of 0.8 per cent, as prices rose 2.9 per cent. Canada is benefitting from elevated prices of domestically produced goods such as fuel for exports, while housing investment prices also increased. Gains offset import price growth. Incomes are flowing to workers (3.8 per cent q/q) pointing stronger wage gains given employment growth was softer. Gross operating surplus rose 4.9 per cent despite an end to federal support and transfers. Household savings continued to exceed trend and rose to 8.1 per cent from 6.9 per cent in Q4 and compared to trend of 3.5 per cent pre-pandemic but savings could deteriorate going forward as higher inflation takes a toll on consumers.

Preliminary industry- based GDP estimates point to a modest. Early data points to a gain of 0.2 per cent m/m although we are wary of revisions.

Despite the softer than expected print, the Bank of Canada is still likely to hike 50 basis points tomorrow (June 1). Consumer demand remained robust, inflation remains elevated and is feeding into higher nominal income growth. The GDP growth hand off to Q2 was a bit light but we could still see a five per cent (annualized) rate of growth during the quarter with modest expansion in May and June. There is little to suggest that the Bank will move off its rate tightening stance and we anticipate the policy rate to move to 2.25 by year end and reach 2.5 per cent in 2023.

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