

ECONOMIC NEWS

Canada: Strong Fourth Quarter GDP Growth

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HIGHLIGHTS

- ▶ Real GDP grew at an annual rate of 6.7% in the fourth quarter of 2021. It's now back above its pre-pandemic level.
- ▶ Domestic demand rose 2.9%, led by a 1.4% increase in consumer spending and a 10.2% rebound in residential building construction. Non-residential building construction and machinery and equipment were up 8.7%, while public administration rose 6.2%.
- ▶ Goods and services exports grew 13.4% and imports increased 14.4%. The trade balance worsened slightly in the fourth quarter, taking a 0.2% bite out of the quarterly annualized variation in real GDP.
- ▶ The change in inventories improved from -\$39.9B 2012 dollars to -\$3.5B 2012 dollars, adding 4.2% to the quarterly annualized variation in real GDP.
- ▶ The economy grew 4.6% in 2021.

COMMENTS

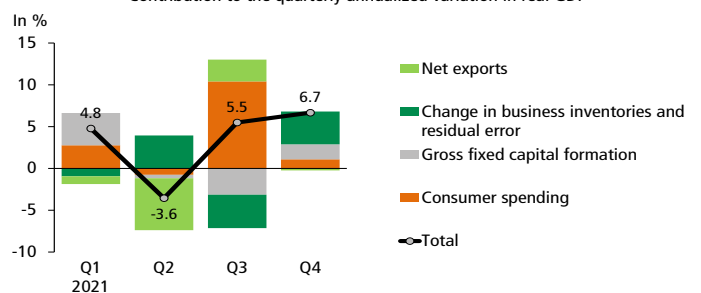
Overall, fourth quarter GDP numbers were in line with expectations. However, residential building construction made a surprising rebound, breaking the downward trend we've seen in the housing market since spring of 2021. And while new construction continued to decline, renovation and transfer costs were up thanks to a slight uptick in existing home sales in the fall. The strength of non-residential business investment is also good news and is consistent with relatively high intentions to address supply issues and labour shortages, among others.

Statistics Canada's +0.2% flash estimate for January real GDP by industry was also a pleasant surprise. It looks as though the Canadian economy held up much better than expected during the Omicron wave. Given this strong start, first quarter GDP should come in higher than initially expected. But there's still a lot of uncertainty about the coming months. The conflict in

GRAPH

Change in inventories was a major contributor to economic growth in the fourth quarter of 2021

Contribution to the quarterly annualized variation in real GDP



Sources: Statistics Canada and Desjardins, Economic Studies

Ukraine could exacerbate supply chain disruptions, hampering growth in some industries.

IMPLICATIONS

All signs point to an interest rate hike tomorrow morning. Economic growth was robust in the second half of 2021 and is looking good for early 2022. Meanwhile we've continued to see rising inflation and a troubling spike in energy prices.