Economic Commentary

October 29 2021

central 1
Economics

GDP disappoints heading into the Fall months

Canadian industry Gross Domestic Product (GDP) returned to growth in August as expected but disappointed market consensus and fell below Statistics Canada's own flash estimate produced last month. GDP rose by 0.4 per cent m/m compared to the flash of 0.7 per cent. Moreover, early estimates for September were underwhelming with no change in output. This pegs Q3 industry growth at about 0.5 per cent (or about two per cent). This is far short of the Bank of Canada's 5.5 per cent forecast which is itself was already rosy given consensus has hovered around 3.5 per cent.

With a soft lead in to Q4, the economy will need some hefty advances to make up for the underperformance which could be difficult given supply chain headwinds. The latest print should temper some of the expectations for more aggressive rate hikes in 2021 although markets are focused on inflation. The Bank may communicate further reductions in potential GDP if it expects the output gap to close by mid- year.

The August details GDP data showed a re-opening story. Specifically, hospitality sector production jumped 7.0 per cent, with arts/entertainment/recreation advancing 6.0 per cent. Broader re-openings and increased capacity broadly contributed to this increased despite rise of the Delta variant as vaccine progress allowed for further normalization. Retail trade also increased by 1.8 per cent. Services sectors led the increased with a 0.6 per cent gain and more should be expected as events return to near full capacity.

In contrast, droughts hammered the agriculture sector with an 11 per cent m/m decline (and 43 per cent y/y) in non- cannabis crops. Oil sand extraction fell 3.2 per cent m/m. Manufacturing rose 0.5 per cent m/m and 1.1 per cent y/y, but motor vehicle and parts production fell 4.2 per cent m/m and 26 per cent year-over-year as supply chain impacts such as semi-conductor shortages continued to weigh. Broader shipping and supply chain disruptions will continue to hamper the recovery, impacting more businesses and retail segments, while tightening labour markets are also a headwind for businesses.

Bryan Yu
Chief Economist
Central 1 Credit Union
byu@central1.com