

October 1, 2021

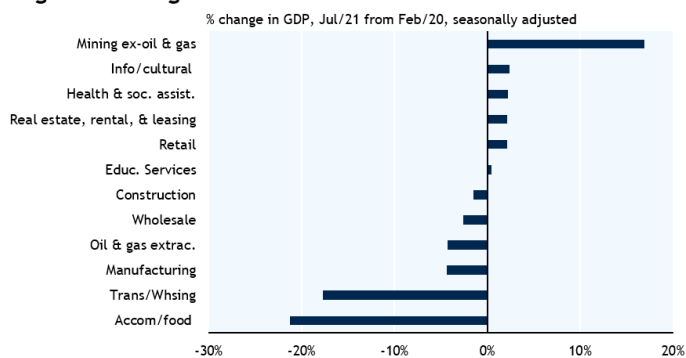
Canadian GDP dipped in July before August bounce back

- Output ticked 0.1% lower in July, beating the -0.4% advance estimate
- Preliminary estimate of August output showed economy grew at a strong +0.7%
- Recovery in high-contact services underpins Q3 growth while supply chain disruptions keep a lid on goods production

The -0.1% GDP reading for July was above the advance estimate for a 0.4% decline albeit still on the soft side given pandemic containment measures eased significantly in much of the country over the period. Gains in 'high-contact' services industries like accommodation and food services (+12.5%) were offset by contractions in manufacturing (-1.1%) and construction (-0.9%) related to ongoing shortages of key capital and labour inputs, and cooling new residential building. Retail sales also dipped (-1.1%), driven by lower demand for grocery and home related goods. Meantime, surging need for raw materials pushed input costs for manufacturers higher, though were positive for the natural resource sector with mining activity up 16.9% vs. pre-pandemic levels in July.

The early estimate for August output was decidedly better, up 0.7% from July, supported by a further recovery in accommodation and food services. And there is still room for growth – output from the sector was still 21.3% below pre-pandemic levels in July. The goods-producing side of the economy however continues to bump into capacity limits tied to ongoing supply chain disruptions and labour shortages. Consumer confidence also ticked lower for the first time in 4 months in August albeit to still-elevated levels, likely hindered by the spread of the delta variant in parts of the country. Overall, high vaccination rates are expected to prevent a return to broadly-based lockdowns. But much of the low hanging fruit in terms of the near-term growth recovery is being picked, and further increases will be harder to come by – particularly into next year as inflation concerns replace growth worries and central banks start to think more seriously about moving interest rates off of exceptionally low current levels. For now, the July and August GDP to-date are up an annualized 2.2%, on average, from Q2 - tracking slightly weaker than our call for 4.5% Q3 increase, and the Bank of Canada's July estimate for an 7.3% rise.

Canadian GDP still short of pre-pandemic, ample room for growth in high contact services industries



Canada Monthly GDP Summary

	m/m % change				% change from Feb/20
	Apr-21	May-21	Jun-21	Jul-21	Jul-21
GDP	-0.9	-0.5	0.6	-0.1	-2.5
Goods	-0.2	-1.2	0.9	-1.4	-3.4
Oil & gas extrac.	-1.5	1.3	2.1	0.7	-4.3
Mining ex-oil & gas	2.9	-4.9	2.4	-0.9	16.9
Construction	1.1	-2.6	-0.9	-0.9	-1.5
Manufacturing	-1.1	-1.0	1.5	-1.1	-4.4
Services	-1.1	-0.3	0.6	0.4	0.0
Retail	-6.0	-2.6	4.1	-1.1	2.1
Art/ent/rec	-0.9	-1.4	6.1	8.1	-46.2
Accom/food	-7.3	-3.8	12.0	12.5	-21.3

Source: Statistics Canada, RBC Economics Research

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639
For more economic research, visit our website at www.rbc.com/economics