

ECONOMIC NEWS

Canada: Services Recoup Lost Ground

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HIGHLIGHTS

- ▶ Real GDP by industry advanced 0.8% in October, as indicated in preliminary data.
- ▶ Services climbed 0.6% on gains in most sectors, lifting real GDP in services above its pre-pandemic level for the first time.
- ▶ Goods were up 1.6% with strong growth contributions across all sectors. Despite this robust uptick, real GDP in goods still lags its pre-pandemic level by 2.2%.
- ▶ The Canadian economy as a whole is still a slight 0.4% shy of its pre-pandemic level.
- ▶ According to Statistics Canada, November's preliminary data points to a 0.3% rise in real GDP by industry.

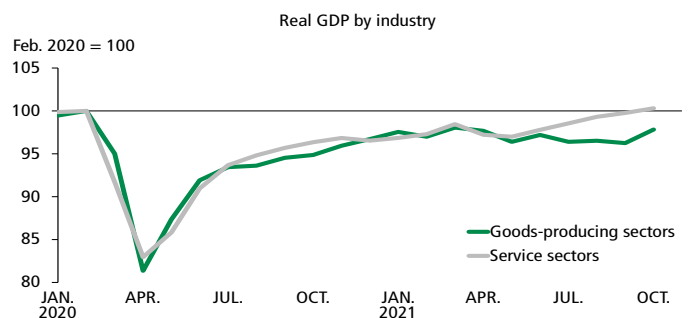
COMMENTS

The Canadian economy appears to have expanded at a satisfactory pace this fall, as conditions continued to normalize in multiple sectors. We were initially concerned November real GDP growth would take a hit from supply bottlenecks caused by flooding in British Columbia. In that light, a preliminary gain of 0.3% is great news. It remains to be seen whether impacts from supply problems will eventually emerge, particularly in December.

In addition, the outlook for early 2022 has darkened with the return of some health restrictions to quell the wave of the Omicron variant, especially in service sectors. Much uncertainty remains about the effects on economic growth. That being said, it's now a familiar phenomenon, and we know these temporary challenges will be followed by a rebound once health measures are lifted. Meanwhile, governments will continue to support workers and businesses affected by the pandemic.

GRAPH

Service sectors stage full recovery



Sources: Datastream and Desjardins, Economic Studies

IMPLICATIONS

Real GDP growth is likely to be somewhat stronger than previously thought for the fourth quarter of 2021 as a whole. Yet, the first quarter of 2022 growth may be more sluggish than initially anticipated due to the adverse effects of the Omicron wave. However, we don't see this more marked volatility in Canadian economic expansion having much influence on the Bank of Canada, with its first key rate hike still pegged for next April. By then, uncertainties sparked by the Omicron variant should have largely subsided.