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OFFICE OF  
THE CHIEF  
ECONOMIST

# QUARTERLY ECONOMIC AND TRADE REPORT

## Q1 2022

# FIRST QUARTER 2022

	<b>% change, Q1 2022 vs Q4 2021</b>	<b>% change, YTD</b>
<b>Global real GDP*</b>	1.4%	4.2%
<b>Global merchandise trade volume</b>	0.6%	4.7%
<b>Canadian real GDP*</b>	3.1%	2.9%
<b>Canadian exports (goods &amp; services)</b>	4.4%	18.1%
<b>Canadian imports (goods &amp; services)</b>	2.0%	15.3%

## Notes:

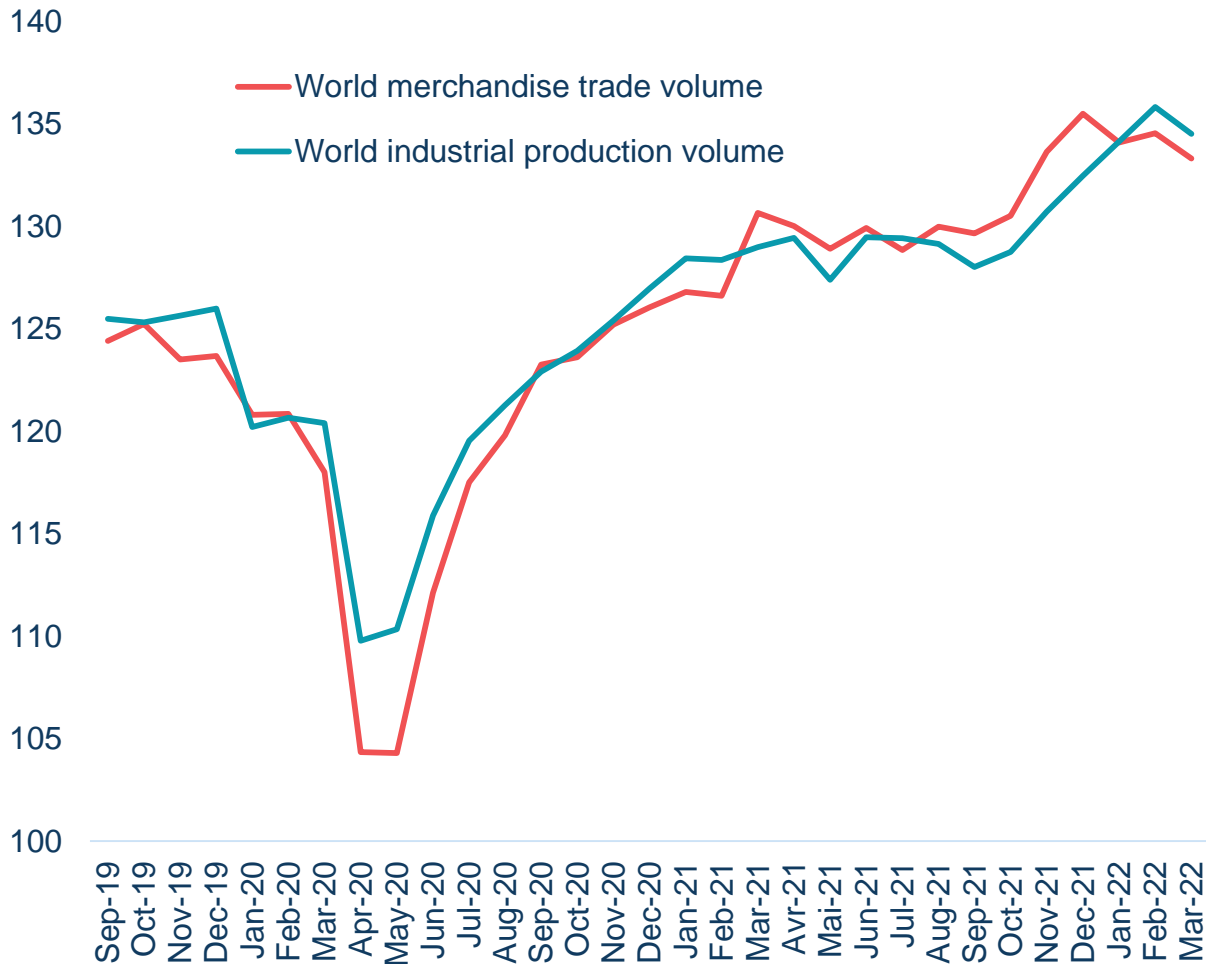
\*GDP is quarterly changes at annualized rates. "YTD %" is the year-to-date change compared to the same period in the previous year.

Source: Oxford Economics, Netherland Bureau for Economic Analysis, Statistics Canada.

## HIGHLIGHTS

- World economic and merchandise trade volume growth was subdued in the first quarter of 2021, coinciding with the intermittent lockdown of cities and factories in China and the Russian invasion of Ukraine which put further stress on global supply chains. The invasion also pushed commodity prices to new highs.
- Nevertheless, the Canadian economy grew 3.1% (annualized) in the first quarter of 2022. International trade in real terms was a negative contributor to growth, as export volumes decreased 9.4% (annualized) and import volumes decreased at a slower rate of 2.8% (annualized). While Canadian export values have increased in recent months, this is exclusively due to increases in prices.
- When high prices are taken into account, the value of Canadian goods and services exports rose 4.4% to \$216 billion in Q1, driven by increased prices for energy and forestry products. Services exports declined in Q1 mainly due to lingering-COVID-19 restrictions as the result of the Omnicom variant which was still a major concern at the beginning of the year.
- The value of Canadian goods and services imports rose 2.0% to \$209 billion in Q1. Goods imports rose 1.7%, with the largest contributor being a higher volume of basic and industrial chemical, plastic and rubber products. Unlike exports, travel services imports increased despite public health restrictions.
- The short-term global economic outlook is full of downside risks, most notably inflation and the accompanying interest rate hikes. Labour and supply shortages are also expected to constraint production in the short-term. Some forecasters have raised the probability of a mild recession within the next two years.

## World merchandise trade and industrial production volume (Index 2010 = 100)



## WORLD MERCHANDISE TRADE VOLUME MODERATED IN Q1

After strong quarterly growth (2.9%) to finish off 2021, world merchandise trade volumes grew more modestly in the first quarter of 2022 (0.6%), coinciding with intermittent lockdown of cities and factories in China, and the Russian invasion of Ukraine which put further stress on global supply chains. Advanced economies increased the volume of their merchandise imports by 1.8%, while emerging economies' import volume declined 0.4%. Of note, China saw a decline of 1.5% in its merchandise imports volume and Emerging Eastern Europe and Commonwealth of Independent States experienced a decline of 1.9%. While the volume of merchandise trade moderated, the value of merchandise trade continued to experience strong growth due to the price effect from rising commodity prices.

Compared to the same period last year, world merchandise trade volumes were 4.7% higher thanks largely to the strong growth in the fall of 2021.

World industrial production volume increased 3.2% in the first quarter of 2022, up from 1.4% in the fourth quarter of 2021. Industrial production increased 1.4% in advanced economies and 4.9% in emerging economies.

# SUBDUED GLOBAL ECONOMIC GROWTH TO START OFF 2022

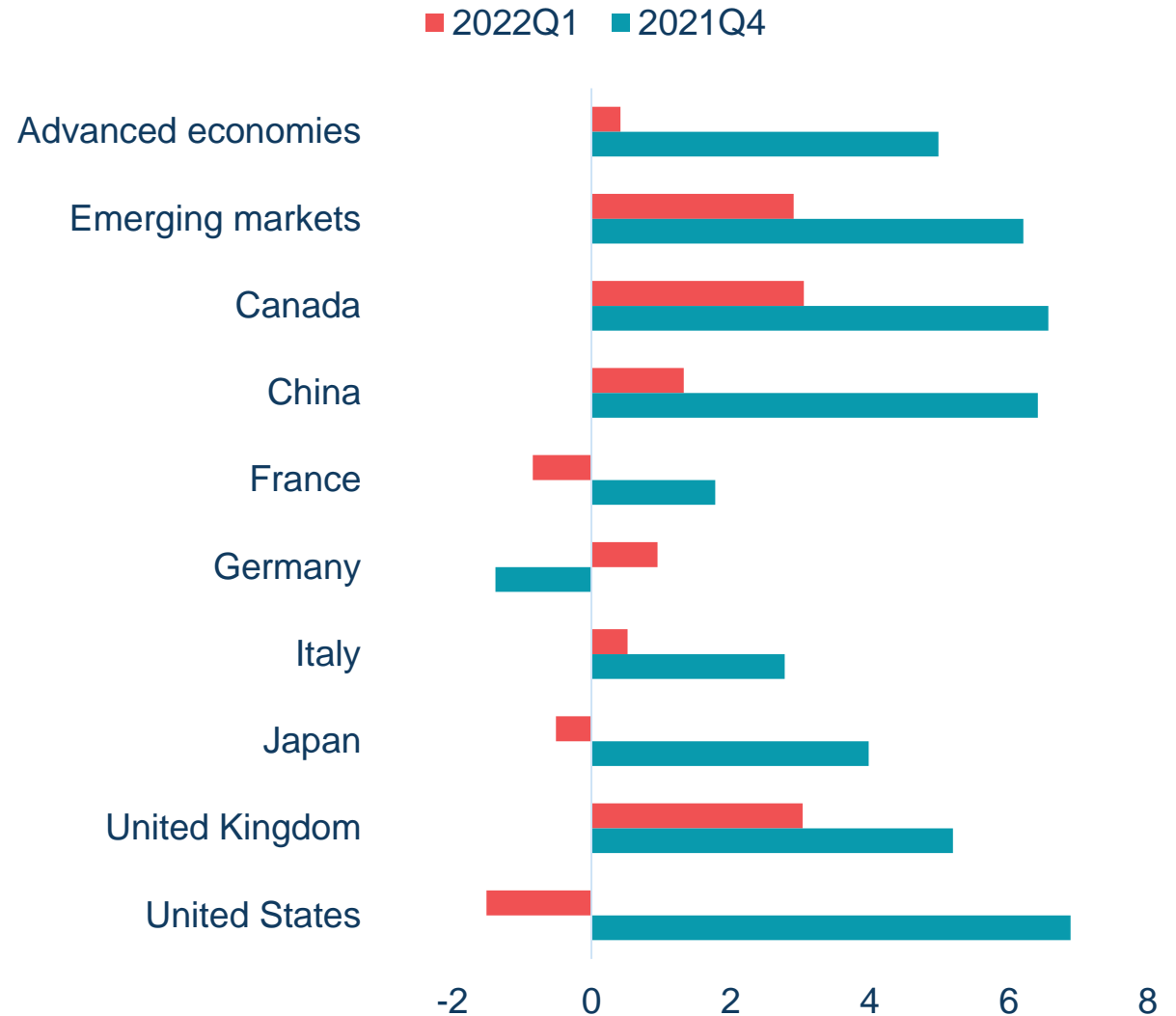
Real economic growth was more subdued in the first quarter of 2022 on the heels of strong growth in the last quarter of 2021. Global GDP was estimated to have grown 1.1% (annualized) in Q1, following 5.6% growth in the fourth quarter. Advanced economies grew 0.2% and emerging markets, 2.5%.

The U.S. economy contracted 1.5% (annualized) in the first quarter of 2022, mostly due to a large surge in imports. Excluding trade, U.S. domestic demand grew a solid 2.7%, as both business investment and consumer spending experienced healthy growth, supported by a strong labour force and earnings growth. Using 2019 as base year, employees' average weekly earnings have managed to outpace inflation, but the gap has closed quickly in recent months.

Official data for China showed robust economic activity in January and February, but economic activity weakened in March, coinciding with lockdowns in Shenzhen, Shanghai and other cities. As a result, economic growth slowed down significantly in the first quarter, especially for household consumption. The lockdowns also caused logistic and production disruptions, putting pressure on an economy that relies on international trade.

Major European economies also experienced weaker economic growth in Q1. In France, lagging private consumption dragged down GDP growth into negative territory. Economic growth slowed in the United Kingdom due to net trade, although domestic demand rose. Germany bucked the trend and had higher economic growth in Q1 than Q4, mainly due to higher investment.

## Real GDP growth, top economies (quarterly % change, annualized)



Sources: Oxford Economics, Statistics Canada. Seasonally adjusted.

Retrieved on 2022-06-28.

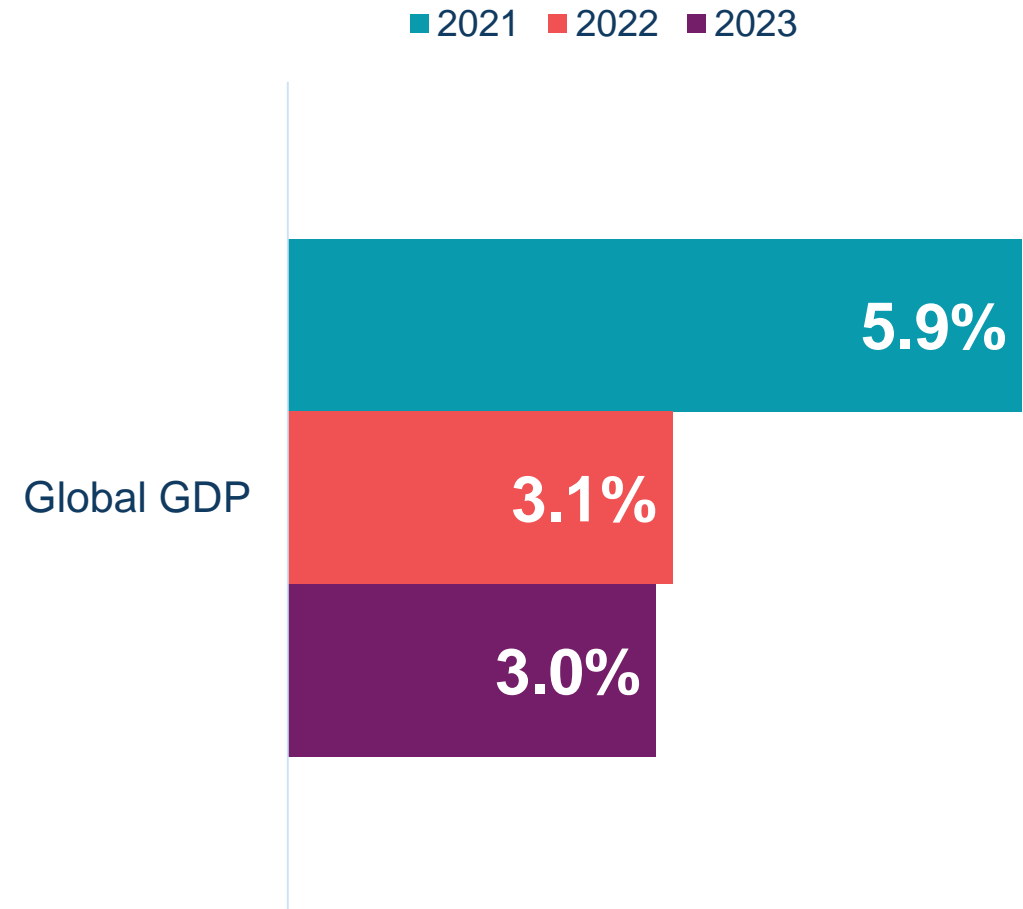
# THE SHORT-TERM GLOBAL OUTLOOK IS FULL OF DOWNSIDE RISKS

Global economic growth in Q2 2022 is expected to be lacklustre as a result of disruptions due to the war in Ukraine, inflation squeezing households' income, and COVID-related restrictions in China. However, growth is expected to improve in the second half of the year as lockdowns in a number of Chinese cities ease. Unfortunately, the short-term outlook is dominated by downside risks, including a possible worsening of the war in Eastern Europe leading to more sanctions on Russia, a sharper than anticipated slowdown in Chinese economic growth as China struggles to balance a strict zero-COVID strategy with economic growth, and a potential renewed flare-up of the pandemic should more virulent strains emerge. Additionally, higher food and energy prices can lead to a higher probability of social unrest.

Many central banks around the world, including in Canada and the U.S., have implemented an accelerated rate hike cycle to combat the elevated level of inflation. While food and energy prices have been in focus on the news, elevated inflation is widespread among many products. In its April outlook, the International Monetary Fund (IMF) projected 5.7% inflation in advanced economies, and 8.7% in emerging markets in 2022. There is concern that persistently high inflation could lead to rising inflation expectations, which in turn could create a feedback loop that keeps inflation consistently high and difficult for central banks to manage. Larger than expected interest rate hikes as a result of persistently high inflation could also expose debt vulnerabilities in some economies.

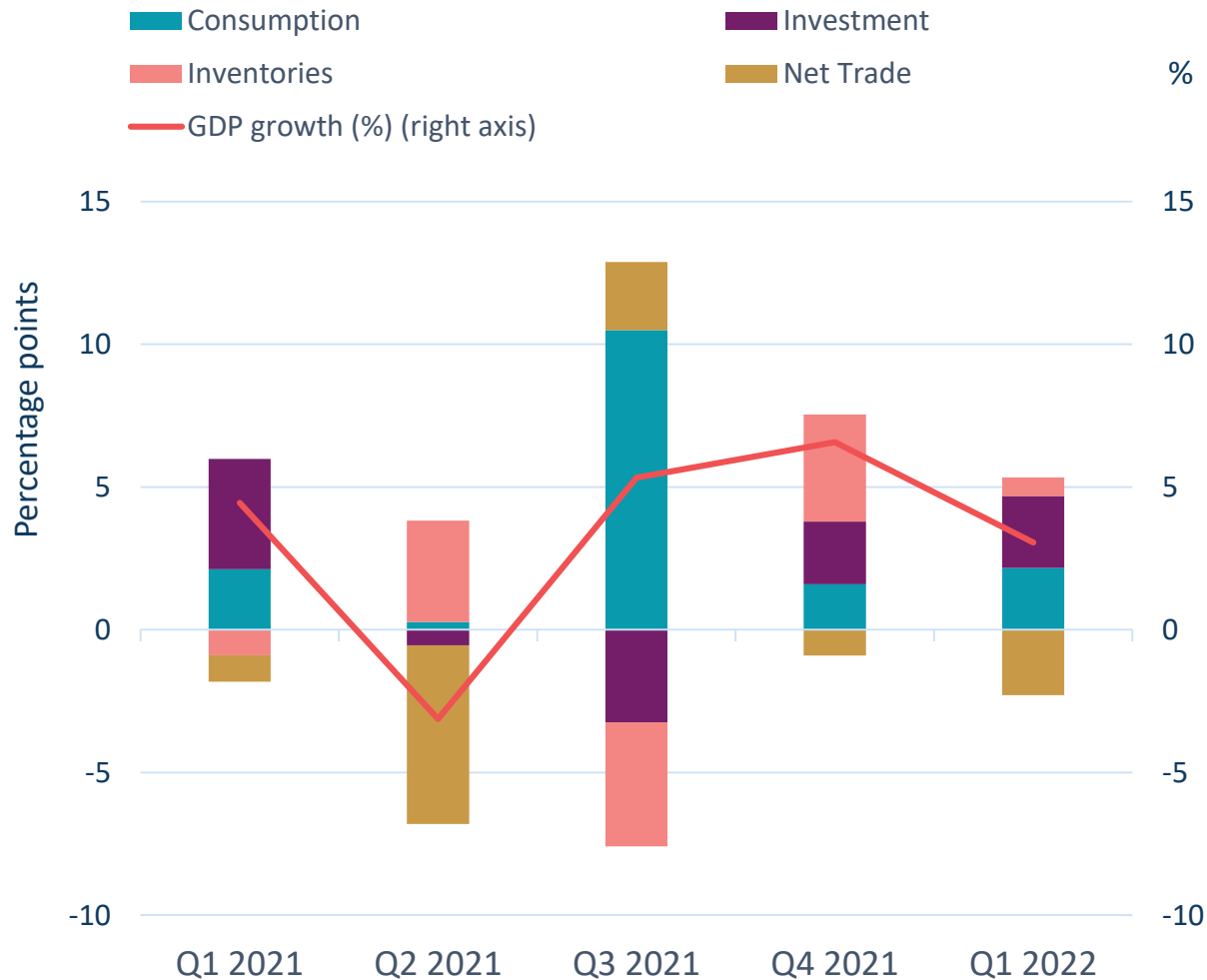
Beyond 2022, the IMF expects that employment and output growth will generally remain below pre-pandemic trends through 2026. Scarring effects from the pandemic are expected to be larger in emerging markets than in advanced economies, reflecting more limited policy support and slower vaccination progress.

## Global forecasted GDP growth (annual % change)



Sources: Oxford Economics, retrieved on 2022-06-28.

## Real Canadian GDP growth and contribution to growth



## CANADIAN Q1 GROWTH SUPPORTED BY CONSUMPTION AND INVESTMENT

The Canadian economy grew 3.1% (annualized) in real terms in the first quarter of 2022, supported by robust household consumption and business investment that offset a negative contribution from net trade. Household consumption expenditure increased 3.4% despite a weak start in January due to containment measures enacted to contain the spread of Omicron. Household consumption is supported by a strong labour market and early signs of increasing wages. Business investment also rose 12.4%, with residential investment rising 18.1% and, non-residential structures, machinery and equipment rising 9.0%. Intellectual property investment, however, decreased 2.3%.

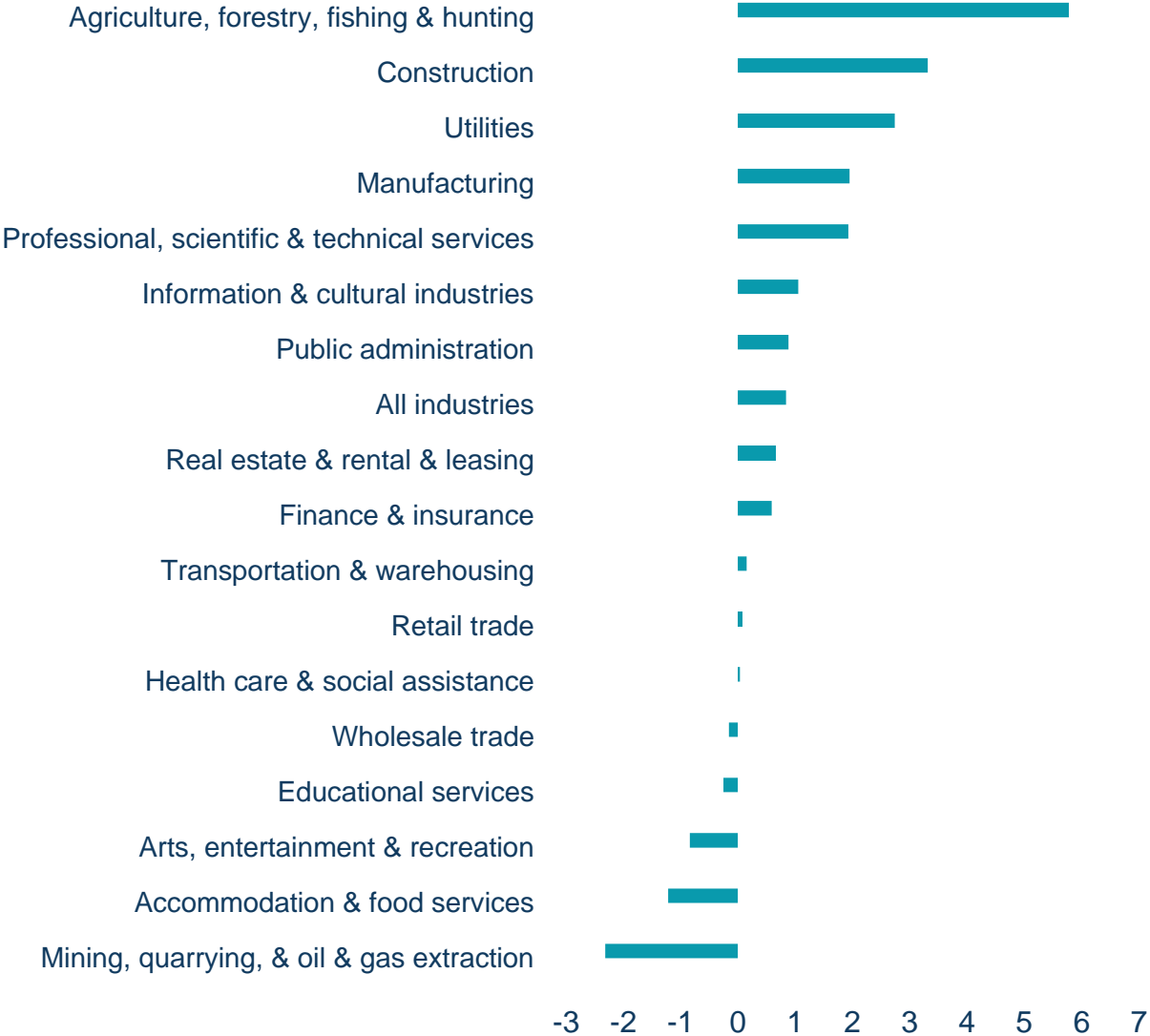
Net exports contributed negatively to growth as export volumes decreased 9.4% and import volumes decreased at a slower rate of 2.8%. While Canadian export values have increased in recent months, this was mainly due to increases in export prices and not export volumes. The surge in commodity prices in recent months have pushed Canada's terms of trade (the ratio of export prices to import prices) to a record high. While rising commodity prices, especially energy prices, benefited Canadian export values, they also put pressure on Canadian consumers and firms as they contended with higher costs.

# CLIENT-FACING INDUSTRIES AFFECTED BY JANUARY LOCKDOWN

Activity in goods-producing sectors rose 1.8% while services-producing sectors were more subdued, rising only 0.5% (on a quarterly basis). Most goods-producing sectors experienced growth in the first quarter with agriculture, forestry, fishing and hunting expanded 5.8% as activity rebounded from the low output levels in 2021. The construction sector also expanded 3.3%, with gains across all construction subsectors. The manufacturing sector rose 1.9%, driven by growth in transportation equipment manufacturing. Motor vehicles and parts manufacturing was boosted by the easing of supply-chain issues and semi-conductor shortages in the Canadian market. The only goods-producing sector to experience a contraction was mining and quarrying and oil and gas extraction (-2.3%) as colder than usual temperatures and COVID-19 outbreaks limited personnel and maintenance activities at oil sands facilities.

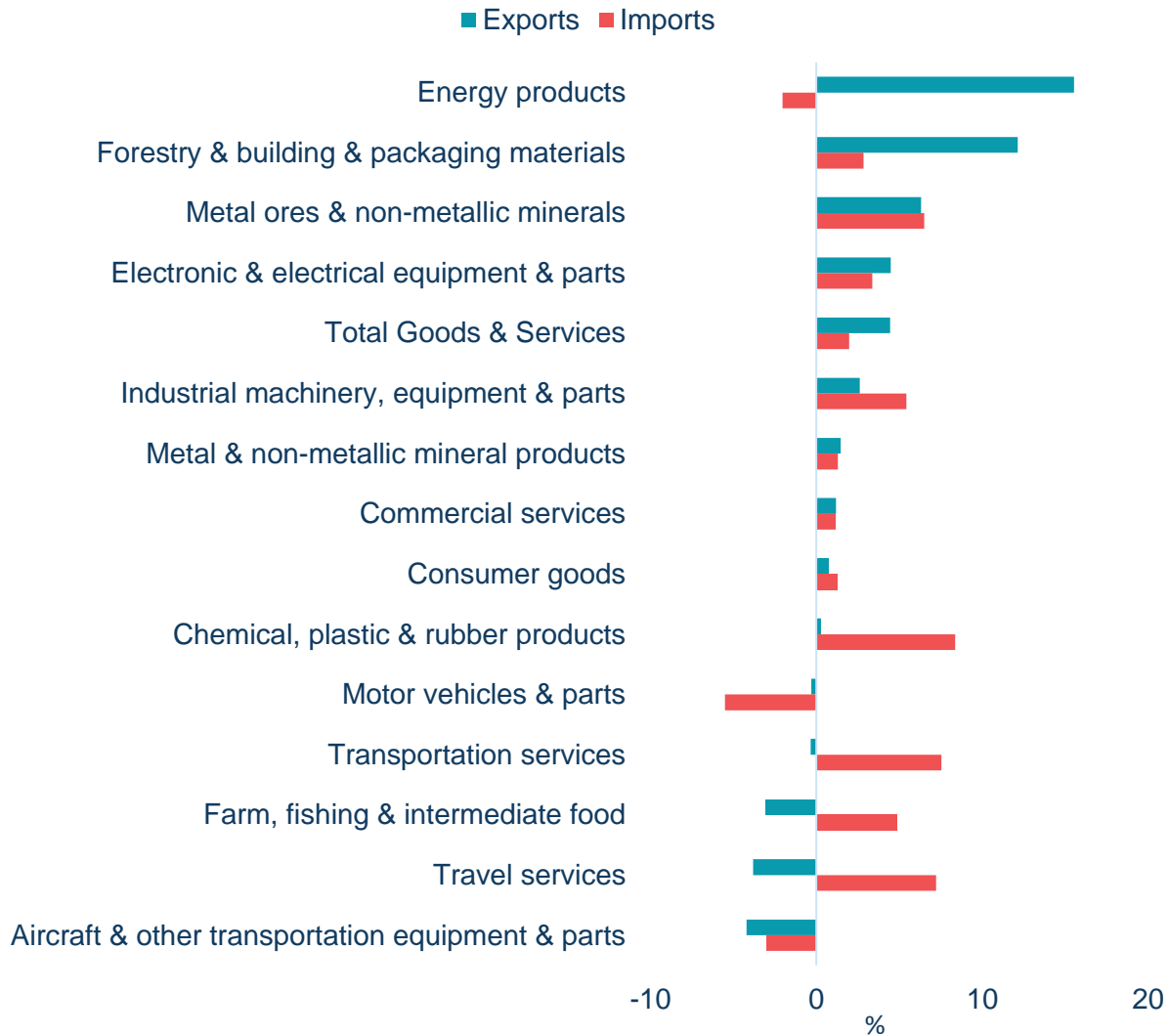
Client-facing industries such as accommodation and food services (-1.2%) and arts, entertainment and recreation (-0.8%) recorded declines as lockdowns in January limited their activity for the quarter. Elsewhere, professional, scientific and technical services grew 1.9%, the seventh consecutive quarterly growth, and were the strongest contributor to growth in services-producing industries in Q1.

## GDP at basic prices by industry for Q1 (Quarterly % change)



Sources: Statistics Canada Table 36-10-0449-01. Retrieved 2022-06-01.

## International trade by product (2022 Q1, quarterly % change)



Sources: Statistics Canada Table 36-10-0019-01 & Table 36-10-0021-01.  
Balance of payments basis, seasonally adjusted.

# HIGHER COMMODITY PRICES DROVE THE VALUE OF GOODS EXPORTS

The value of goods and services exports rose 4.4% to \$216 billion in Q1, the seventh consecutive quarterly increase. Goods exports drove the increase, rising by 5.3% while services exports (+0.2%) stagnated. The largest contributor to goods export growth was energy products, up \$6.5 billion (15.5%) on higher prices (while volumes were down). Forestry products and building and packaging materials contributed the second most, rising by \$1.6 billion (12.1%) on higher prices.

Travel services exports (-3.8% or -\$204 million) and transportation services exports (-0.3% or -\$14 million) both declined in Q1 as lockdowns and COVID restrictions in January had an impact on these services, but growth in commercial services (+1.2% or +\$297 million) offset these losses.

The value of goods and services imports rose 2.0% to \$209 billion in Q1, the seventh consecutive quarterly increase. Goods imports rose 1.7% (\$2.9 billion), with the largest contributor being basic and industrial chemical, plastic and rubber products which advanced 8.4% (\$1.2 billion) on stronger volumes. The second largest contributor was industrial machinery, equipment and parts which increased 5.4% (\$1.0 billion). Offsetting these gains was a decline of 5.5% (\$1.4 billion) in imports of motor vehicles and parts, which in turn was due to lower imports of passenger cars and light trucks.

Services imports rose 3.3% (\$1.2 billion). Unlike exports, all services imports made gains, with travel increasing 7.2%, transport increasing 7.5% and commercial increasing 1.2%. The removal of border restrictions around the world can potentially explain the strength in travel and transport services imports. Additionally, elevated prices in marine shipping also boosted imports of transportation services.

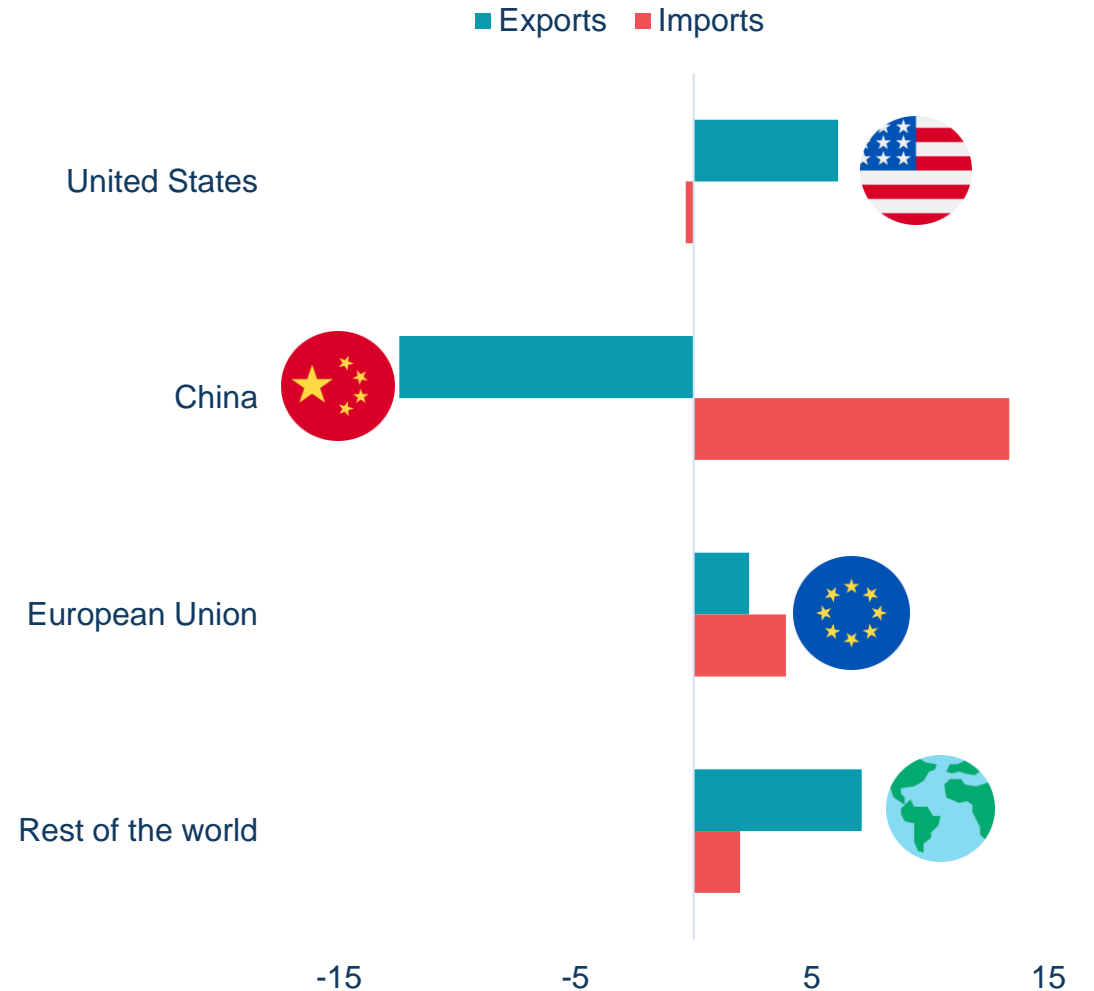


# GOODS EXPORTS GROWTH DRIVEN BY INCREASED ENERGY EXPORTS TO THE U.S.

The goods trade surplus with the United States rose by \$8.4 billion to reach \$33.1 billion in the first quarter, as exports rose 6.1% or \$8.0 billion and imports decreased 0.3% or \$360 million. Exports to the U.S. increased on the strength of energy products, supported by higher prices. Goods imports from the U.S. stagnated as overall motor vehicles and parts, which play a large role in imports from the U.S., saw a decline in Q1.

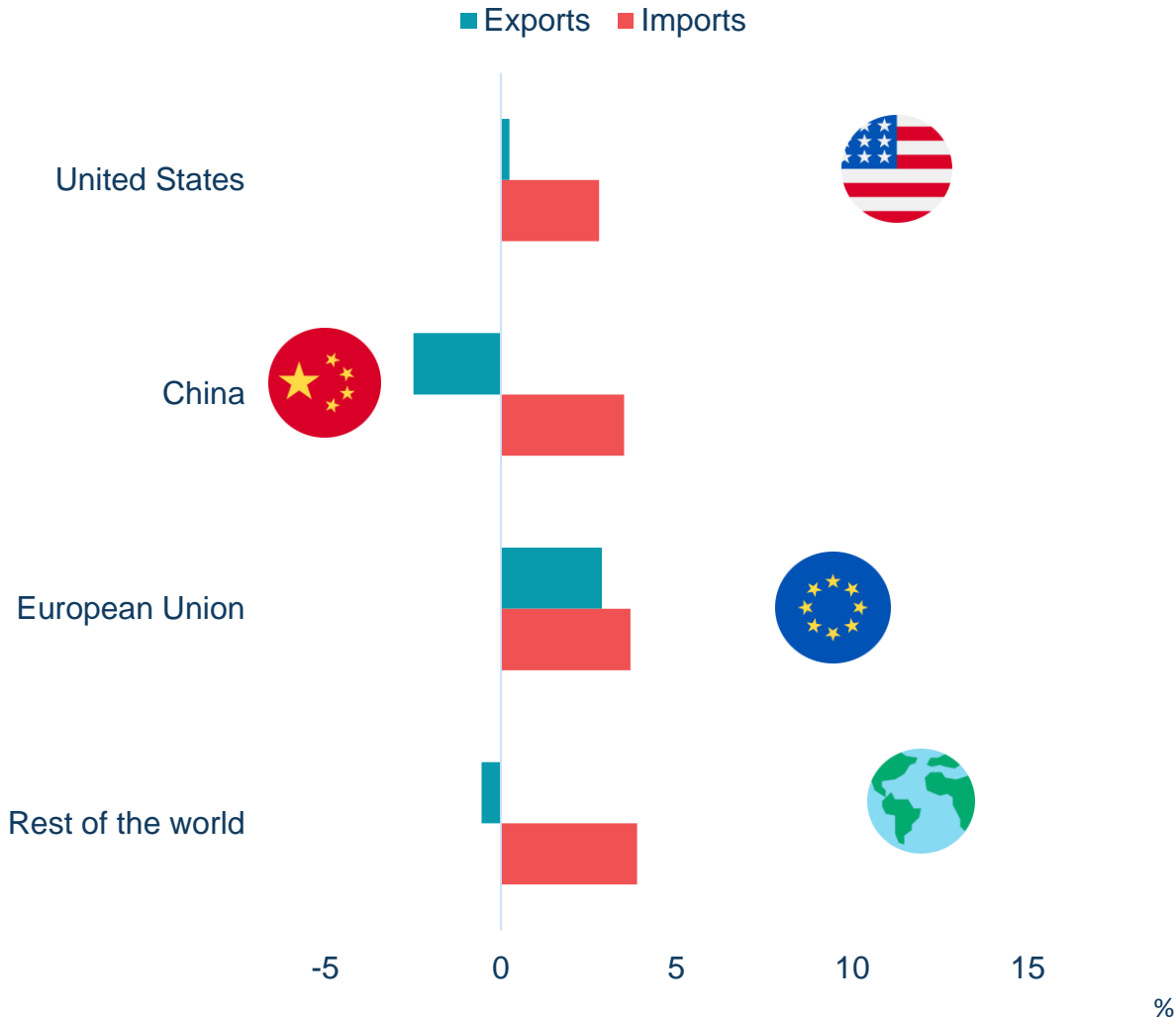
The goods trade deficit with countries other than the United States increased by \$2.2 billion, with a notable increase (+\$2.9 billion) in the trade deficit with China as imports reached a record \$17.2 billion in the quarter. Many products contributed to the increase in imports from China, including pharmaceutical products (COVID-19 testing kits), computers and cell phones, industrial machinery, and consumer goods. In addition, imports from China this year did not experience the usual drop due to Chinese New Year, as Chinese monthly economic data generally exceeded expectation in January and February.

## Goods trade, by major trading partner (2022 Q1, quarterly % change)



Source: Statistics Canada Table 36-10-0023-01, balance of payments basis, seasonally adjusted. European Union does not include the United Kingdom.

## Services trade, by major trading partner (2022 Q1, quarterly % change)



## SERVICES EXPORTS LAGGED BEHIND IMPORTS AMONG MAJOR TRADE PARTNERS

The services trade surplus with the U.S. dropped \$478 million in Q1, as exports rose 0.2%, slower than imports which increased by 2.8%. Non-seasonally adjusted data shows that the reduction in the services surplus with the U.S. is mainly due to travel services trade, with travel services exports to the U.S. declining and imports increasing. Elsewhere, the commercial services trade surplus with the U.S. increased, with exports outpacing imports but not enough to offset the increased deficit in travel services.

The services trade deficit with non-U.S. countries increased by \$600 million to reach \$2.4 billion, as exports (+0.2%) stagnated while imports rose 3.8%. Of note, services exports to China declined 2.5% and imports from China increased 3.5%. Services exports to China are composed mainly of travel services, which could have been affected by the Omicron wave of lockdowns in Canada and intermittent lockdown of cities in China. Transportation services, in particular marine transportation of goods, play a large role in imports of services from China and could have benefited from a large increase in goods imports from China in Q1.

According to non-seasonally adjusted data, services exports to the European Union in Q1 benefited from growth in commercial services, but was partially offset by decreases in travel services. Services imports from the EU was driven by commercial services and transportation services, but was offset by decreases in travel services. Once again, elevated maritime shipping prices could potentially explain the growth in services imports as the EU is home to some of the largest marine time shipping companies in the world.

## SPECIAL FOCUS

# NUMBER OF GOODS EXPORTERS EXCEEDED PRE-PANDEMIC LEVELS

The number of Canadian goods exporters increased 9.3% to 47,701 exporters in 2021, a level not seen since before the Global Financial Crisis. There were broad-based increases across all enterprise sizes. Leading the pack were enterprises with “0 or unreported employees” which saw a 21.2% growth in the number of exporters. Enterprises with known employees experienced a growth of 5.6%, led by medium-sized enterprises (+7.7%), followed by small-sized enterprises (+5.4%) and large-sized enterprises (+4.5%).

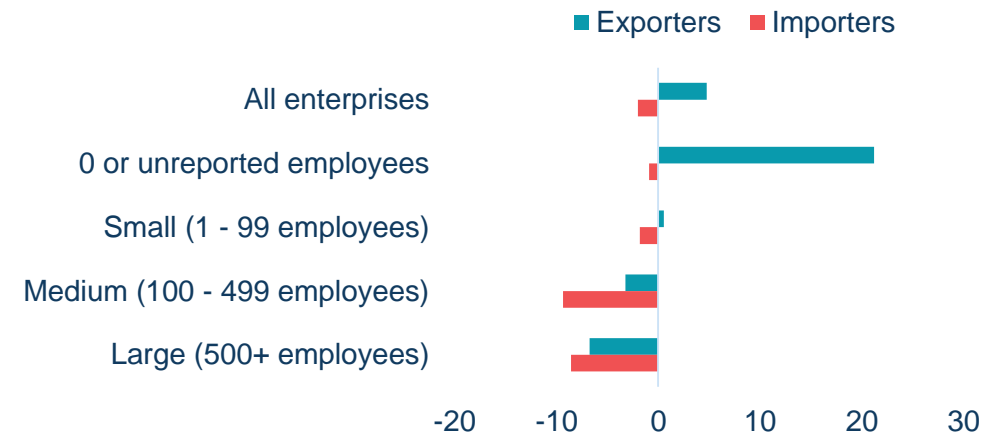
However, compared to pre-pandemic levels in 2019, only enterprises with “0 or unreported employees” (+21.2%) had significantly surpassed pre-pandemic levels. Enterprises with known employees were still 0.1% below pre-pandemic level, as small-sized enterprises had just recovered (+0.6%) and medium-sized (-3.2%) and large-sized (-6.7%) enterprises still have some way to recovery. The growth in the number of “0 or unreported employees” exporters were driven by growth in the real estate and rental and leasing sector, the professional, scientific and technical services sector, the retail trade sector, the agriculture, forestry, fishing and hunting sectors, and the construction sector.

The number of Canadian goods importers increased 3.1% in 2021, as all enterprise sizes experienced growth except for enterprises with “0 or unreported employees”. Unlike the number of exporters, the number of importers were still below pre-pandemic levels across all enterprise sizes.

## Number of goods traders, by enterprise size (2021, annual % change)



## Number of goods traders, by enterprise size (2021, % change vs 2019)



Source: Statistics Canada Table 12-10-0094-01 & 12-10-0106-01. Retrieved 2022-06-09

# SOLID CANADIAN ECONOMIC GROWTH EXPECTED IN THE SHORT-TERM

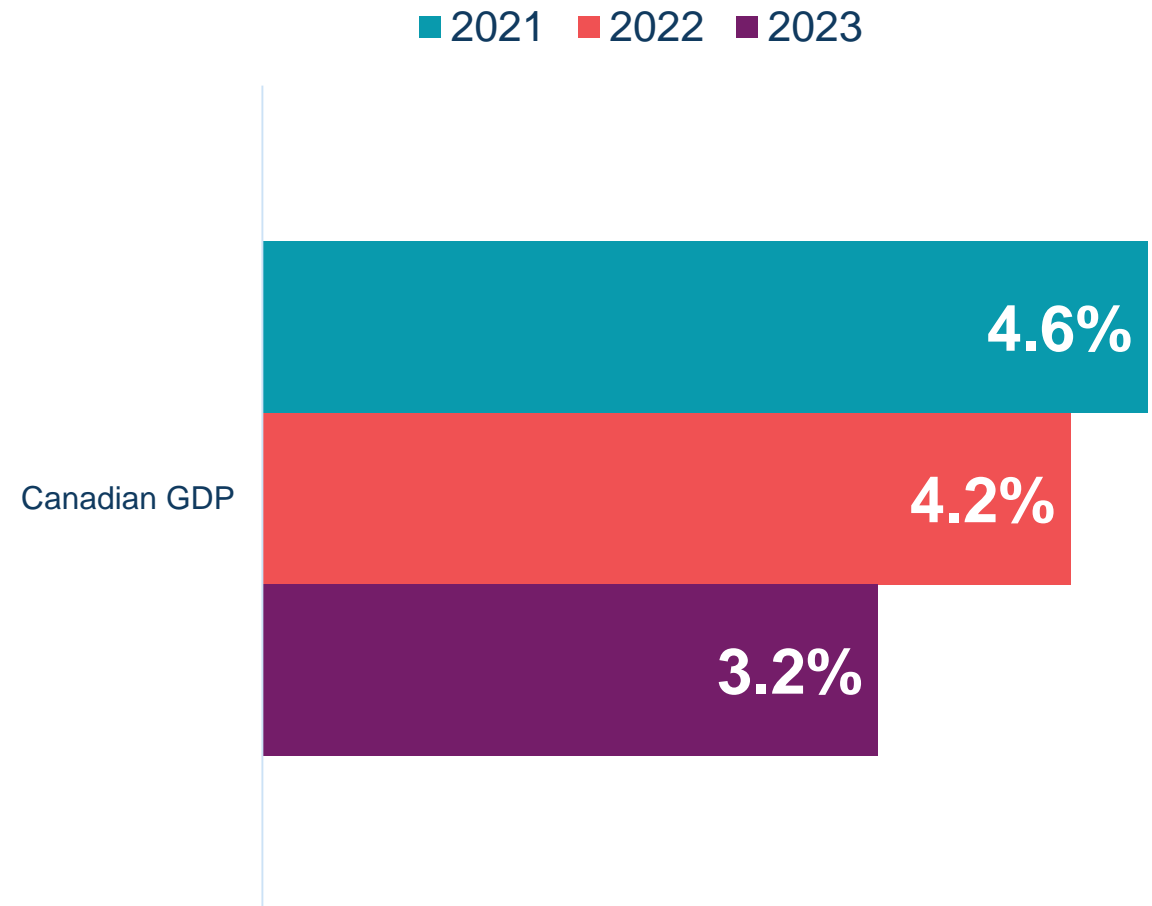
Canadian economic growth for the rest of 2022 is expected to be boosted by the removal of public health restrictions, solid foreign demand and higher commodity prices. Furthermore, the labour market is tight, with strong employment and early signs of wage growth. This tight labour market in combination with the savings accumulated during the pandemic should support household consumption growth going forward.

Moderating some of the growth expectation is high inflation and the accompanying expected interest rate hikes, which will put downward pressure on consumers' demand and increase firms' production costs. The Bank of Canada expects inflation to average just below 6% through the first half of 2022 and remain well above 3% through the rest of 2022.

Canadian exports are expected to be strong in 2022 and 2023, supported by high commodity prices, strong foreign demand, and the easing of supply constraints. Outside of elevated prices, energy exports are also supported by increased transportation capacity through the expansion of crude-by-rail and pipelines. Services exports are also anticipated to strengthen as travel and passenger transport recover. However, the Bank of Canada expects motor vehicles exports to remain flat after the second quarter of 2022, reflecting supply issues and restructuring in the sector.

On the other hand, some forecasters are raising the probability of a mild recession within the next two years, as they expect inflation and rising interest rates to moderate household consumption and business investment, as well supply and labour shortages to constraint production.

## Canadian forecasted GDP growth (annual % change)



Source: Bank of Canada, Monetary Policy Report, April 2022.

**Table 1: Canadian trade by industry sector**  
(\$ millions)

	Exports			Imports		
	Q1 – 2022	Q/Q %	YTD %	Q1 - 2022	Q/Q %	YTD %
<b>Goods</b>	180,706	5.3	19.3	172,057	1.7	14.1
Resource products	112,324	8.1	30.5	60,011	3.5	26.0
Energy products	48,049	15.5	75.2	9,626	-2.0	48.3
Non-resource products	63,672	0.7	4.3	105,141	0.5	8.5
Industrial machinery & equipment	10,233	2.6	11.1	18,874	5.4	15.1
Electronic machinery & equipment	7,425	4.5	14.4	20,110	3.4	10.5
Motor vehicles and parts	19,232	-0.3	-2.2	24,482	-5.5	-1.8
Aircraft & other transportation equipment	5,121	-4.2	-28.8	5,060	-3.0	18.0
Consumer goods	21,661	0.7	17.0	36,615	1.3	10.8
<b>Services</b>	34,954	0.2	12.2	37,179	3.3	20.9
Travel	5,153	-3.8	48.7	4,589	7.2	230.6
Transportation	4,123	-0.3	18.3	8,391	7.5	44.9
Commercial	25,311	1.2	6.1	23,802	1.2	2.6
Government	366	-1.9	8.0	398	2.3	7.3
<b>Total Goods and Services</b>	215,660	4.4	18.1	209,236	2.0	15.3

Note: "Q/Q %" is the change from the previous quarter; "YTD %" is the year-to-date (Q1 to recent quarter) cumulative change compared to the same period in the previous year.

Source: Statistics Canada Table 36-10-0019-01 & 36-10-0021-01. Balance of payments basis, seasonally adjusted.

**Table 2: Canadian goods trade by trading partner**  
(\$ millions)

	Exports			Imports		
	Q1 – 2022	Q/Q %	YTD %	Q1 – 2022	Q/Q %	YTD %
United States	139,156	6.1	25.3	106,069	-0.3	13.1
Mexico	2,413	7.8	5.8	5,438	4.4	15.8
European Union	8,242	2.3	15.4	15,252	3.9	15.7
France	878	-28.4	-0.2	1,330	-1.0	5.0
Germany	1,656	3.7	2.2	3,978	-3.4	7.1
United Kingdom	5,131	14.8	-3.8	2,313	-3.0	2.5
India	1,137	27.8	98.4	1,231	1.6	17.5
China	6,306	-12.5	-15.1	17,233	13.4	17.0
Japan	4,441	21.6	34.0	2,805	6.8	1.1
South Korea	2,342	34.4	63.0	2,599	14.8	22.2
Rest of the world	11,538	-5.6	-10.3	19,117	-0.2	18.4
<b>Total Goods Trade</b>	<b>180,706</b>	<b>5.3</b>	<b>19.3</b>	<b>172,057</b>	<b>1.7</b>	<b>14.1</b>

Note: "Q/Q %" is the change from the previous quarter; "YTD %" is the year-to-date (Q1 to recent quarter) cumulative change compared to the same period in the previous year.  
Source: Statistics Canada Table 36-10-0023-01. Balance of payments basis, seasonally adjusted.

**Table 3: Canadian services trade by trading partner**  
(\$ millions)

	Exports			Imports		
	Q1 – 2022	Q/Q %	YTD %	Q1 – 2022	Q/Q %	YTD %
United States	19,536	0.2	12.0	19,340	2.8	14.3
Mexico	548	1.1	16.8	550	5.2	113.2
European Union	4,187	2.9	13.5	5,063	3.7	19.7
France	1,039	2.7	16.5	811	1.5	20.3
Germany	716	5.4	14.6	806	2.9	19.8
United Kingdom	1,595	-2.0	9.5	2,119	-0.4	10.0
India	1,150	-2.0	19.4	651	3.8	15.8
China	1,405	-2.5	15.7	827	3.5	55.5
Japan	445	-0.2	12.1	718	-1.2	11.0
South Korea	274	0.7	19.1	129	12.2	40.2
Rest of the world	5,814	-0.1	9.8	7,782	5.4	39.5
<b>Total Services Trade</b>	<b>34,954</b>	<b>0.2</b>	<b>12.2</b>	<b>37,179</b>	<b>3.3</b>	<b>20.9</b>

Note: “Q/Q %” is the change from the previous quarter; “YTD %” is the year-to-date (Q1 to recent quarter) cumulative change compared to the same period in the previous year.  
Source: Statistics Canada, Table 12-10-0157-01. Balance of payments basis, seasonally unadjusted.