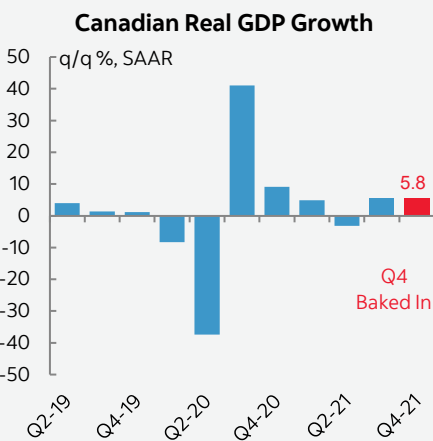


Contributors

Derek Holt

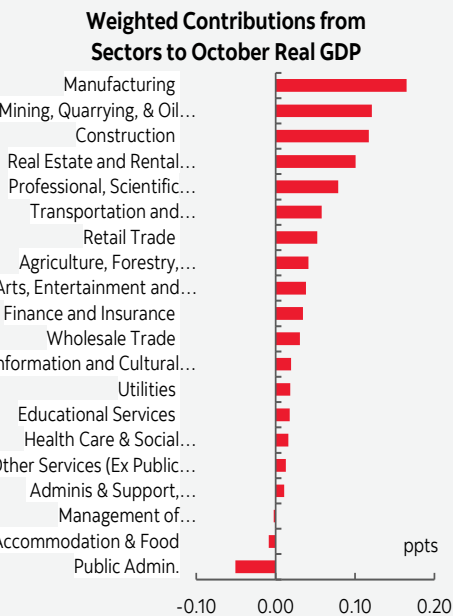
VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canada's Economy Before Omicron

- Canada's economy had basically recovered before omicron struck...
- ...but now faces fresh uncertainties and a fuller accounting of BC's flooding

Canada GDP m/m % change, October:

Actual: 0.8
 Scotia: 1.0
 Consensus: 0.8
 Prior: 0.2 (revised from 0.1)
 November 'flash': 0.3

Canada's economy was doing rather well at least in the pre-omicron world. The Canadian dollar and bond markets largely ignored this morning's figures for monthly GDP because they may be a stale reflection of current conditions and given light holiday trading.

Because of these points, I'll only offer a few high-level observations.

1. Growth is tracking 5.8% q/q SAAR in Q4 based upon the Q3 starting point, the first two months of Q4 including the November 'flash' estimate, and with December assumed to be flat simply in order to focus the math upon the effects of what is known so far without imposing artificial judgement. See chart 1.
2. This outcome was the result of not only a strong month of October when the economy grew by 0.8% m/m but also a mild upward revision to September and the preliminary 'flash' guidance for November that indicated a further 0.3% expansion.
3. Treat the November 'flash' with care. I couldn't find one word of reference to BC's flooding in StatsCan's brief write-up. Presto, it never happened!? Not even worth a comment on effects?? We'll have to see how the final number holds up (and then subsequent revisions...). The 'flash' GDP estimate is based upon the portion of responses that inform other flash readings for components like retail sales, manufacturing shipments etc. As more data comes in covering more of the month I suspect the November GDP guesstimate may be revised downward.
4. For now, we're only told that growth in November was led by sectors that are probably getting smoked about now. StatsCan said November's GDP growth was led by sectors like accommodation and food services plus arts and entertainment.
5. Omicron has introduced fresh uncertainties. Mobility readings are still holding up reasonably well and most restrictions are narrowly focused upon bars and restaurants alongside smaller limits on crowd sizes including at sporting events. It's assumed there is a very high bar to any further broadening of restrictions into the new year but this risk can only be monitored alongside cases, hospitalizations and outcomes into the new year.

The Q4 GDP estimate is based upon monthly GDP concepts whereas the Bank of Canada's forecast for 4% Q4 growth is based upon GDP using expenditure-based concepts. There may be modest upside risk to the BoC's forecast but it will all come down to how omicron impacts December readings and November revisions.

Chart 2 shows weighted sectoral contributions to October's GDP gain of 0.8%. Chart 3 shows that by November, Canada was only -0.066% (less than one-tenth of 1%) away from recapturing all of the pandemic's hit to the economy before omicron struck. Chart 4 shows October's unweighted growth by sector and chart 5 updates tracking of the cumulative recovery in GDP by sector during the pandemic.

Chart 3

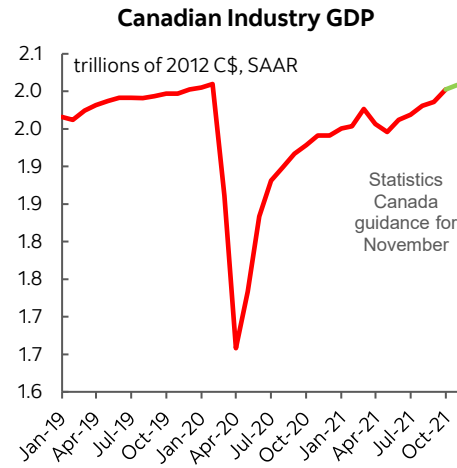
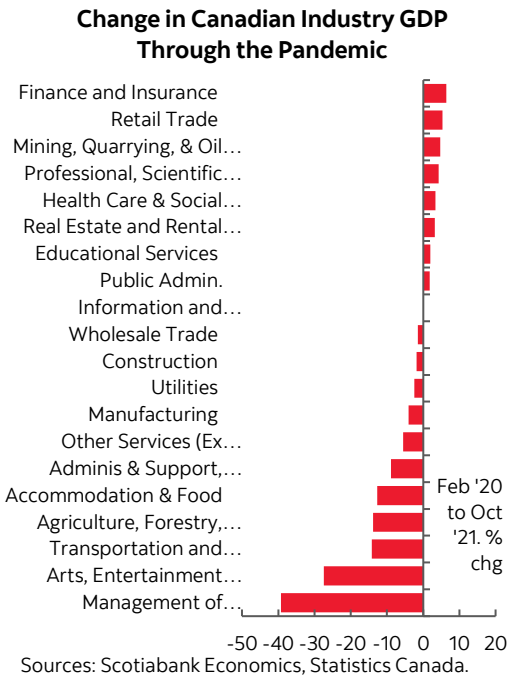


Chart 4



Chart 5



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