

RESEARCH BRIEF

CANADA GDP

MARCH 2024

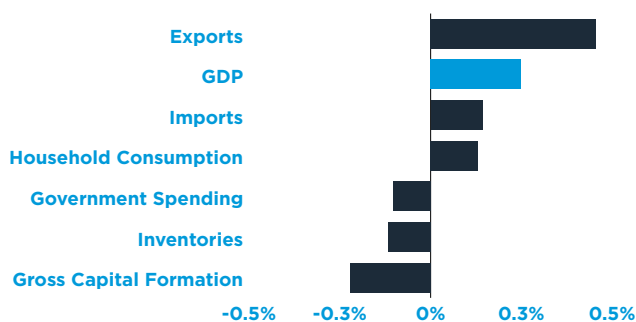
Canada's Economy Performs Better Than Central Bank Expected

Economy returns to expansionary territory. Canada's economy grew at an annualized rate of 1.0 per cent in the fourth quarter of 2023, which came after a 0.5 per cent contraction in the third quarter. Over the final three months of last year, the rebound in GDP growth was primarily driven by a 1.0 per cent annualized rise in consumer spending amid record population growth, and a 5.6 per cent surge in exports. However, given historic population gains, per capita GDP declined for the sixth consecutive quarter. GDP growth was also negatively impacted by an annualized fall of more than 5.0 per cent in business investment and a further weakening in residential investment, as heightened interest rates continued to be absorbed by the broader economy. Nevertheless, with borrowing costs widely expected to fall over the second half of the year, a soft landing for Canada's economy has become increasingly likely despite the central bank hiking its policy rate by 475 basis points over the past two years.

The return of economic growth allows central bank to be patient.

The modest gain in fourth-quarter GDP was stronger than the stagnation that the BoC expected. Combined with the upward revision to third-quarter growth as well as preliminary estimates suggesting the economy expanded further to begin 2024, it reduces the chance that the central bank will begin cutting interest rates as early as April. However, with GDP growth well below potential — along with Canada's labour market largely loosening over the past year and inflation returning to the BoC's target range in January — a June interest rate cut still holds as a possible outcome.

Exports and Household Spending Fuel Growth



Contribution to Fourth Quarter Per Cent Change in Real GDP

Commercial Real Estate Outlook

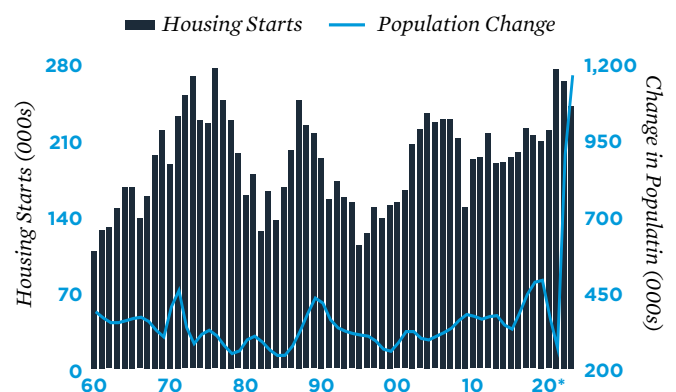
Retail property fundamentals aided by record population gains.

Household spending increased at its fastest pace since the first quarter of last year, which was highlighted by strong retail sales. On an annualized basis, total sales volumes rose by close to 5.0 per cent in the final quarter of last year. Nevertheless, as inflation and rising interest rates swept through the Canadian economy, consumers have tightened their budgets. Inflation-adjusted retail sales per capita have largely been trending down over the past year, with per capita consumption expenditures now declining for the third consecutive quarter. As a result, this overall resilience in household spending can mainly be attributed to Canada's historic population growth, which grew by 3.2 per cent annually as of the end of the third quarter of 2023. While population growth is likely to moderate over the coming year amid the recently announced cap on international students, it is still set to hold above long-term standards. Consequently, retail property fundamentals are expected to remain healthy.

Housing imbalance to widen.

As the BoC has hiked its policy rate by 475 basis points over the past two years, residential investment has contracted in six of the last seven quarters. Despite a 2.2 per cent increase in new construction in the fourth quarter, Canada's record population growth has continued to outpace new supply. This has caused the nation's housing supply-demand gap to widen, which is set to continue over the coming year as housing starts are likely to trend down over the first half of 2024. Consequently, Canada's apartment vacancy rate hit an all-time low of 1.5 per cent in 2023, which helped annual rent growth reach a new high of 8.4 per cent.

— Housing Supply-Demand Gap is Growing —



* Through 2023

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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