

ECONOMIC NEWS

Canada: Rebound in Real GDP Bigger than Anticipated

By Benoit P. Durocher, Senior Economist

HIGHLIGHTS

- ▶ Real GDP rose 5.4% (quarterly annualized) in the third quarter of 2021, strongly outstripping expectations.
- ▶ On the other hand, the second quarter results were revised down, with the annualized quarterly variation in real GDP slipping from -1.1% to -3.2%.
- ▶ Domestic demand also rose 5.4% (quarterly annualized) in the third quarter. This gain is due to the 12.1% rise in consumer spending and the 8.7% increase in government investments. In contrast, residential investments plunged 31.3%, whereas investments in non-residential projects and in business machinery and equipment declined 0.9%.
- ▶ Goods and services exports were up 8.0%, while imports were down 2.3%. Consequently, the trade balance improved during the quarter, translating into a +3.1% contribution to the quarterly annualized variation in real GDP.
- ▶ The change in inventories went from \$6.2B in 2012 dollars to -\$8.3B in 2012 dollars, resulting in a contribution of -2.9% to the quarterly annualized variation in real GDP.

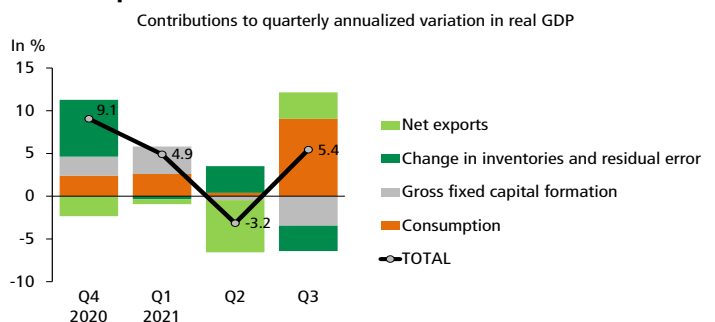
COMMENTS

Clearly, consumers had an even greater impact than initially thought this summer. Spending on services jumped 27.8% as many sectors continued to reopen. A little more than one-third of the increase in household consumer spending came from accommodation and food services. Exports also helped fuel the growth despite the numerous supply chain problems. Commodity exports rose significantly thanks to strong international demand.

According to Statistics Canada, the preliminary result indicates that real GDP by industry grew roughly 0.8% in October. Based on this, the fourth quarter should begin on a high note. Still, November looks more challenging, and a pullback in real GDP is likely because of the flooding in British Columbia, which

GRAPH

Consumer spending contributed hugely to economic growth in the third quarter of 2021



Sources: Statistics Canada and Desjardins, Economic Studies

made the supply chain problems worse. However, December is expected to post a rebound.

IMPLICATIONS

In the last *Monetary Policy Report*, the Bank of Canada forecast real GDP of 5.5% in the third quarter, practically the same as the actual result. So, the figures being released today should not upset the monetary authorities' plans.