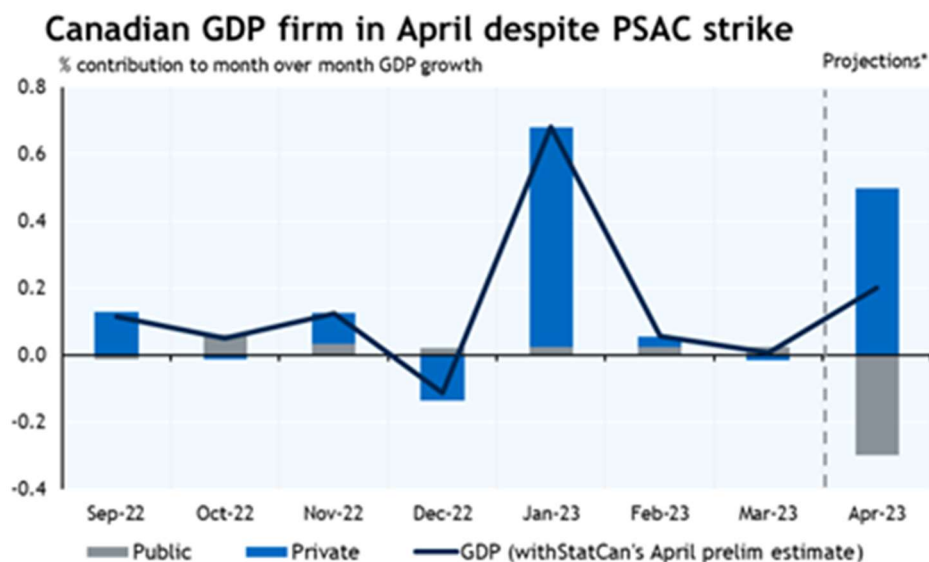


May 31, 2023

## Canadian GDP resilience stretching into Q2

- Q1 GDP growth bounced back 3.1% (annualized rate) after after growth stalled in Q4.
- The Q1 increase was led by a 5.7% surge in consumer spending and higher net exports, partially offset by a smaller inventory build and another drop in residential investment.
- Household disposable incomes fell for the first time since Q4 2021 - down 1% (not annualized) in Q1. Strong labour markets are still supporting household purchasing power, but a number of 'one-time' government transfers in Q4 last year weren't repeated in Q1 and the saving rate fell back close to pre-pandemic levels at 2.9%
- Almost all of the growth in Q1 came from a 0.7% jump in January GDP - output was little changed over February and March.
- But the larger surprise was the advance estimate that April GDP rose 0.2% despite a likely significant temporary drag from the federal workers strike that will reverse in May. Advance GDP estimates have been revision prone, but that is pointing to substantially firmer-than-expected momentum early in Q2.



Source: Statistics Canada, RBC Economics | \*April GDP projection with PSAC strike ending at end of month

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**Bottom line:** The jump in GDP early in Q2 means output is potentially running substantially above prior expectations. Labour markets have remained very firm, and inflation also surprised on the upside in April. There are still early signs that cracks are forming in the economic backdrop - job vacancies are declining, consumer delinquency rates are edging higher and households are saving less. And headwinds from higher interest rates will continue to build. But the economy's resilience will put pressure on the BoC to raise interest rates further. Governing Council will actively discuss a hike next week, but we think they'll wait until July to see if more evidence accumulates in favour of a rate increase.

<b>Canadian GDP Growth</b>				
	Q/Q annualized %			% from Q4/2019 (pre-shock)
	<u>2022/Q3</u>	<u>2022/Q4</u>	<u>2023/Q1</u>	<u>2023/Q1</u>
Consumer spending	0.3	1.1	5.7	4.6
Goods	-3.9	2.4	6.1	5.7
Services	3.9	0.0	5.3	4.0
Government	4.7	2.3	-1.5	9.3
Res Investment	-18.4	-9.9	-14.6	-5.7
Business investment	1.0	-5.1	1.9	0.6
Net trade (ppt cont, annualized)	4.5	5.4	2.9	
Inventories (ppt cont, annualized)	-1.4	-5.7	-2.3	
<b>Canada GDP</b>	<b>2.3</b>	<b>-0.1</b>	<b>3.1</b>	<b>3.7</b>
	Q/Q percent change			% from Q4/2019 (pre-shock)
Household disposable income	0.5	2.5	-1.0	17.7
Saving rate	4.7	5.8	2.9	

\*Source: Statistics Canada, RBC Economics