Economic Commentary

March 1 2022

central 1 Economics

Canadian economy strong in Q4 despite Omicron wave, better than expected start to 2022

Canadian economic momentum remained strong in the fourth quarter despite a late- December slowdown when Omicron- related public health restrictions curtailed activity. With some needed momentum from the non-residential sector, alongside robust housing and investment in inventory, growth in gross domestic product (GDP) accelerated to 1.6 per cent q/q, from 1.3 per cent in Q3. Annualized this came in at robust 6.7 per cent for the quarter, besting consensus forecasts. Moreover, early January industry GDP data is pointing to a slight uptick in activity despite restrictions and marks another data point supporting higher interest rates.

Q4 growth was led by a rebound in investment from Q3. Investment in non- residential structures and machinery/ equipment jumped 8.7 per cent annualized, driven largely by non-residential structures (11 per cent). Growth in engineering structures was a key driver, which could very well have reflected the recovery from flood- damage in B.C. Non- residential investment added to momentum but remained below pre- pandemic levels. Residential investment rose 10 per cent after 31 per cent drop in Q3 but remains elevated despite declining from early 2021 highs as home sales regained traction late in the year. Meanwhile, firms rebuilt inventory after drawing down in Q3 making a strong contributor growth on increased non-durable goods by wholesalers suggesting some turnaround in supply chain issues. Inventory accumulation likely retreats in Q1.

In contrast, consumer spending growth decelerated which was not surprising after rapid re-opening gains in Q3. Household spending increased 1.4 per cent annualized compared to Q3's 14 per cent increase as goods slipped 0.7 per cent on non-durables and durable goods sales, while services-spending slowed to 2.4 per cent growth after a 31 per cent gain in Q3. This points to ongoing rotation back to normal spending patterns. Exports (+13.4 per cent) and imports (+14.4 per cent) both jumped on motor vehicles sales and parts and tourism.

While headline numbers were strong, final domestic demand which excludes international trade and inventory accumulation was considerably slower at 2.9 per cent compared to 7.0 per cent in Q3.

Annualized nominal GDP growth for the quarter came in at a huge 13.7 per cent on higher construction costs and export price increases. Income growth was led by a 25 per cent increase in corporate profits while employee compensation came in at 7.8 per cent. At the same time, household savings rates are easing to 6.4 per cent of disposable income, reflecting spending activity and higher prices.

On a full- year basis, real GDP growth came in at 4.6 per cent. Nominal GDP came in at 13.1 per cent.

Industry GDP was essentially unchanged in December and more surprisingly, early January estimates show a 0.2 per cent m/m increase. This comes despite lower employment due to the Omicron wave and commencement of convoy protests. Data suggests gains in retail, construction, and finance/insurance which in part owes to a hot housing market. Not surprisingly, hospitality and travel took a hit, alongside, manufacturing and resources. The stronger than expected start to 2022 could mean GDP remains positive in Q1 and provides more support for a series of rate hikes although uncertainty has increased amidst the war in Ukraine.

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