



Canadian economy shines in February

As expected, Canada's economy accelerated in February as Omicron- hit sectors bounced back with easing health measures and growth remained positive through the broader economy. Industry Gross Domestic Product (GDP) rose 1.1 per cent after nudging up only 0.1 per cent in January, and came in a 4.5 per cent y/y. This was stronger than market consensus. Moreover, the trend into March remained robust with early estimates pointing to half point increase aligning with expectations that growth has firmed heading into Q2 with broader re-openings, relaxed international travel restrictions and resumption of large- scale events.

February GDP growth was broad- based with 16 of 20 sectors expanding. Goods- producing sectors rose 1.5 per cent following a 1.0 per cent gain in January, while services- producing sectors gained 0.9 per cent after a mild contraction of 0.1 per cent.

Key industry drivers for February included a large bounce-back in hospitality sectors as accommodation/ foodservices expanded 15.1 per cent after contracting 12 per cent in January. This was led by consumers flocking back to restaurants and bars. Arts/entertainment/recreation (8.4 per cent), transportation/warehousing (3.1 per cent) boosted by passenger air travel/tourism also reported significant gains for the services sector. Public administration expanded 0.9 per cent, while wholesale (-1.1) and retail (-0.2 per cent) were notable drags.

Among goods-producing sectors, the surge was led by oil and gas extraction (4.7 per cent) and other mining (3.0 per cent) which have been buoyed by robust commodity market conditions. Adding to this was a boost in construction (2.7 per cent) driven by residential construction and support from engineering and non-residential building.

With the latest updraft in growth, Q1 average growth is on target for a 5.5 per cent annualized expansion (compared to a 3.0 per cent Bank of Canada outlook) and provides a strong hand-off to Q2, which we currently peg at 4.5- 5.0 per cent led by services spending. In comparison, the U.S. economy contracted 1.4 per cent in Q1, making the Canadian performance even more impressive. The latest strength in GDP will continue to motivate the Bank of Canada to hike at relatively rapid cadence in coming quarters.

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