The Canadian economy grew by 0.2% in January even as Omicron cases climbed to a record level. A strong rebound in the construction sector (+2.8%) together with a lift in utilities (+4%) on account of colder temperature were the driving force behind this gain. But a 2.6% increase in spending at retail outlets also contributed. At the same time there were sharp declines in industries like food accommodation (-11.5%) with containment measures re-imposed in some regions – including the closure of restaurant dining rooms in Ontario and Quebec. And a sharp pull-back in hours worked with more people sick or self-isolating added to another round of supply chain disruptions in the auto sector to push manufacturing output lower.

The preliminary estimate for February was substantially stronger (+0.8%) as slowing virus spread and easing restrictions boosted output within the high contact sector, and manufacturing hours worked surged back. There is still some room for growth near-term in those travel and hospitality sectors that have been running well below pre-pandemic levels. But labour markets have largely recovered with the unemployment rate back below pre-pandemic levels and businesses in many sectors struggling more with labour shortages and production capacity limits than shortfalls in orders. Economic data in Canada has continued to show strong momentum even amid increased geopolitical uncertainties (and rising commodity prices) due to the Russian invasion of Ukraine. Today’s report confirmed further strength alongside building price pressures, and against that background there is little reason for the Bank of Canada to leave interest rates at emergency low levels. We expect that Bank to continue hiking rates in April.