



Canadian economy shows resilience even as domestic drivers slow

Canada's economy posted stronger than expected growth in GDP during the first quarter, but the rosy headline figure was driven by a boost in trade as firms moved in advance of tariffs, which masked slowing domestic demand. Real expenditure GDP rose 0.5 per cent q/q, or an annualized rate of 2.2 per cent during Q1, which was a touch higher than the 2.1 per cent rate in Q4, and significantly above the consensus forecast of 1.7 per cent. Year-over-year, Q1 GDP rose 2.3 per cent.

Based on the accompanying monthly industry-GDP report, the economy showed resilience to end the quarter with a 0.1 per cent m/m increase in March led by oil and gas sector growth, after shrinking in February. More surprising was the preliminary data for April, which showed a slight gain of 0.1 per cent despite the drag of tariffs and uncertainty. This points to a mild but still positive start to the second quarter and suggests the economy is holding up better than anticipated.

The solid Q1 expenditure GDP growth performance was tied to adjustments made by firms due to tariff threats. Firms in the U.S. and Canada front-loaded trade to get ahead of potential U.S. tariffs (and retaliatory tariffs) to mitigate upward pressure on costs. Exports rose at an annualized rate of 6.7 per cent, while imports rose 4.4 per cent. Much of the latter ended up as business inventory. Imports were also limited in part by lower travel to the U.S. Volatility in trade will ease, but volumes are likely to decline due to tariffs on both sides of the border.

In contrast, domestic demand froze during the quarter and nudged down 0.1 per cent from Q4 as uncertainty dragged on both consumer and business spending. This was the lowest quarterly growth since Q3 2023. Household consumption spending decelerated from a near 5 per cent pace in Q4 to 1.2 per cent as consumers retrenched from larger purchases. Durable goods spending fell 5.6 per cent as sales of vehicles slumped, even as non-durable and semi-durable goods spending popped higher. Spending on services was flat during the quarter at 0.4 per cent. Residential investment fell at an 11 per cent pace (2.8 per cent non-annualized) after jumping 16.8 per cent in Q4,

as housing sales fell impacting transaction volumes. This was consistent with a plunge in MLS® sales which posted a quarterly decline of 12 per cent in Q1 and reflected the drag of the trade war on buyer sentiment. Weak sales continued into the second quarter. Construction activity was modest offset as new construction picked up.

Business investment also reported mixed patterns. Total business investment rose 4 per cent, but investment in building construction fell sharply by 6.1 per cent. In contrast, there was a large pick up in machinery and equipment spending, which jumped at a rate of 22.9 per cent, adding to the 10 per cent rate from Q4. With business sentiment crushed by trade war fears, this pickup in investment is expected to reverse as firms hold back on new spending.

Government contribution to growth also turned negative during the quarter, with consumption edging down by 0.3 per cent, while capital investment fell at a 3.2 per cent pace.

Nominal income grew at 1.2 per cent quarterly (4.9 per cent annualized), with prices capturing 0.6 per cent of this gain. Income rose 5.6 per cent y/y. Wage compensation (0.8 per cent q/q) lagged overall income growth, while net operating surplus of corporation (profit) rose 1.3 per cent, which was down sharply from Q4. Year-over-year, profits have outpaced wage growth. The household savings rate fell to 5.7 per cent from 6.6 per cent, which was the slowest in a year.

The latest GDP data points to a softening in underlying conditions, particularly in consumer spending and housing, but there is still more resilience than expected as seen in the latest monthly industry-GDP numbers. The firm gain in headline GDP, coupled with core inflation trending above 3 per cent could push the Bank of Canada to the sidelines next week as it seeks more clarity on the path of the economy and tariffs. That said, with final domestic demand flat in Q1, headline inflation at 1.7 per cent, and more headwinds ahead and the unemployment rate at 6.9 per cent, a narrative to cut is still plausible. We still see the Bank cutting at next week's meeting.

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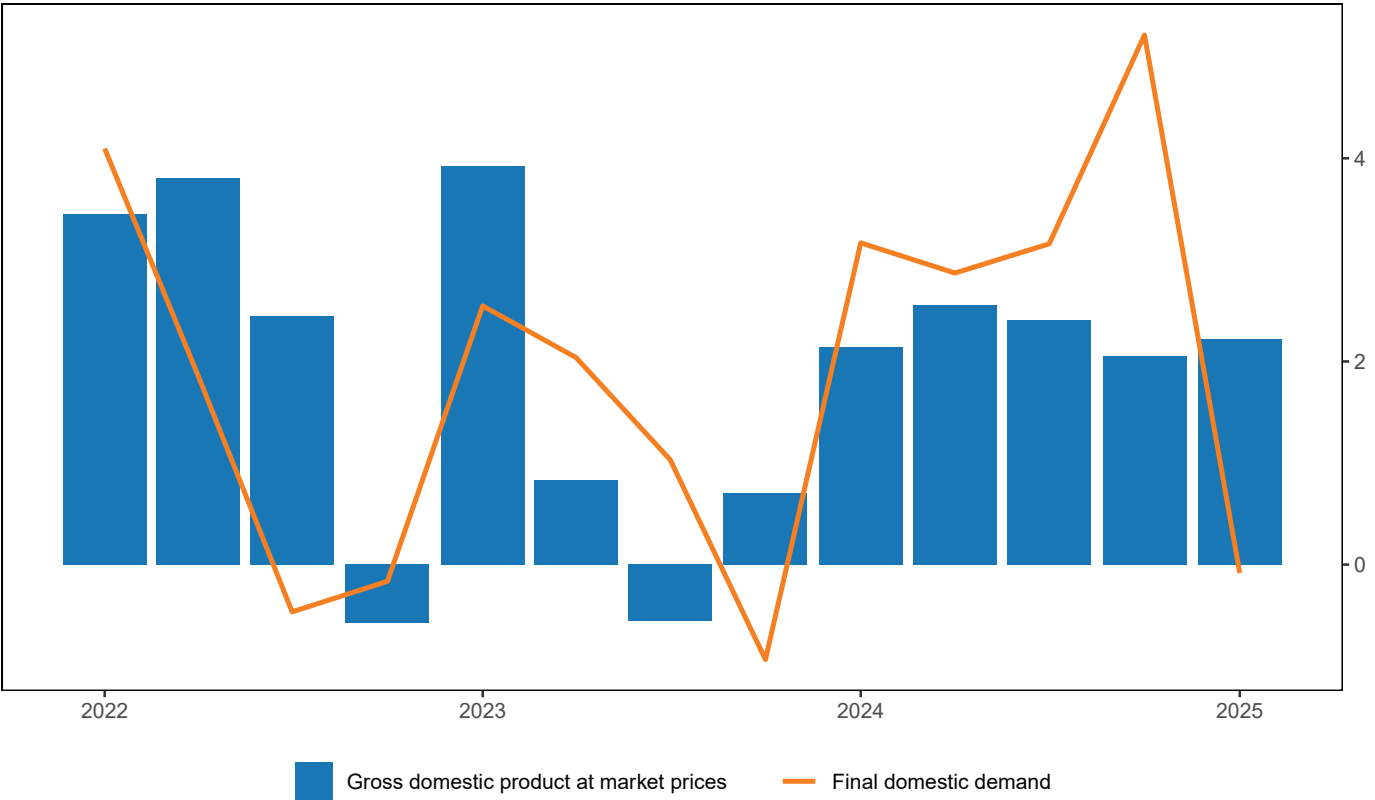
| Q1/25 Real GDP by Expenditure | | | | | | | | | |
|---|---------------|----------|----------|----------|----------|-------|-------|-------|-------|
| Expenditure | latest, \$mil | q/q % ch | ann % ch | y/y % ch | ann % ch | | | | |
| | | | | | Q1/24 | Q2/24 | Q3/24 | Q4/24 | Q1/25 |
| Gross domestic product at market prices | 2,456,239 | 0.5 | 2.2 | 2.3 | 2.1 | 2.5 | 2.4 | 2.1 | 2.2 |
| Household final consumption expenditure | 1,398,043 | 0.3 | 1.2 | 3 | 3.2 | 1.7 | 4.4 | 4.9 | 1.2 |
| Goods | 606,478 | 0.6 | 2.3 | 3.5 | 0.5 | -0.3 | 5.4 | 6.9 | 2.3 |
| Durable goods | 184,556 | -1.4 | -5.6 | 3.8 | -1.8 | -7.2 | 13.1 | 17.2 | -5.6 |
| Semi-durable goods | 109,495 | 3.1 | 12.8 | 6.8 | 7.5 | 2.6 | 3.1 | 8.8 | 12.8 |
| Non-durable goods | 313,986 | 1 | 4 | 2.5 | -0.1 | 2.7 | 2 | 1.1 | 4 |
| Services | 793,919 | 0.1 | 0.4 | 2.7 | 5.5 | 3.2 | 3.6 | 3.4 | 0.4 |
| General governments final consumption expenditure | 547,614 | -0.1 | -0.3 | 3.2 | 5.9 | 5.6 | 5.5 | 2.4 | -0.3 |
| Residential structures | 154,720 | -2.9 | -10.9 | -0.1 | -4.5 | -9.4 | 5.4 | 16.8 | -10.9 |
| Non-residential structures, machinery and equipment | 206,136 | 1 | 4 | 2.5 | -0.6 | 15 | -11.9 | 4.7 | 4 |
| Non-residential structures | 123,886 | -1.6 | -6.1 | 0.9 | 1.6 | 9.6 | -0.8 | 1.4 | -6.1 |
| Machinery and equipment | 81,814 | 5.3 | 22.9 | 5.1 | -4.1 | 24.3 | -27.7 | 10.5 | 22.9 |
| General governments gross fixed capital formation | 96,713 | -0.8 | -3.2 | 3.7 | 14.2 | 6.8 | 4 | 7.3 | -3.2 |
| Exports of goods and services | 756,225 | 1.6 | 6.7 | 2 | -0.7 | -4.8 | -0.6 | 7.1 | 6.7 |
| Less: imports of goods and services | 805,702 | 1.1 | 4.4 | 1.5 | -1.1 | 0 | -1 | 2.5 | 4.4 |
| Final domestic demand | 2,493,566 | 0 | -0.1 | 2.8 | 3.2 | 2.9 | 3.2 | 5.2 | -0.1 |
| Nominal | | | | | | | | | |
| Gross domestic product at market prices | 3,174,264 | 1.2 | 4.9 | 5.6 | 1.1 | 6.9 | 5 | 5.8 | 4.9 |

Source: Statistics Canada, Central 1

Canada Real GDP – Annualized Per Cent change, Quarterly

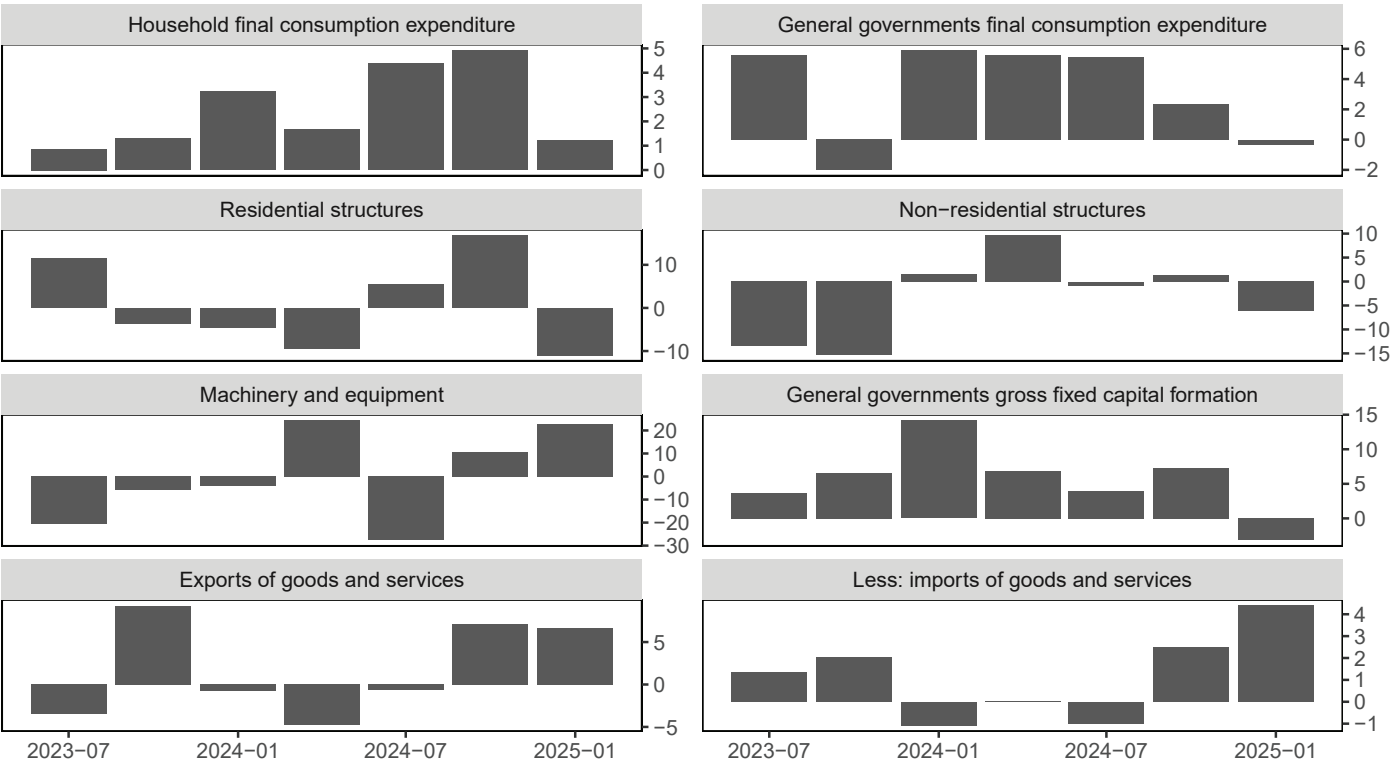
Real GDP – Annualized Per Cent Change

Last data point: 2025-01-01



Real GDP – Annualized Per Cent Change

Last data point: 2025-01-01



GDP by Industry, \$2017

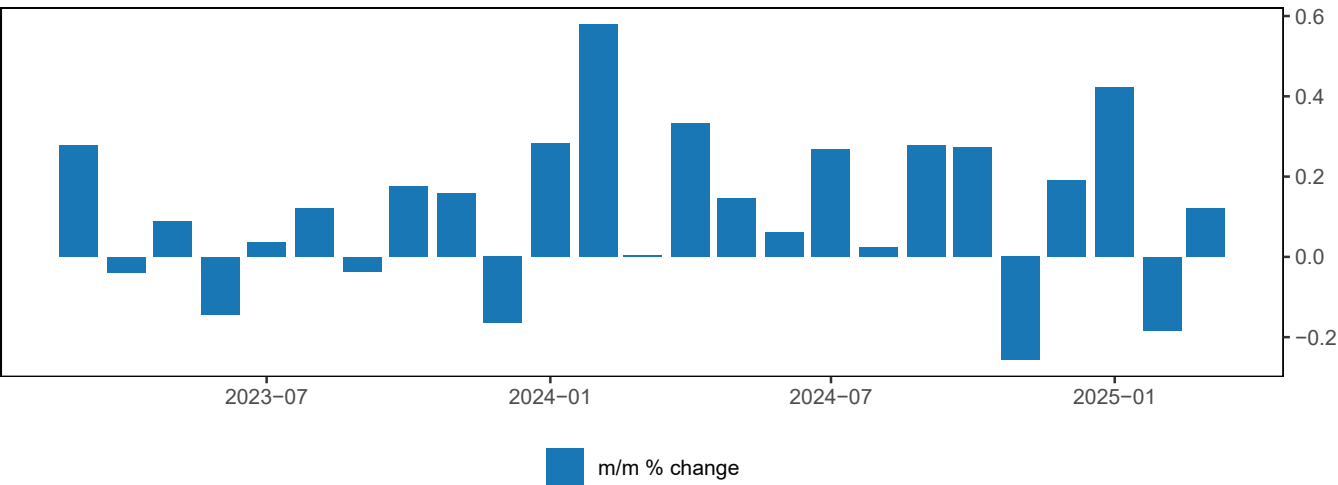
| Mar/2025 | \$mil | m/m %ch | y/y %ch | ann. m/m %ch | ann. 3m %ch | YTD %ch | Month-to-month per cent change | | |
|---|---------|------------|------------|-----------------|----------------|------------|--------------------------------|----------|----------|
| | | | | | | | Jan/2025 | Feb/2025 | Mar/2025 |
| All industries | | 0.1 | 1.7 | 1.5 | 1.4 | 1.9 | 0.4 | -0.2 | 0.1 |
| Goods-producing industries | 584,604 | 0.2 | 1.5 | 2.8 | 3.9 | 1.7 | 1.2 | -0.4 | 0.2 |
| Agriculture, forestry, fishing and hunting | 40,372 | -0.2 | 2.1 | -2.3 | -1.3 | 2.6 | 0.0 | -0.2 | -0.2 |
| Mining, quarrying, and oil and gas extraction | 120,189 | 2.2 | 4.4 | 30.5 | 6.4 | 4.8 | 1.9 | -2.5 | 2.2 |
| Utilities | 46,421 | -4.1 | 3.1 | -39.2 | -4.7 | 5.8 | 2.2 | 0.7 | -4.1 |
| Construction | 167,212 | 0.5 | 0.8 | 6.1 | 0.9 | 1.5 | 0.4 | -0.7 | 0.5 |
| Manufacturing | 206,301 | -0.4 | -0.7 | -5.0 | 7.7 | -1.5 | 1.2 | 1.1 | -0.4 |
| Service-producing industries | | 0.1 | 1.8 | 0.9 | 0.5 | 1.9 | 0.1 | -0.1 | 0.1 |
| Wholesale trade | 123,381 | -0.4 | 3.5 | -4.8 | 6.8 | 2.7 | 1.1 | 1.0 | -0.4 |
| Retail trade | 118,960 | 0.8 | 3.9 | 10.1 | -3.2 | 3.4 | -1.4 | -0.2 | 0.8 |
| Transportation and warehousing | 102,561 | 0.8 | 1.0 | 10.1 | 3.6 | 1.2 | 1.2 | -1.1 | 0.8 |
| Finance and insurance | 170,610 | 0.0 | 3.6 | -0.3 | 3.8 | 3.6 | 0.4 | 0.6 | 0.0 |
| Real estate and rental and leasing | 301,538 | -0.1 | 1.0 | -1.2 | -2.5 | 1.4 | -0.1 | -0.4 | -0.1 |
| Professional, scientific and technical services | 165,064 | -0.3 | 0.2 | -3.0 | -2.2 | 0.6 | -0.2 | -0.1 | -0.3 |
| Management of companies and enterprises | 696 | -4.4 | -30.3 | -41.7 | -40.4 | -29.3 | -3.9 | -4.3 | -4.4 |
| Administrative and support, waste management and remediation services | 58,719 | -0.2 | -0.1 | -1.9 | 0.6 | 0.0 | 0.1 | 0.2 | -0.2 |
| Educational services | 127,398 | 0.1 | 2.2 | 1.2 | 0.6 | 3.1 | 0.3 | -0.3 | 0.1 |
| Health care and social assistance | 186,042 | 0.1 | 2.6 | 1.7 | 1.1 | 3.1 | 0.0 | 0.1 | 0.1 |
| Other services (except public administration) | 44,333 | 0.2 | -0.3 | 2.4 | 1.8 | -0.6 | 0.1 | 0.1 | 0.2 |
| Public administration | 168,195 | 0.1 | 1.6 | 1.0 | 0.8 | 1.7 | 0.3 | -0.2 | 0.1 |

Source: Statistics Canada, Central 1

Canada Industry GDP, \$2017 dollars

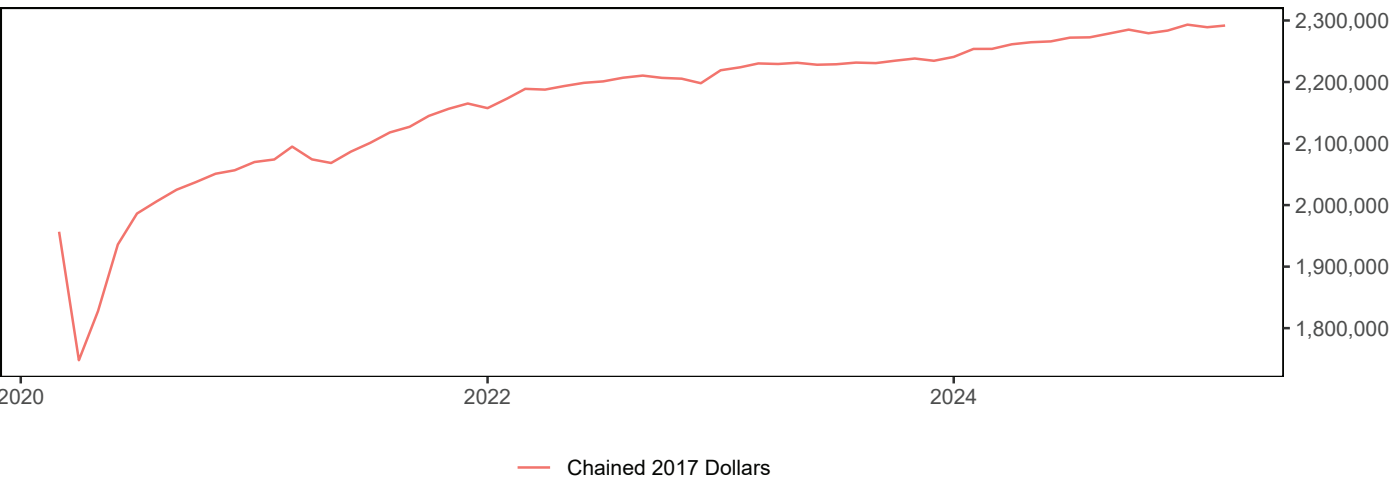
Industry GDP: Monthly Per Cent Change

Last data point: 2025-03-01



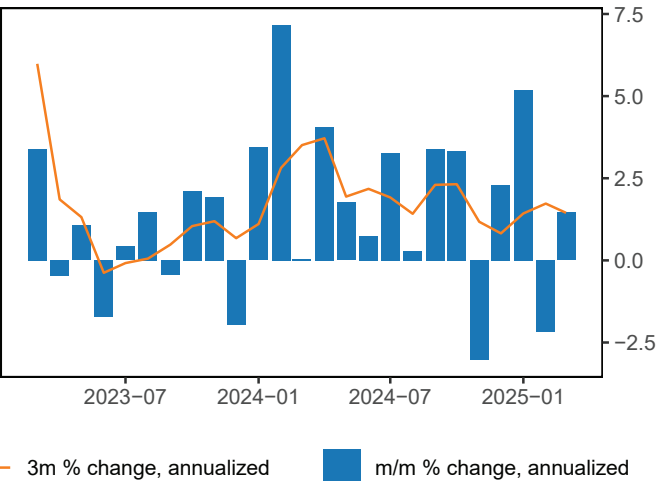
Industry GDP: \$ millions

Last data point: 2025-03-01



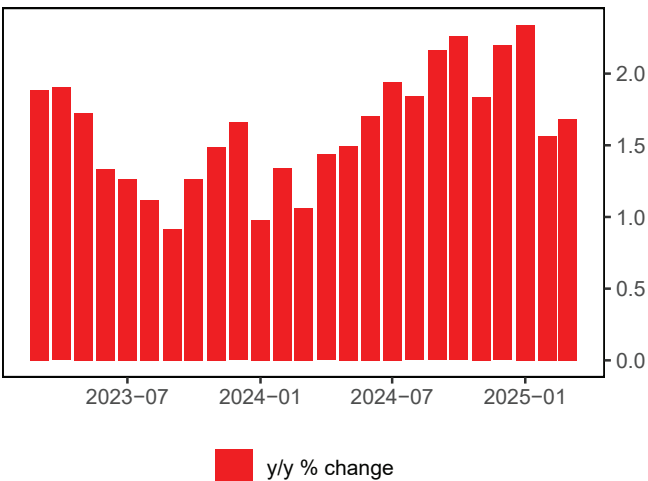
Industry GDP: Annualized Per Cent Change

Last data point: 2025-03-01



Industry GDP: 12- Month Per Cent Change

Last data point: 2025-03-01



Canada Industry GDP by Industry

