

# Canada: GDP growth in Q1 on track to remain below the increase in population

By Matthieu Arseneau

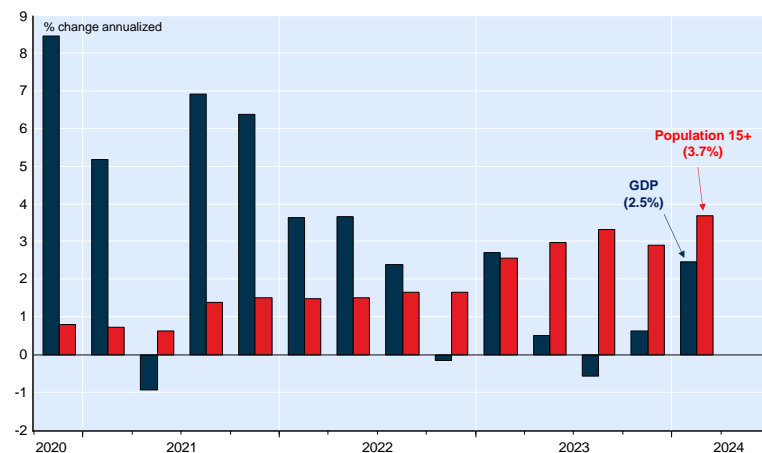
February's GDP growth of 0.2% was below consensus expectations (+0.3%) and the preliminary estimate released by Statistics Canada last month (+0.4%). This disappointment, combined with March's preliminary estimate of economic stagnation, could allow annualized quarterly growth to reach 2.5%, the strongest in a year (left chart). Although solid, this progression should not be seen as a warming of the Canadian economy that could slow the pace of interest rate cuts. Record population growth (+3.7% annualized) in the quarter supported not only economic growth, but also potential GDP, which is consequently rising at a fast clip. For illustration, GDP per capita continued its downward trend during the quarter and is now 3% below its peak recorded in September 2022. A decline of this magnitude has never been recorded outside of a recession (right chart). Moreover, this "solid" growth during the quarter did not prevent the unemployment rate from rising, another sign that economic growth was below potential during the quarter. There are many other signs that the Canadian economy has cooled significantly, including significant progress in inflation, particularly over the last three months ([link](#)). Let us hope those developments will convince the central bank to cut rates this summer. Given the lag in the transmission of monetary policy, the governing council risks doing too much damage to the economy in the coming months. This overly restrictive monetary policy is reflected in our gloomy economic outlook for the coming quarters. We expect the Canadian economy to contract by mid-year, limiting growth to 0.6% in 2024, with a slight acceleration to 1.2% the following year. This would translate into an unemployment rate of around 7.0% by the end of the year.

### HIGHLIGHTS:

- Canada's real GDP increased by 0.2% in February following a 0.5% increase the prior month. This was one tick below consensus expectations calling for a 0.3% gain.
- Production in service-producing industries largely carried the monthly rise, increasing +0.2%, while output on the goods side was flat.
- On the services side, the top performing sectors were transportation/warehousing (+1.4%), accommodation/food services (+0.5%), finance/insurance (+0.3%), wholesale trade (+0.3%) and other services (+0.3%) while management (-4.4%), information/culture (-0.5%) and arts/recreation (-0.4%) lagged.
- On the goods side, mining/oil/gas (+2.5%) and agriculture (+0.5%) posted strong gains while utilities (-2.5%), manufacturing (-0.4%) and construction (-0.1%) registered pullbacks.
- Overall, 12 of the 20 sectors followed recorded an increase in the month. Industrial production rose just 0.1% in the month.
- Finally, Statistics Canada's preliminary estimate showed that GDP was flat in March.

### Canada: Economy accelerates in a context of record population growth

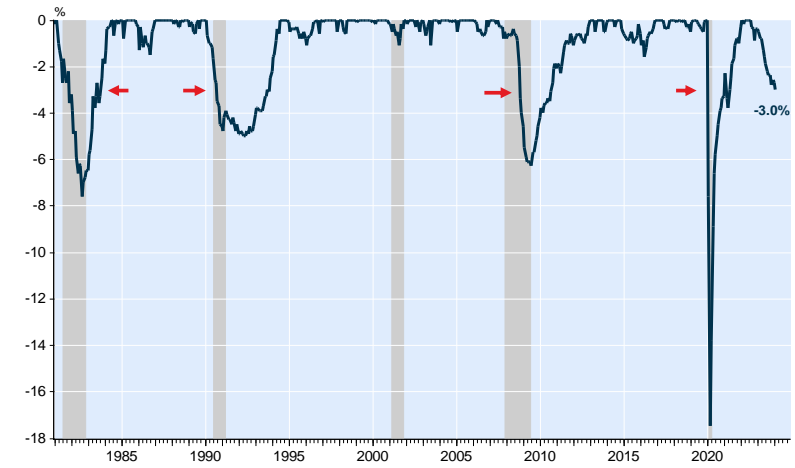
Gross domestic product and population 15+, quarterly data, annualized growth



NBF Economics and Strategy (data via Statistics Canada)

### GDP per capita has fallen sharply since monetary tightening began

Change since peak in GDP per capita (population 15+)



NBF Economics and Strategy (data via Statistics Canada)

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