

Canada Watch

Weak 4Q activity paves the way for the BoC to cut in 1H

Key takeaways

- The economy grew modestly in 4Q at 1.0% qoq saar, helped by the external demand, while domestic demand contracted.
- We maintain our GDP growth forecasts. We expect GDP growth at 1.3% for 2024 and 2.4% for 2025.
- With a weak economy and core inflation falling we believe the BoC is likely to start a cutting cycle in 1H.

Economic activity remained weak in 4Q 2023

Economic activity was slightly above expectations in 4Q 2023 with GDP growth at 1.0% qoq saar (E. 0.8%, BofA 0.8%), up from a revised -0.5% contraction in 3Q (-1.1% originally). For 4Q, final domestic demand contracted -0.7% qoq saar, mainly due to the fall of fixed capital formation at -3.8% qoq saar (private investment decreased -5.3%). Final consumption expenditure was also weak at 0.2% qoq saar (government consumption fell -1.9%). On the other hand, the external sector fueled GDP with exports at 5.6% qoq saar and a contraction of imports at -1.7% qoq saar (Exhibit 1). All-in-all, restrictive monetary policy is weighing on domestic components, while growth is coming from the exterior. In annual terms, GDP for 2023 grew 1.1% yoy.

Activity stalled at the margin in December

Monthly GDP for December was below expectations at 0.0% mom sa (E. 0.2%, BofA 0.2%), down from 0.2% in November (Exhibit 2). December's print is explained by the contraction of the goods producing sector at -0.2% mom sa (vs 0.7% mom sa in November), particularly by the utilities' fall of -3.6% mom sa. Services were flat as the fall of education services at -3.8% mom sa muted the growth of all other subsectors (Exhibit 3). Looking forward, the flash GDP shows some improvement at 0.4% mom sa for January. The annual GDP print was 1.1% yoy in December (E. 1.6%, BofA 1.4%).

We maintain our GDP growth expectations

We continue to expect growth at 1.3% for 2024 and 2.4% for 2025 (Exhibit 4, Exhibit 5). The 4Q GDP print alters slightly our output gap estimation (Exhibit 6).

BoC: We expect a cut in June

Weak economic activity and core inflation regaining a downward trend, mean that the start of the cutting cycle in Canada is not far. The BoC has said it needs to see "further and sustained easing" in core, and January's print likely checks the former. Now we need the latter. Since there is no inflation print before March 6th meeting and only one before the April 10th, the cut could be in April but still seems too soon to us. So, we still expect the first cut in June, but risks are skewed to an earlier start.

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Relevant reports:

[Core inflation regains falling trend, opening the door for 1H cut, 20 February 2024](#)

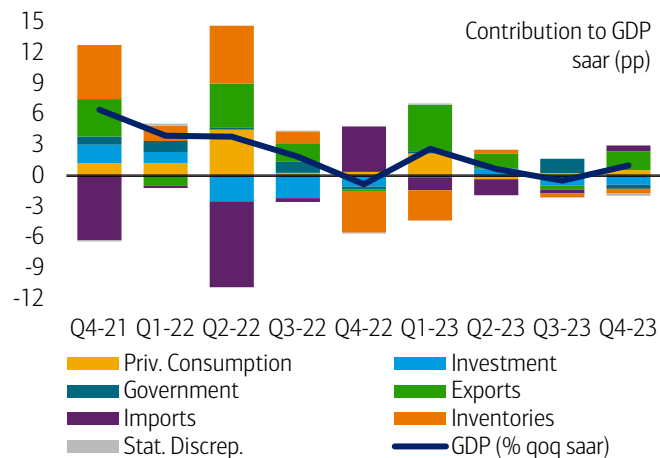
[Labor market stronger than expected in January, but with a mixed message, 09 February 2024](#)

[Canada: Top 5 questions for 2024, 07 February 2024](#)

[BoC drops hiking bias, next movement is a cut \(likely in June\), 24 January 2024](#)

Exhibit 1: Contribution to GDP growth (pp unless stated)

External sector helped the GDP in 4Q, while domestic demand contracted

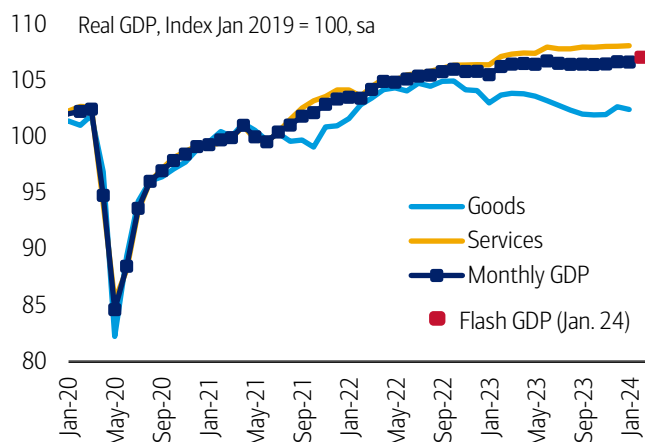


Source: BofA Global Research, Stat Canada, Haver

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Exhibit 2: Monthly GDP by industry

Goods sector returned to its downward trend while services moved sideways

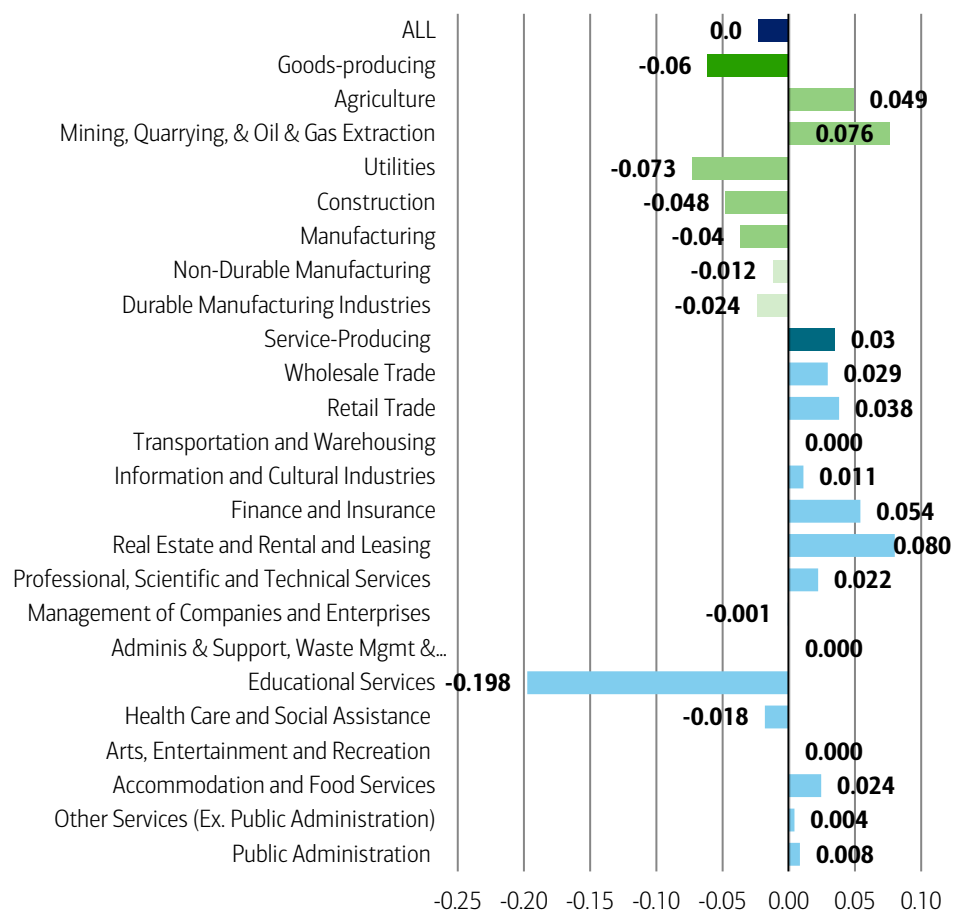


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Exhibit 3: Contribution to GDP growth in December (pp)

Goods-producing sector is showing signs of weakness, while most of services' components keep growing

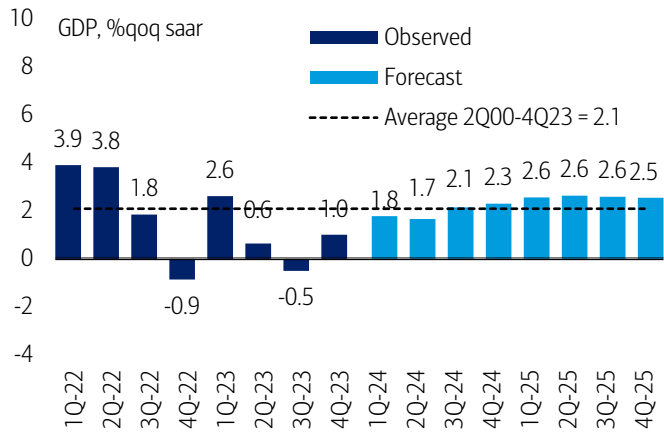


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Exhibit 4: Canada's GDP growth forecasts

We continue to expect GDP growth at 1.3% in 2024 and 2.4% in 2025

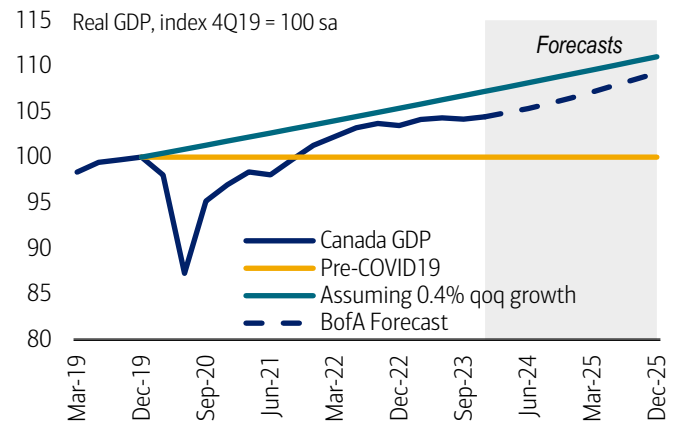


Source: BofA Global Research estimates, Stat Canada, Haver

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Exhibit 5: Canada's GDP forecasts in levels

We expect Canada to start growing closer to its pre-pandemic trend

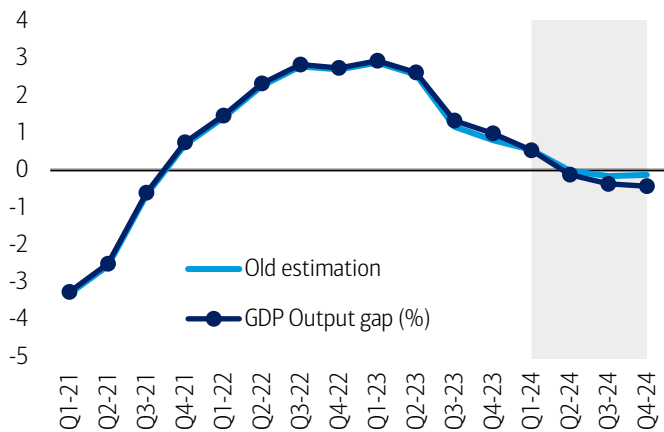


Source: BofA Global Research estimates, Stat Canada, Haver

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Exhibit 6: Output gap

We revised slightly our output gap measure



Source: BofA Global Research estimates, Stat Canada, Haver

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