

April 29, 2022

## Canadian GDP bounced back from winter virus disruptions

- GDP grew by 1.1% in February, driven by a rebound in hospitality activities as restrictions and virus spread eased
- Preliminary estimate was for another 0.5% increase in March
- Solid growth trend, pressing capacity issues and elevated inflation push BoC to hike rates faster

### **The 1.1% GDP gain in February was slightly above the preliminary estimate and consensus expectation of 0.8%.**

The increase was supported by a rebound in travel and hospitality sectors as pandemic restrictions, including in Ontario and Quebec, eased. Accommodation and food services output rose by 15.1%, more than offsetting the drop over December and January. Output for mining, quarrying and oil and gas extraction also grew a solid 3.4% in February following production disruptions in the prior month. That offsets weaknesses in wholesale and retail trade, the latter was weighed down by lower auto sales.

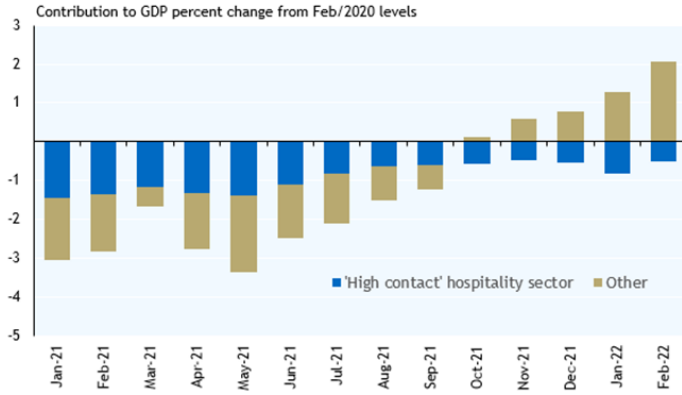
### **StatCan estimated GDP in March likely rose by another 0.5% and pointed to the ongoing rebound in close contact industries as the key driver of growth.**

Indeed, output for accommodation and food services was still running 11% in February below pre-pandemic and we expect resumption of these services to drive near-term economic growth. Taken together, the preliminary monthly GDP readings are tracking a 5 ½% (annualized) increase in the first quarter of 2022. That's higher than our current forecast of 3.5% and well above the 1.4% annualized contraction in the same quarter for US GDP, as reported earlier this week.

**But capacity issues are growing to be more pressing for both economies.** Labour shortages are exceptionally acute, and that's true even for close contact sectors that have yet to fully recover. The unemployment rate in Canada in March at 5.3% was its lowest level on records dating back to 1976. Inflation surged higher again in March and the ongoing Russian invasion into Ukraine and regional lockdowns in China will only risk exacerbating supply chain challenges and worsening inflation concerns. Pressure continues to build for the Bank of Canada to ease off the monetary policy accelerator more rapidly, with (at least) a 50 basis point rate hike in June (to follow up on the 75 bps over March and April) looking increasingly likely.

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639  
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### Capacity limits to cap growth outside of 'high contact' service



### Canada Monthly GDP Summary

	<i>m/m % change</i>				<i>% change</i>
	<u>Nov-21</u>	<u>Dec-21</u>	<u>Jan-22</u>	<u>Feb-22</u>	<u>Feb-22</u>
<b>GDP</b>	<b>0.6</b>	<b>0.1</b>	<b>0.2</b>	<b>1.1</b>	<b>1.5</b>
<b>Goods</b>	<b>0.3</b>	<b>0.6</b>	<b>1.0</b>	<b>1.5</b>	<b>1.0</b>
Oil & gas extrac.	-2.8	-2.2	-1.4	3.0	-0.5
Mining ex-oil & gas	-6.5	3.6	-1.5	4.7	2.5
Construction	0.5	0.0	2.8	2.7	5.3
Manufacturing	1.7	0.6	0.0	0.4	-1.2
<b>Services</b>	<b>0.7</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.9</b>	<b>1.7</b>
Retail	0.4	-2.6	3.0	-0.2	5.1
Art/ent/rec	5.5	-3.2	-10.0	8.4	-25.3
Accom/food	2.4	-1.9	-11.9	15.1	-11.0

Source: Statistics Canada, RBC Economics Research