

Another Canadian per-capita GDP decline clears the way for rate cuts

- Canadian GDP rose by a smaller than expected 1.7% in Q1 following a downwardly revised 0.1% increase (previously +1.0%) in the fourth quarter of 2023.

- When measured against a still rapidly growing population, per-capita GDP declined for the sixth quarter out of the last seven (a previously reported small decline in per-capita GDP in Q1/23 was revised to a small increase to briefly interrupt a string of declines dating back to Q3 2022)

- Total domestic demand (spending by Canadian consumers, businesses, and governments) rose 2.9% after essentially stalling over the second half of 2023.
- Consumer spending rose another 3% - led by higher spending on services - alongside a 7.4% jump in household disposable incomes and higher saving rate.
- Business investment also edged up by 3.5%, but that retraces little of double-digit declines posted in each of the prior two quarters.
- On a monthly basis, almost all of the increase in Q1 GDP came from a 0.5% increase in January with momentum fading to a flat GDP growth reading reported today for March.
- The advance estimate for April GDP is up 0.3% from March. Those early estimates have been exceptionally revision prone, but would leave Q2 growth tracking close to our current 1.4% forecast (and implying yet another per-capita GDP decline in Q2)
- **Bottom Line:** The downside surprise in Canada's Q1 GDP growth likely removes the last potential barrier preventing the BoC from easing off the monetary policy brakes with an interest rate cut next week. The economic data still hasn't deteriorated in a way that is forcing urgent BoC action, but a slow bleed over the last 2 years has left per-capita output back at 2016 levels (and little-changed from a decade ago), the unemployment rate is up a percent

Canadian per-capita GDP little-changed from a decade ago



Source: Statistics Canada, RBC Economics Research

Nathan Janzen | Assistant Chief Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-0569
For more economic research, visit our website at <https://thoughtleadership.rbc.com/economics/>

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

from a year ago, and month-over-month increases in the BoC's preferred inflation measures are running below the central bank's 2% inflation target. Given that backdrop, there is little reason for the Bank of Canada to wait longer to begin at least a gradual easing cycle and continue to look for a 25 basis point cut to the overnight rate next week.

Canadian GDP Growth					
	<i>Q/Q annualized %</i>				<i>Y/Y %</i>
	2023/Q2	2023/Q3	2023/Q4	2024/Q1	2024/Q1
Consumer spending	0.5	0.1	3.2	3.0	1.7
Goods	0.0	-1.7	2.9	1.3	0.6
Services	0.9	1.5	3.5	4.3	2.5
Government	0.9	4.7	-2.5	2.1	1.3
Res Investment	-4.1	9.8	-2.3	1.3	1.1
Business investment	15.5	-16.8	-13.5	3.5	-3.7
Net trade (ppt cont, annualized)	-0.9	-1.0	0.7	0.1	
Inventories (ppt cont, annualized)	0.3	0.6	-0.5	-1.5	
Canada GDP	0.7	-0.3	0.1	1.7	0.5
	<i>Q/Q percent change</i>				<i>Y/Y %</i>
Household disposable income	1.4	2.3	1.4	1.8	7.1
Saving rate	4.9	6.5	6.2	6.9	