

## Output surge in Q1

### Real GDP (Q1)

**Latest: 3.7% (actual); 4.2% (expected);**

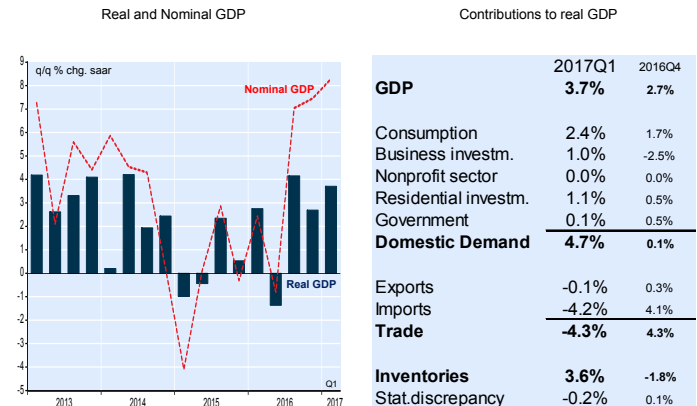
**Previous: 2.7% (revised from 2.6%)**

**FACTS:** Canada's GDP expanded at an annualized pace of 3.7% in the first quarter of 2017. Upward revisions to the second half of last year lifted 2016 GDP growth by one tick to 1.5%. Coming back to 2017Q1, while trade was a drag on the economy courtesy of surging imports and declining exports, that was more than offset by sharp gains for domestic demand. There were indeed healthy gains for consumption spending, residential investment, government expenditures and even business investment. Inventories also contributed to growth after the prior quarter's destocking. Nominal GDP grew a massive 8.3% on top of the prior quarter's 7.5% gains (top chart), a positive for government finances. The household savings rate fell a full percentage point to 4.3%. The monthly GDP data showed a 0.5% (unannualized) increase in March output or 4.6% annualized for Q1. That's the largest gap since 2012 between the quarterly growth rates measured by the industry and expenditure data (middle chart).

**OPINION:** While Q1 growth came in below consensus, upward revisions to prior quarters mean that output at the end of Q1 was effectively close to expectations. Inventories contributed significantly to first quarter growth, but that's a reflection of surging imports, the latter largely responsible for the drag from trade. More importantly, domestic demand was very strong with contributions across the board. The handoff to the second quarter, i.e. March GDP was much better than expected and will provide a lift to Q2 GDP growth. But don't expect another spectacular quarterly growth print. The accumulation of inventories could lead to a ramp down in production in Q2. Also, real household incomes barely grew in Q1 (+0.3% annualized) and hence Canadians opted to tap into savings to finance consumption (bottom chart). In other words, the consumption strength seen last quarter is unlikely to be repeated in Q2. Moreover, a moderation in growth is in the cards for the energy sector and housing market. Recall that oil production is being curtailed at Syncrude in the current quarter, while residential construction is not being helped by measures implemented by Ontario's government, including the 15% tax on non-resident buyers. So, we're expecting GDP growth to soften to roughly 1% annualized in the second quarter. Even then, the better than expected handoff from last year (after upward revisions to Q4) and from Q1 (March's unexpectedly strong growth) prompted us to raise our 2017 forecast for Canadian GDP growth to 2.4%.

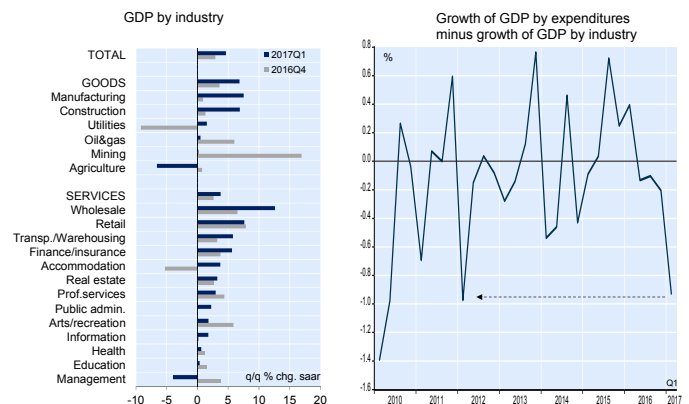
Krishen Rangasamy

### Canada: Economic growth surged in Q1



NBF Economics and Strategy (data via Statistics Canada)

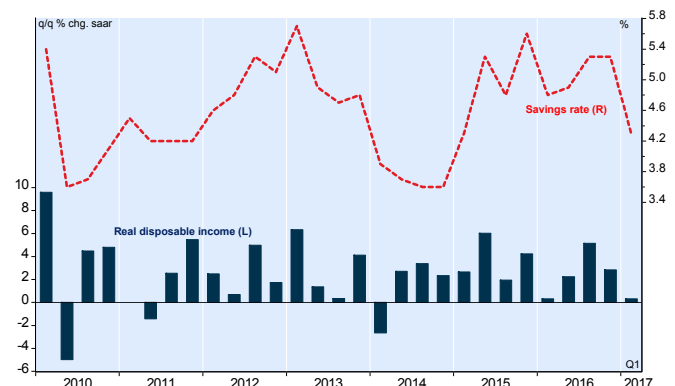
### Canada: Biggest gap between expenditures and industry data in 5 years



NBF Economics and Strategy (data via Statistics Canada)

### Canada: Households dipped into savings to finance spending in Q1

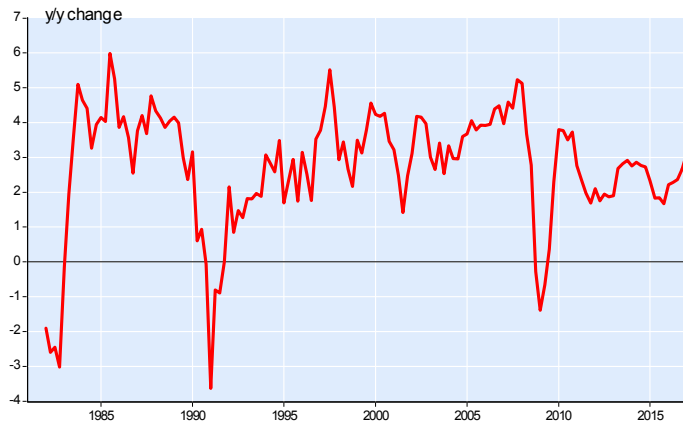
Real household disposable income versus savings rate



NBF Economics and Strategy (data via Statistics Canada)

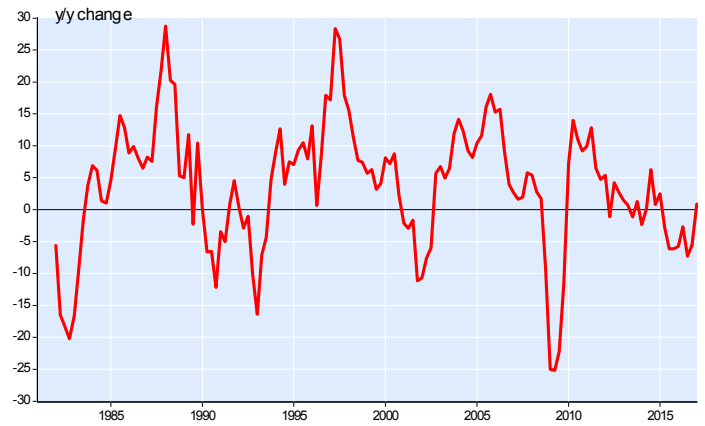
## Consumption

Real consumer expenditures



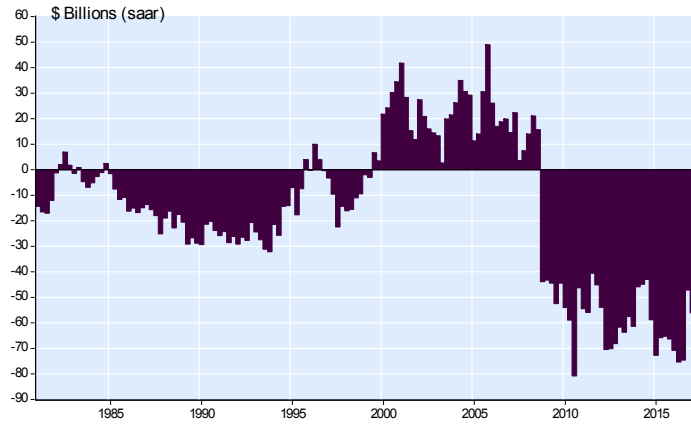
## Business Investment

Real investment in machinery and equipment



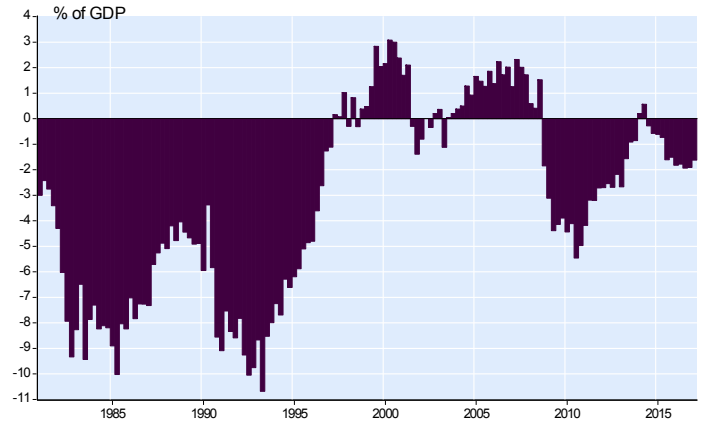
## Current account

Balance on the current account



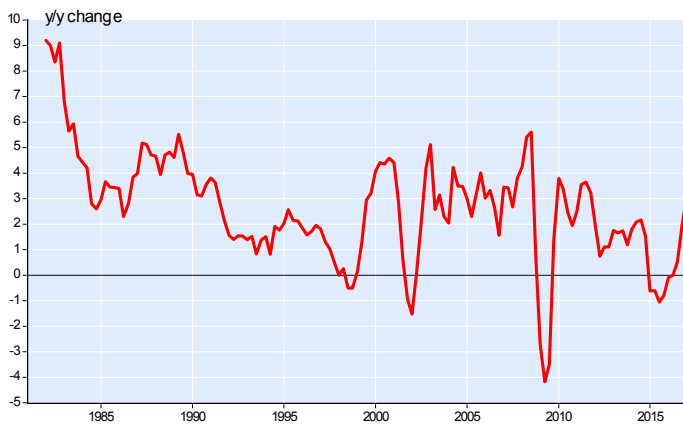
## Government

Net lending as a share of GDP



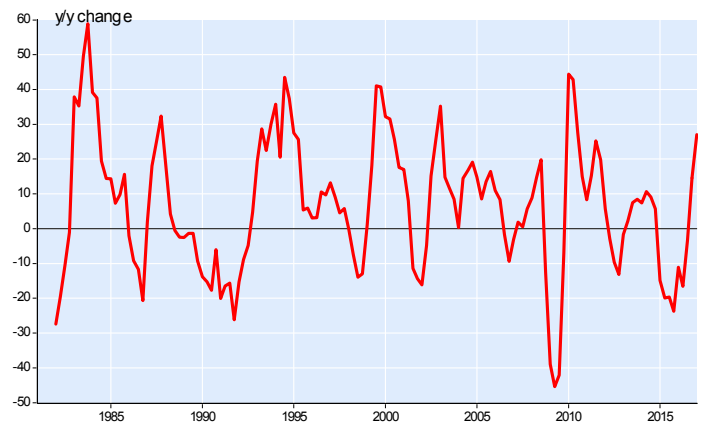
## Inflation

GDP deflator (chain-weighted)



## Profits

Corporate profits before tax



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