

ECONOMIC NEWS

Canada: The Economy Keeps Humming Along despite Omicron

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Real GDP by industry rose 0.2% in January, in line with the consensus and Statistics Canada's flash estimate. However, only 9 of 20 sectors posted gains in the month.
- ▶ Goods-producing sectors staged a major advance (+0.8%), with construction leading the charge and utilities not far behind.
- ▶ Meanwhile, services-producing sectors were flat on the month (0.0%), as customer-facing sectors bore the brunt of pandemic-related mobility restrictions.
- ▶ With year-over-year growth of 3.5%, monthly real GDP was 0.4% above its February 2020 pre-pandemic peak in January.
- ▶ Real GDP growth is expected to have accelerated in February, with Statistics Canada's advanced estimate coming in at a solid 0.8% over January.

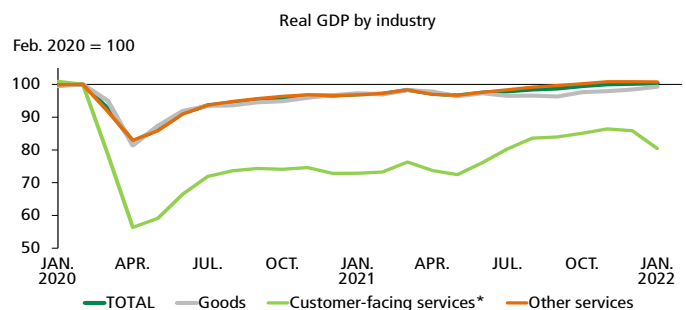
COMMENTS

You'd hardly know Omicron had Canada in its grip in January, as Canadians built, borrowed, bundled and bought their way to another monthly GDP advance. Canadians' insatiable appetite for all things housing boosted construction in the month, while unseasonably cold weather turned up demand for utilities. On the services side of things, retail and wholesale trade posted a notable surge as Canadians with cabin fever opened their wallets.

But beneath the surface, January's real GDP release wasn't all sunshine, lollipops and rainbows. Not surprisingly, customer-facing industries like transportation, arts and culture, and hospitality contracted sharply in the month. Indeed, only 6 of 15 services-producing sectors experienced growth in January.

GRAPH

Real GDP advances in January despite the drag from Omicron



* Customer-facing services include transportation, arts and culture, and hospitality.
Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

With commodity prices rising further and reopening pushing demand for services higher, February GDP growth could easily hit the 0.8% estimated by Statistics Canada. This puts our Q1 real GDP growth tracking at close to 4%. Add to that decades-high inflation, a tight labour market and a big-spending federal budget in the works, and all signs point to further rate hikes by the Bank of Canada (BoC). However, today's release is not enough for us to change our call for a 25 basis point hike at the BoC's April meeting.