March 1, 2022

Canadian economy ended 2021 on a strong note

- GDP rose 6.7% (annualize) in Q4, driven by inventory rebuild and rising domestic demand
- Preliminary estimate of January output up 0.2%, stronger than expected
- Rising inflation, labour shortages, argue for the BoC to hike rates despite geopolitical uncertainty

The increase in GDP in the fourth quarter brought the level back to just above pre-pandemic levels. Over half of the gain came from a re-build in inventories after a large Q3 decline. However, demand has also been very strong, so the ratio of stocks to total economy-wide sales is still running below pre-pandemic levels. That suggests more inventory building could be needed (particularly in the auto sector where stocks reportedly remain particularly low.)

Consumer purchases edged up another 1% after a 20% Q3 surge (also back to slightly above pre-pandemic levels). And resurgent housing markets pushed residential investment up 10% in Q4 after a 31% decline the prior quarter. Business investment jumped 8.7% and earlier reports flagged expected further gains into 2022 as business continue to struggle with production capacity limits and labour shortages.

Canadian GDP Growth

	Q/Q annualized %			*% from Q4/2019 (pre-shock)*
	2021/Q2	**2021/Q3**	**2021/Q4**	**2021/Q4**
Consumer spending	-1.0	20.4	1.0	0.2
Goods	-9.5	9.3	-0.7	4.5
Services	7.3	30.9	2.4	-2.9
Government	-1.2	0.1	2.2	4.5
Res Investment	-11.0	-31.0	10.2	13.9
Business investment	15.3	1.7	8.7	-6.2
Net trade (ppt cont, annualized)	-6.3	2.6	-0.2	
Inventories (ppt cont, annualized)	3.6	-3.9	4.1	
Canada GDP	**-3.6**	**5.5**	**6.7**	**0.1**
	Q/Q percent change			*% from Q4/2019 (pre-shock)*
Household disposable income	1.2	-0.4	-1.3	8.9
Saving rate	14.4	9.0	6.4	

*Source: Statistics Canada, RBC Economics

The impact of the Omicron wave on the economy appears to have been more muted than expected with the early estimate of January GDP up 0.2% (despite a sharp 2.2% drop in hours worked reported in the monthly labour market data.) Travel and hospitality sectors were disproportionately negatively impacted once again, but growth from other sectors offset those declines. Early data is pointing to a sharp bounce-back in those high-contact service-sectors in February which, combined with the tick up in January output overall, leaves upside risk to our forecast for a 1.5% increase in Q1. Geopolitical tensions have increased, but we still expect the Bank of Canada to hike rates with domestic economic conditions looking substantially stronger and inflation running above-target.

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