



Economy storms out of the gate in January, but looks to quickly hit a wall

Canada's economy posted a strong start to the year amidst the backdrop of rising U.S. tariff threats and deterioration in business sentiment. Industry GDP jumped by 0.4 per cent and accelerated from an upward revised 0.3 per cent growth rate in December. That said, the three-month annualized trend of 1.8 per cent, and year-over-year increase of 2.2 per cent was more modest owing to November's contraction. While a strong start, momentum ended with a flat February GDP estimate, and we expect output to turn negative in the coming months.

January's GDP surge was led by the goods-producing sector (1.1 per cent). Specifically, resource extraction jumped 1.8 per cent, led by oil sands (3.6 per cent), while natural gas was also a significant contributor to sector growth. Manufacturing output rose 0.8 per cent, including a 4.5 per cent increase in motor vehicle manufacturing (reversing the prior month's drop), with primary metal manufacturing up 4.8 per cent. Growth owed in part to a sharp increase in exports in January, triggered in part by front-loading of purchases by U.S. buyers in advance of initial tariff dates although the auto sector remained weak. While delayed, aluminum and steel tariffs came into effect March 12, with tariffs on broader Canadian goods outside temporary exemptions for some sector like autos came in March 4th. This advance of Canadian exports and tariffs will give way to lower production and exports going forward. On the bright side, January also saw some pickup in the construction sector (up 0.7 per cent) on Ontario building, while utilities (up 2.7 per cent) rose with the colder weather.

Services sector output was much weaker with an aggregate gain of 0.1 per cent increase in January, which decelerated from November. Growth was mixed with stronger growth (0.7 per cent) in wholesale trade but a drop (0.9 per cent) for retail spending. The latter reflected some give back after a GST-holiday led surge in December. Education rose 0.4 per cent, while public administration rose 0.4 per cent pointing to further public-sector growth despite pressures to pare back. Weakness was highlighted by administrative and building support services which fell 3.8 per cent and were down a third year-over-year, while real estate and professional services showed no growth in January. Housing sales slowed sharply early this year which contributed to the real estate lull.

Canada's economy certainly stormed out of the gate to start the year and even with an expected slowdown, looks to grow at about 1.5 per cent in Q1. That said, the trade war will push growth into negative territory in the second quarter, although magnitude and impact on export sectors is contingent on the ever-changing tariff rates and exemptions. This includes the upcoming reciprocal tariffs threatened for next week. Regardless, consumer and business sentiment will remain weak and curb spending, business investment and housing activity. The Bank of Canada has another hard decision to make ahead given the strength of this GDP print and the strength in price inflation even as economic risks mount. At this point, we see this GDP print as supporting a hold at the April meeting.

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GDP by Industry, \$2017

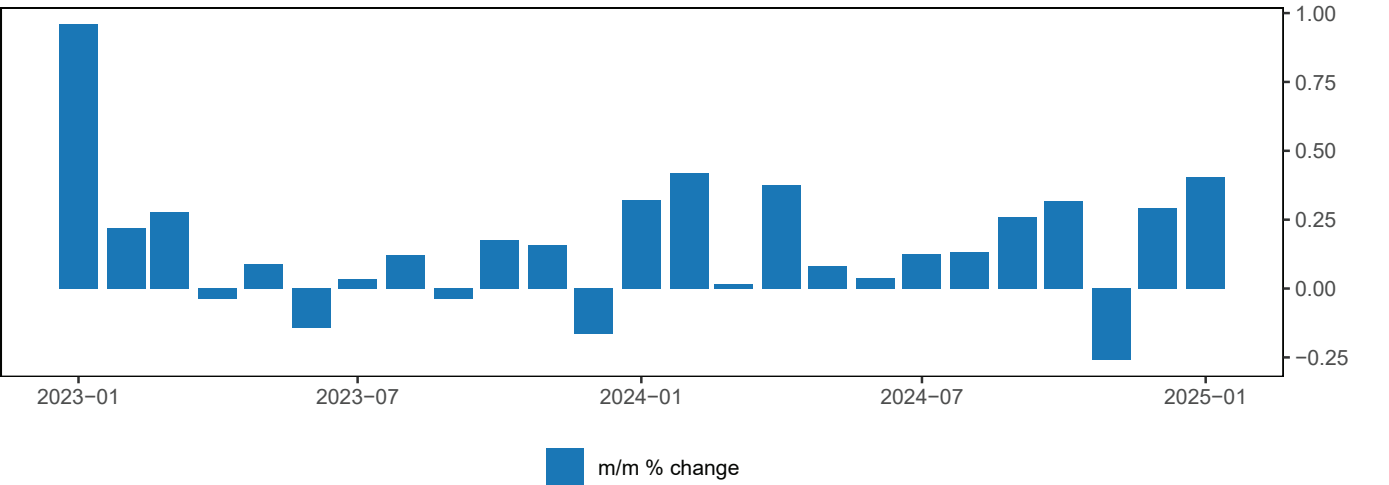
Jan/2025	\$mil	m/m %ch	y/y %ch	ann. m/m %ch	ann. 3m %ch	YTD %ch	Month-to-month per cent change		
							Nov/2024	Dec/2024	Jan/2025
All industries	2,291,701	0.4	2.2	5.0	1.8	2.2	-0.3	0.3	0.4
Goods-producing industries	585,320	1.1	2.4	14.7	3.3	2.4	-0.7	0.4	1.1
Agriculture, forestry, fishing and hunting	40,566	0.2	3.2	1.9	-0.3	3.2	-0.2	0.0	0.2
Mining, quarrying, and oil and gas extraction	119,947	1.8	7.7	24.0	6.7	7.7	-1.1	0.9	1.8
Utilities	47,868	2.7	5.5	37.1	17.0	5.5	-3.6	5.0	2.7
Construction	168,778	0.7	3.3	9.3	5.7	3.3	0.2	0.4	0.7
Manufacturing	204,167	0.8	-3.0	9.8	-3.4	-3.0	-0.5	-1.1	0.8
Service-producing industries	1,708,931	0.1	2.2	1.5	1.2	2.2	-0.1	0.3	0.1
Wholesale trade	122,068	0.7	1.4	9.3	1.9	1.4	-0.2	0.0	0.7
Retail trade	118,585	-0.9	3.2	-10.2	4.7	3.2	-0.5	2.6	-0.9
Transportation and warehousing	102,287	0.3	1.9	3.8	-3.1	1.9	-1.6	0.5	0.3
Finance and insurance	169,395	0.3	3.5	4.2	0.2	3.5	-0.5	0.2	0.3
Real estate and rental and leasing	303,266	0.0	2.1	-0.5	0.3	2.1	0.3	-0.2	0.0
Professional, scientific and technical services	166,049	0.0	1.2	-0.1	0.9	1.2	0.2	0.0	0.0
Management of companies and enterprises	760	-3.8	-28.8	-37.2	-31.0	-28.8	-2.9	-2.5	-3.8
Administrative and support, waste management and remediation services	58,776	0.3	0.0	3.2	3.0	0.0	-0.1	0.6	0.3
Educational services	127,554	0.4	4.2	5.1	1.5	4.2	0.0	-0.1	0.4
Health care and social assistance	185,361	0.0	3.4	0.1	1.9	3.4	0.1	0.4	0.0
Other services (except public administration)	44,025	0.0	-1.0	0.0	-0.8	-1.0	0.0	-0.2	0.0
Public administration	168,268	0.4	2.0	4.5	0.9	2.0	-0.3	0.2	0.4

Source: Statistics Canada, Central 1

Canada Industry GDP, \$2017 dollars

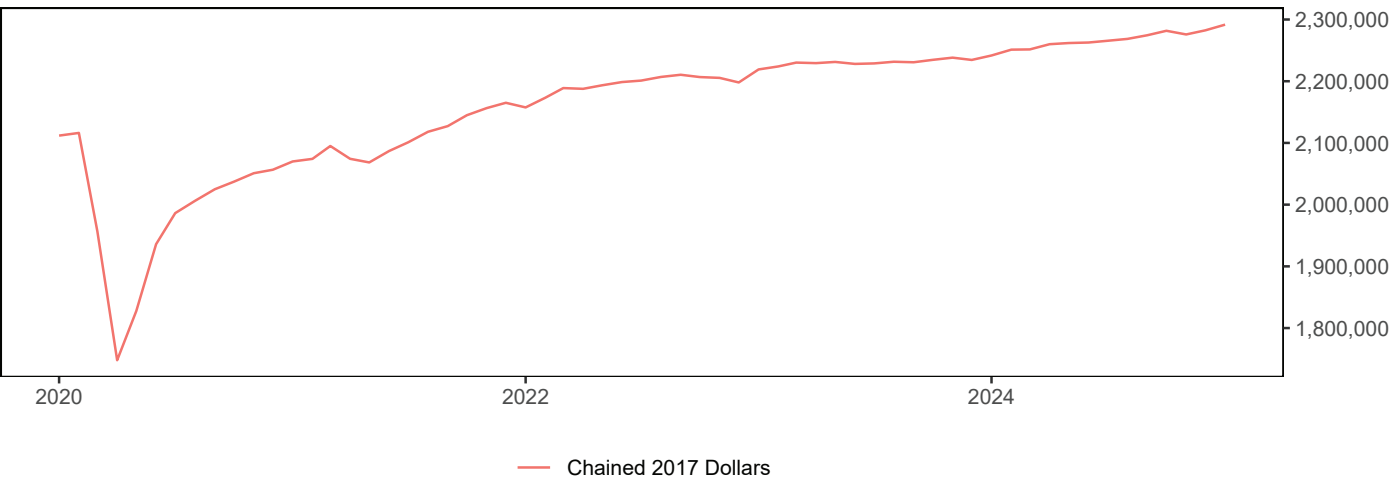
Industry GDP: Monthly Per Cent Change

Last data point: 2025-01-01



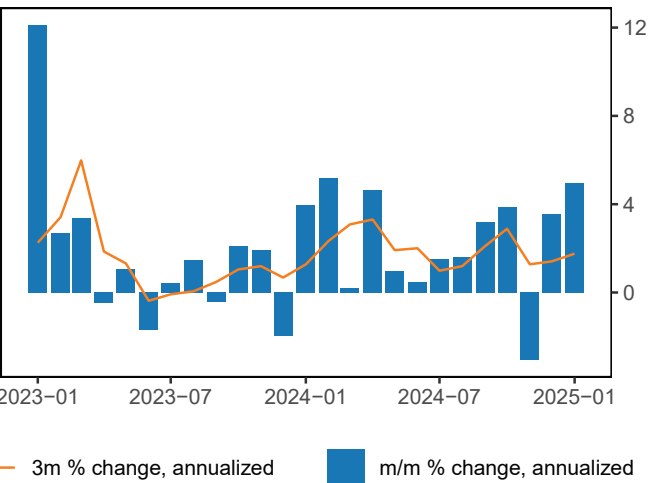
Industry GDP: \$ millions

Last data point: 2025-01-01



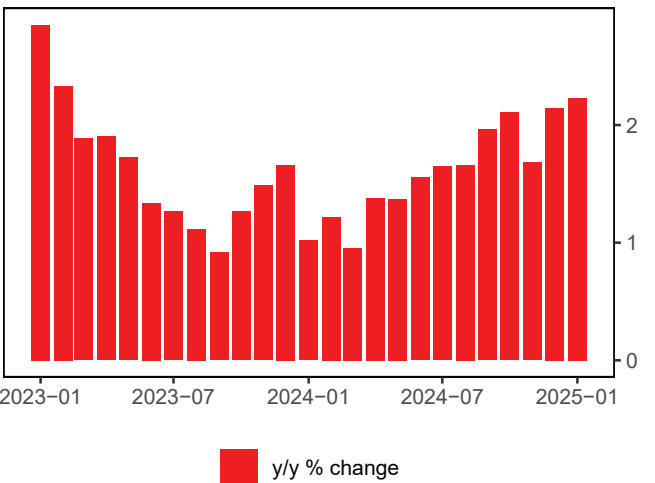
Industry GDP: Annualized Per Cent Change

Last data point: 2025-01-01



Industry GDP: 12- Month Per Cent Change

Last data point: 2025-01-01



Canada Industry GDP by Industry

