

Economics

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Canadian GDP (Nov): A surge, a stall, and then...

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GDP (period/period % chg)	21:Q2 ¹	21:Q3 ¹	Sep	Oct	Nov	Nov Y/Y
GDP (at basic prices)	-1.1	5.1	0.2	0.8	0.6	3.8
• Goods-producing	-1.6	-2.7	-0.3	1.4	0.5	2.4
• Services-producing	-0.9	8.1	0.4	0.6	0.6	4.3
• Business	-2.1	4.9	0.2	1.0	0.7	3.6
• Non-business	3.0	6.0	0.6	-0.1	0.3	4.5

Source: Statistics Canada

- Canadian GDP surged by 0.6% in November, with that growth rate well above the advance estimate and also the consensus forecast (+0.3% and +0.4% respectively). However, advance data for December suggests that Omicron-related uncertainties had already stalled the recovery, and the tightening of public health restrictions will have likely brought a temporary pullback in January. Due to the stronger than anticipated November advance, though, the economy at least entered this period of renewed restrictions on stronger footing than previously expected.
- Growth was relatively broad-based across sectors in November and the strong advance took the level of GDP 0.2% above its pre-pandemic (Feb 2020) level. Interestingly, even though this has been a services-led recession and recovery, compared to February 2020 it is the goods side (-1.8%) that is still lagging and services (+1.0%) that have fully recovered.
- However, that masks large divergences within the service sector, with wholesale and retail benefitting from a greater tilting of consumer spending towards goods, but hardest hit areas such as arts & entertainment (-23% vs February 2020) and accommodation & food service (-9%) still a ways away from a full recovery even by November. And, of course, those are the areas that will have seen weakness in December and January, as public confidence for such activities waned as Omicron spread, followed by a tightening of public health restrictions to start 2022.
- Advance data for December suggested little change to the level of GDP during that month, as declines in accommodation, food service and retail offset some advances elsewhere. While the Omicron wave was already impacting consumer behaviour by the second half of December, the biggest impact from tightening public health restrictions will show up in the January figures.
- For Q4 as a whole the latest data suggest growth of around 6 1/2%, with growth for the year as a whole tracking 4.9% on these industry figures.

Implications & actions

Re: Economic forecast — The stronger than expected November print leaves growth in Q4 as a whole tracking around 6 1/2% even with the flat December. That's slightly ahead of the 5.8% estimated by the Bank of Canada in its MPR, and further justifies its hawkish tone on interest rates, even with the expectation that Omicron-related restrictions will have

¹ Annualized.

resulted in a sluggish Q1. We still expect to see a fairly sizeable decline in January GDP, but a bounce-back in February/March, which will average out to little or no growth for the quarter as a whole.

Re: Markets — Bond yields and the Canadian dollar both rose straight after the strong data release, but only very marginally.

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