Economic Commentary

May 3, 2021

Economic momentum persists into March, third wave to deflate short- term outlook

Canada's economy continued to recover in February and March according to the latest Statistics Canada industry gross domestic product (GDP) estimates, pointing to a resilience through the second wave of the pandemic. That said, the rapid emergence and severity of the third wave driven by variants of concern means these figures already stale and slower growth is likely in the second quarter albeit starting from a higher than expected level of output.

February GDP rose 0.4 per cent m/m, following a January expansion of 0.7 per cent. The economy generally sailed through the second wave and continued to recuperate as households and businesses adapted through use of technology, lockdown measures eased, and government income programs continued to support the economy. Retail trade led the monthly increase with a 4.5 per cent m/m print, while construction (up 2.0 per cent), and accommodations/foodservices (up 3.5 per cent) also gained significantly. Early estimates suggest accelerated growth heading into the third wave with preliminary GDP up 0.9 per cent pointing to a robust Q1 gain of 1.6 per cent (6.7 per cent annualized). This aligns with the strong rebound in employment for February and March of 1.4 and 1.6 per cent.

The economy has recovered faster than expected, and GDP sat about two per cent below pre- COVID19 levels in February and if the March estimate holds, this will narrow to about near one per cent. That said, there remains some large gaps, with some sectors fully recovered while others woefully underperform. On the upside, remote work, a real estate boom and growth in technology sectors have strong year-over-year output gains in finance/insurance (up 5.4 per cent), real estate/leasing (up 3.4 per cent), and wholesale/retail trade (up more than two per cent). In contrast, output remains down sharply in tourism and hospitality sectors with accommodations/foodservices down 39 per cent, arts/entertainment/recreation down 51 per cent, and transportation/warehousing down 19 per cent among others. The hard- hit sectors depend on the severity of restrictions (and by extension COVID-19 trends), and travel restrictions.

As good as the headline numbers are, they are stale given the severity of the third wave. Growth is likely to slow in the second quarter as employment is likely to contract significantly but temporarily due to severity of restrictions such as Ontario's stay-at-home orders, and extremely troubling case counts in Alberta which could lead to tighter measures. We expect an employment decline of 200,000 persons in the April Labour Force Survey report. That said, we can still expect a Q2 expansion of about 3-4 per cent as households and businesses adapt as they have through the pandemic and growth trajectory will improve as case counts are (hopefully) tamed and vaccine deployment continues to rise and allow for fewer restrictions. Moreover, export growth, robust housing market, and stronger expectations for a post- pandemic economy will contribute to stronger Q3 growth albeit again contingent on the evolution of the pandemic.

Bryan Yu
Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209