Economic Commentary

October 1 2021

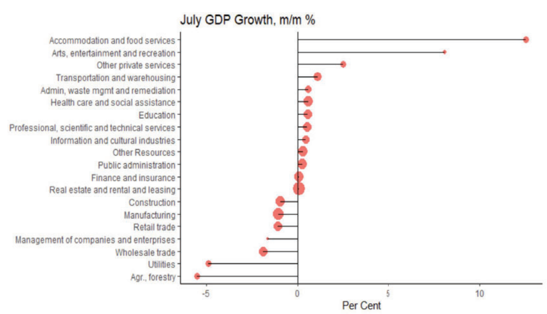
central 1 Economics

Canadian GDP dips, but performs better than expected in July

There was some positive new to close out the week as Canada's gross domestic product (GDP) nudged down by only 0.1 per cent in July. This was stronger than expected as Statistics Canada's preliminary estimate was for a 0.4 per cent contraction, while market consensus (Reuters) was for a drop of 0.2 per cent. August's flash estimate of 0.7 per cent growth point to a rebound but constrained by drought conditions in the agriculture sector.

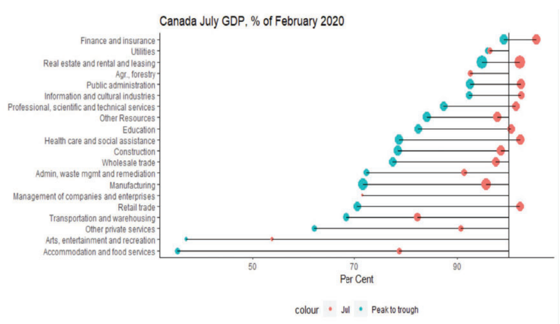
July's dip reflected mixed patterns. Re-opening trends lifted activity in the hard-hit and slow to recover services sectors. Hospitality jumped 12.5 per cent m/m, while arts/entertainment/recreation increased 8.1 per cent to add to prior month gains, as fewer restrictions enticed Canadians to visit more restaurants and tourism within the country. Transportation/warehousing rose 1.1 per cent on increased tourism travel as quarantine requirements eased. Meanwhile, professional/scientific/technical service and health/social assistance added about half per cent during the month. Broadly services- sector GDP rose 0.4 per cent with a drag from retail (-1.1 per cent) and wholesale (-1.9 per cent)

Re-opening activity picks up, but supply chain disruptions and climate factors weigh



Source: Statistics Canada, Central 1

Industry gaps persist in the recovery



Source: Statistics Canada, Central 1

In contrast, the economy was walloped by Mother Nature as agriculture, forestry and fishing (-5.5 per cent) output was hammered by Prairie droughts and B.C. wildfires. Manufacturing contracted 1.1 per cent, on fabricated metals and non-metallic minerals productions. Supply chain disruptions continue to hammer broader manufacturing activity. Construction contracted 0.9 per cent.

August's solid flash estimate of 0.7 per cent (if it holds) will narrow the GDP gap from February 2020 to about 1.2 per cent from 1.9 per cent in July. Further gains are expected in hospitality, alongside turnarounds in retail and manufacturing but the agriculture hit continues. That said, there is still a long way to go for recovery in the hardest hit sectors. Hospitality GDP was still 22 per cent off pre-pandemic levels, while arts/entertainment/ recreation was down nearly 50 per cent. A full rebound in these sectors will not occur until the public health crisis largely abates, which has been pushed further back by the raging Delta variant, although vaccine passports are constructive for Q4 growth. Professional, technical, health, and public administration sectors have fully recovered, but upward momentum is limited.

We peg Q3 growth at about 3.5 per cent due with growth forecast to exceed 6 per cent in Q4. There remains significant slack in the economy which will keep the Bank on sidelines until late 2022 for a rate hike, but QE tapering is likely this month.

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