



### Canada GDP swings higher in November, pullback expected in Q1

Canadian industry-GDP growth handily beat consensus expectations in November with a strong m/m gain of 0.7 per cent and added to October's 0.4 per cent increase. With Statistics Canada's preliminary estimate for December coming in at 0.3 per cent, quarterly growth trends to about 1.9 per cent (7.8 per cent annualized). Annual industry- GDP looks to decline by 5.1 per cent. Industry- GDP does not align identically to expenditure account estimates which is the normal basis for comparison, but magnitude of change should be very close. GDP growth for Q4 and 2020 are better than expected, but the annual contraction is still the steepest on record based on Statistics Canada's data from 1961 onwards, although other estimates suggest the largest contraction since 1933.

November's increase returned GDP to 96.5 per cent of February's pre- pandemic levels, from a low of 82.3 per cent in April. Moreover, gains were widespread across sectors. Goods sector production rose 1.2 per cent, while services-sectors expanded 0.5 per cent. Both sectors contributed about half of the overall gain in output. Key drivers included growth of 3.9 per cent in the resource sector, a 1.7 per cent increase in manufacturing, and 1.3 per cent growth in finance and real estate. At the same time, sectors reeling from the pandemic, and fall restrictions fell flat or contracted. Arts/entertainment and recreation contracted 2.6 per cent, with no change in accommodations/food services and personal private services.

The latest November print and December preliminary estimates are a welcome sight but also precedes expectation of a negative reading in Q1 2021 data. Economic restrictions ramped up in late 2020, specifically in Ontario and Quebec, which is expected to reverse some of the gains in the hospitality sectors and other service sectors. Restrictions of varying severity means social activities and associated economic activities will roll back temporarily. LFS employment for December fell (-0.3 per cent) for the first time since the recovery began and will likely fall further in January figures. The latest Bank of Canada Monetary Policy Report calls for a 0.7 per cent (2.9 per cent annualized) contraction for Q1 although its Q4 estimate of a 4.8 per cent annualized gain will be low.

Ultimately the path of the economy will be dictated by the success in controlling the second wave of the pandemic in the short- term through social and economic restrictions, while deployment of vaccines determine ability to growth in Q2 onwards. Recent supply bottlenecks of the vaccine and reduced vaccine shipments to Canada are worrisome for medium- term trajectory but we remain optimistic these logistical issues will be ironed out. Inability to do so will negatively impact not only 2021 economic growth, but also risk greater economic scarring as businesses shutter due to lengthier restrictions and increased long-term employment.

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