



Canadian economy remains resilient amidst the second wave

Canada's economy looks to have persevered through the second wave of the pandemic as growth surprised to the upside in January. Industry gross domestic product (GDP) rose 0.7 per cent in January, accelerating from a 0.1 per cent increase in December. This came despite employment slumping during the month. Importantly, preliminary guidance for February of another 0.5 per cent increase sets us up for a solid Q1 gain although the third wave of the pandemic has arrived. Provided February growth comes in as expected, annualized industry-GDP growth in Q1 is set to exceed 5.0 per cent compared to Q4's 8.9 per cent expansion. Recall that the Bank of Canada had previously called for a contraction during the quarter, highlighting economic resilience.

The latest figures showed a mixed picture with 11 of 16 industries expanding in January, led by strong gains in resources (up 2.6 per cent), wholesale trade (up 3.8 per cent), and manufacturing (up 1.9 per cent). The broad tech sector also gained sharply by 3.8 per cent while construction grew 1.4 per cent. It is evident that the stronger external outlook and resource demand is lifting the Canadian economy. Not surprisingly, growth was dragged down by sectors hit by more restrictions including retail sales (down 1.7 per cent) and accommodations and foodservices (down three per cent).

February's increase is expected to be led by some rebound in retail activity and increased construction.

With the latest estimates GDP remained significantly below pre-pandemic February 2020 levels by 2.6 per cent, but is heading in the right direction, and the gap should narrow to near two per cent in February. Near-term uncertainty persists given the third wave of the pandemic has arrived, which has been further complicated by the emergence of more transmissible and dangerous variants and could drag on Q2. More restrictive measures have already arrived in some regions which will drag on hospitality and tourism sectors and could delay recoveries in these sectors. Nevertheless, the economy has proven resilient and vaccine deployment will further mitigate downside risk and the broader macro-economic outlook has brightened.

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