

Canada: The economy ended the year on a high note

By Matthieu Arseneau

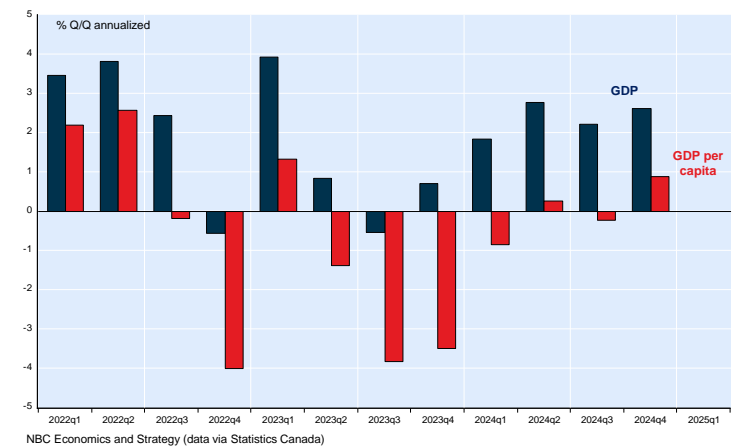
Highlights:

- Statistics Canada released its GDP estimate for Q4 2024. The economy expanded at an annualized rate of 2.6%, 9 ticks higher than the consensus estimate calling for a 1.7% increase. The previous quarter's result, meanwhile, was revised significantly up from 1.0% to 2.2%.
- Domestic demand was strongly up in Q4 (+5.6%), as household consumption (+5.6%), residential investments (+16.7%), investment in machinery and equipment (+17.9%) and government investments (+6.7%) surged. Meanwhile, non-residential investment in structures (+2.7%) and government consumption (+1.4%) also contributed to growth.
- Trade had a positive impact on GDP, as exports (7.4%) registered a larger increase than imports (+5.4%). Inventory investment was lower compared to Q2 resulting in a significant negative contribution to GDP (-3.2% annualized).
- Nominal GDP grew 6.4% on an annualized. Also in nominal terms, disposable income surged an annualized 4.3% following a 10.4% jump in Q3. Consumption, meanwhile, rose 8.6% annualized. As a result, the savings rate dropped from 7.3% to 6.1%, remaining way above its pre-pandemic level (2.8%).
- Industry data showed that output was up +0.2% in December, one tick below consensus expectations. Both goods (+0.3%) and services (+0.2%) posted increases. Statistics Canada also released an advance estimate for January showing growth of 0.3% in the month.
- See charts on next page for more details.

Data released this morning by Statistics Canada shows that the Canadian economy gained momentum at the end of the year. Growth of 2.6% was well above consensus (1.7%). Consumption was very solid, posting its best performance since the second quarter of 2022, when the central bank began raising interest rates. In addition to solid income growth in recent quarters, there is reason to believe that the interest rate cuts, which gave some respite to variable-rate borrowers, also contributed to the recovery. Other interest-sensitive components performed well, in particular residential investment and business investment in machinery and equipment. As a result, domestic demand grew at its fastest pace in 13 quarters. We are not surprised by the negative contribution from inventories, as we have been warning our readers about this for some time, given the high levels of stocks in the economy. Such a performance, at a time when population growth is slowing, is welcome as it allows GDP per capita to rise at its strongest pace in 7 quarters (top chart). The fact remains that this performance, combined with the upward revision of growth in the previous quarter and the good momentum that started in the first quarter, would probably, in normal times, have convinced the central bank that a pause in monetary easing was in order. But the situation is far from normal, with tariffs hanging like a sword of Damocles over the Canadian economy. Even if the imposition of tariffs remains a threat, it is likely to keep projects on hold until there is a little more visibility on the business environment. The decline in SME and consumer confidence is significant enough for the central bank to want to take out an insurance policy. Importantly, the central bank will be meeting after March 4th, which is when President Trump has promised blanket tariffs would be implemented. In other words, the Bank could have more clarity on the future of Canada-US trade relations, and thus the Canadian economy. Tariff imposition as threatened or a still confrontational tone would, to us, lead to another rate cut next month. On the contrary, a calming of tensions could be consistent with the BoC staying sidelined at their March 12th decision.

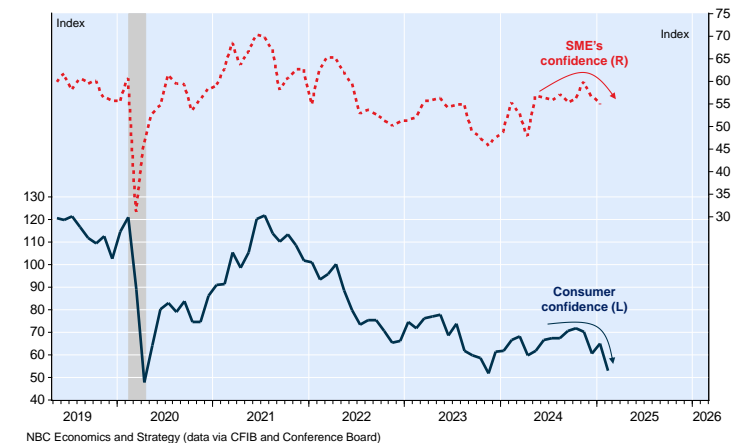
Canada: Strongest performance in GDP per capita in 7 quarters

Gross domestic product and gross domestic product per capita



Canada: The threat of tariffs is damaging confidence

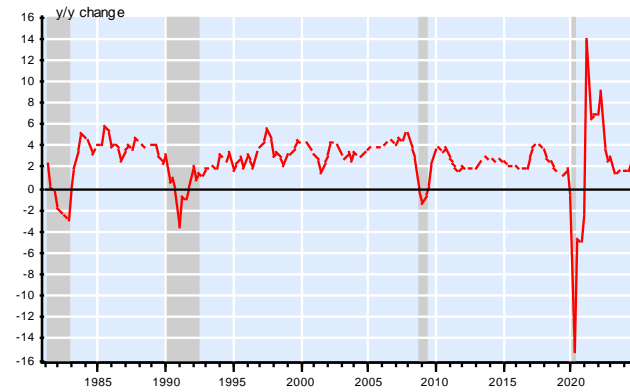
CFIB business barometer and Conference board consumer confidence





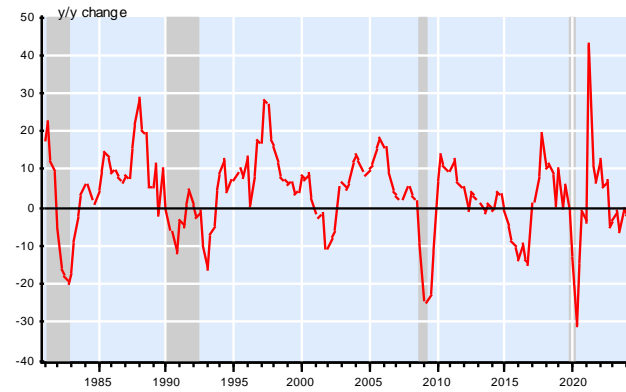
Consumption

Real consumer expenditures



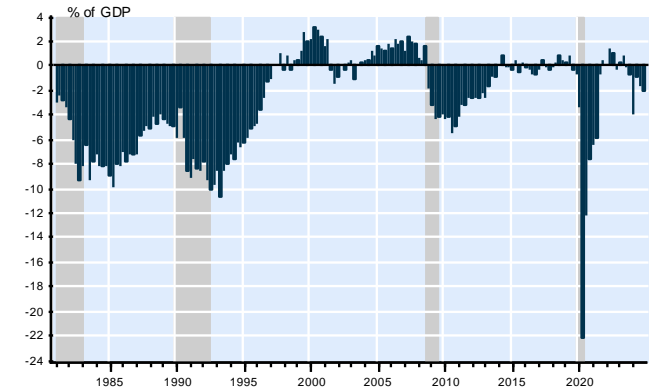
Business Investment

Real investment in machinery and equipment



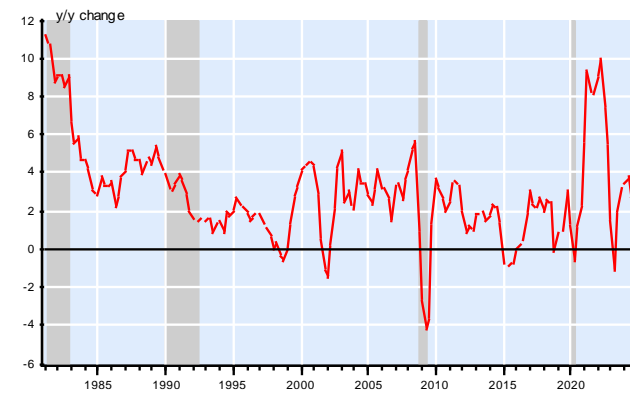
Government

Net lending as a share of GDP



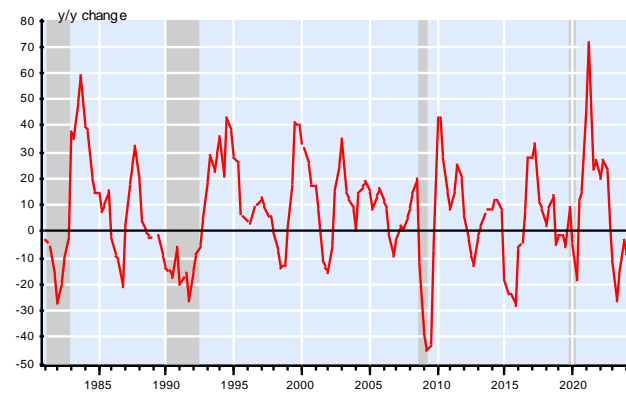
Inflation

GDP deflator (chain-weighted)



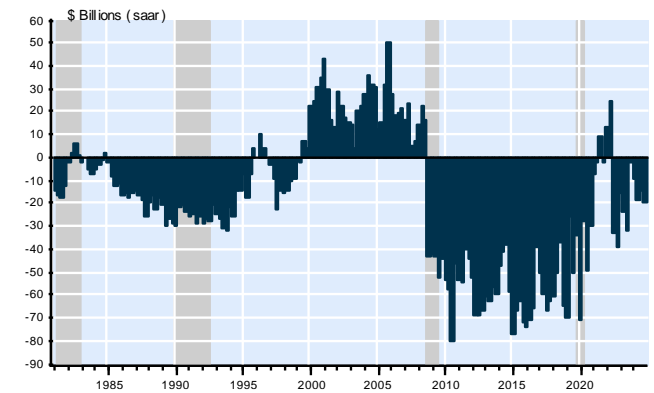
Profits

Corporate profits before tax



Current account

Balance on the current account





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