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OFFICE OF
THE CHIEF
ECONOMIST

QUARTERLY ECONOMIC AND TRADE REPORT

Q4 2021

FOURTH QUARTER 2021

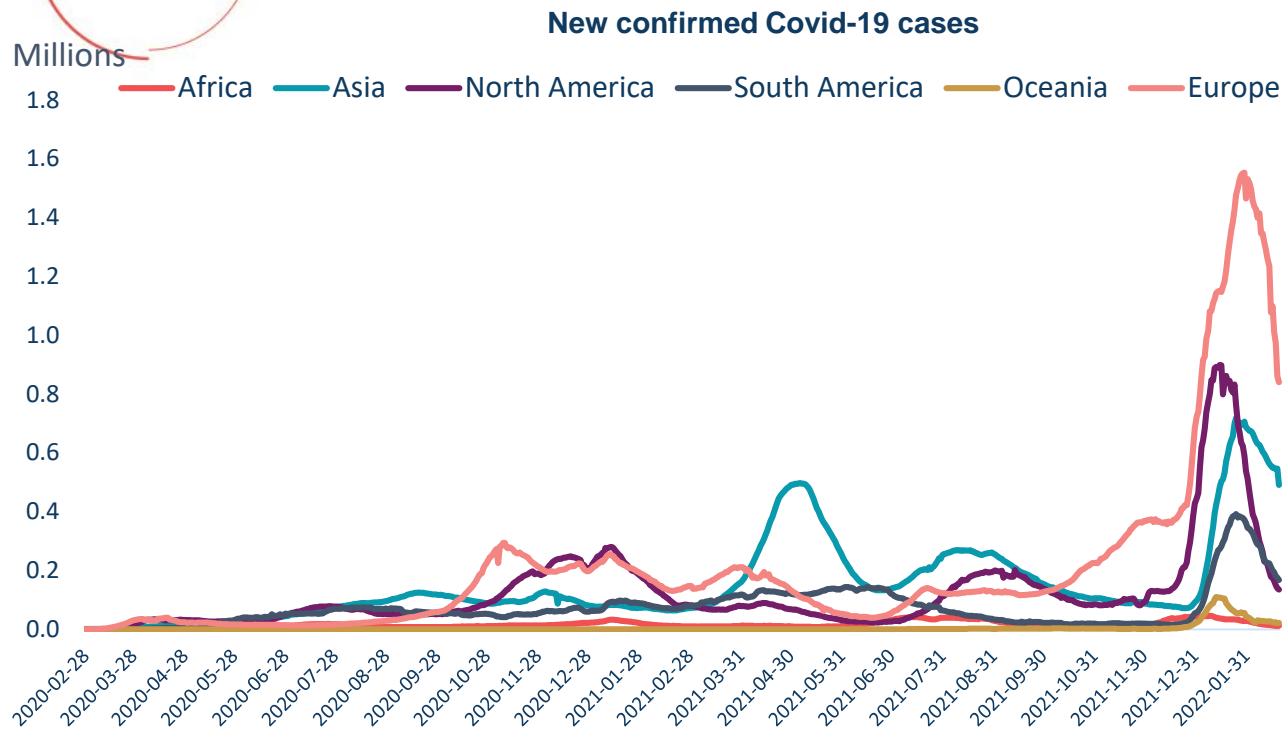
	% change, Q4 vs Q3 2021	% change, 2021 vs 2020
Global real GDP*	5.8%	5.8%
Global merchandise trade volume	2.5%	10.3%
Canadian real GDP*	6.7%	4.6%
Canadian employment	1.5%	4.8%
Canadian exports (goods & services)	6.6%	18.2%
Canadian imports (goods & services)	5.8%	9.9%

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

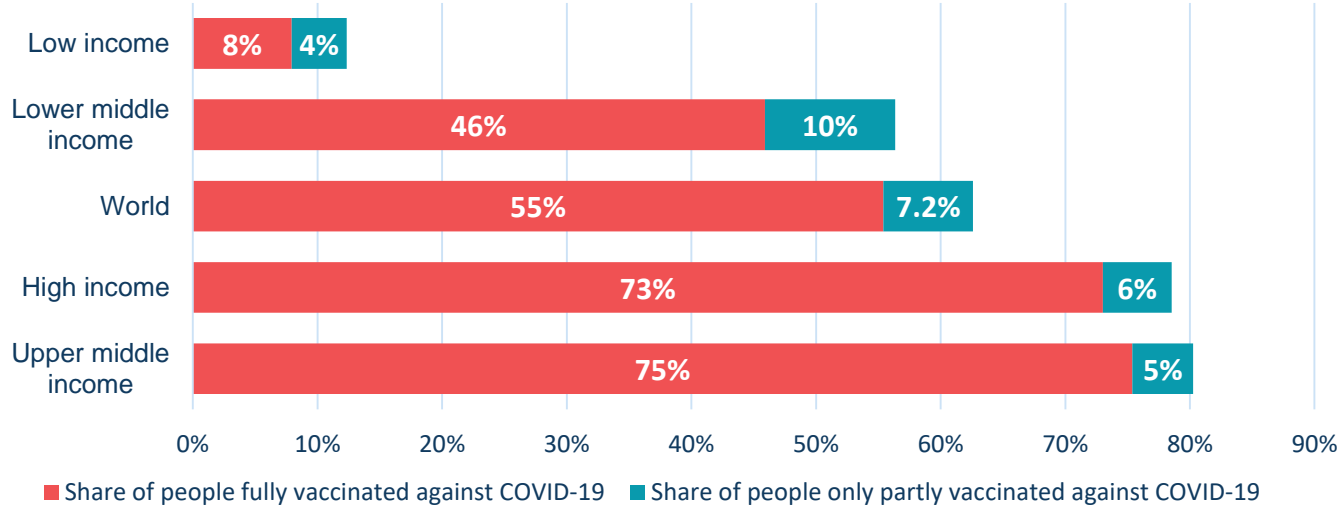
Source: Oxford Economics, Netherland Bureau for Economic Analysis, Statistics Canada.

HIGHLIGHTS

- The global economy ended 2021 on an up-note, posting solid growth of 5.8%, as we head into the uncertainty of 2022. Inventory restocking was the main driver of growth in many major economies in the fourth quarter as firms looked to rebuild inventories. While the Omicron wave began in December for most economies, the majority of the impact occurred in January instead of in Q4. Russia's unprovoked invasion of Ukraine adds further to the uncertain outlook for the coming year.
- The Canadian economy was also boosted by inventory restocking in Q4 supporting GDP growth of 6.7% (annualized). Outside of inventory rebuilding, there was also strong growth in business investment (+8.2% annualized) after a weak Q3. Rising prices moderated household consumption, which rose only 1.0% annualized in Q4. Household consumptions on services rose 2.4% (annualized) while goods consumptions decreased 0.7% (annualized), reflecting the rebalancing from goods to services consumptions.
- Canadian trade grew strongly in Q4, as energy products were supported by high prices, and motor vehicles and parts were supported by more consistent production at plants. Travel services and transportation services also posted strong growth as more domestic and international travellers took to the skies, but travel services trade remained below pre-COVID levels.
- The Omicron wave is not expected to have a major impact on the global economy beyond early 2022, but supply constraints and elevated inflation persists. The Russian attack on Ukraine is expected to have major economic impacts in Europe, and add further upward pressure on already elevated global inflation of commodities globally.



Share of people globally vaccinated against COVID-19, as of February 24, 2022



LATEST UPDATES ON COVID-19

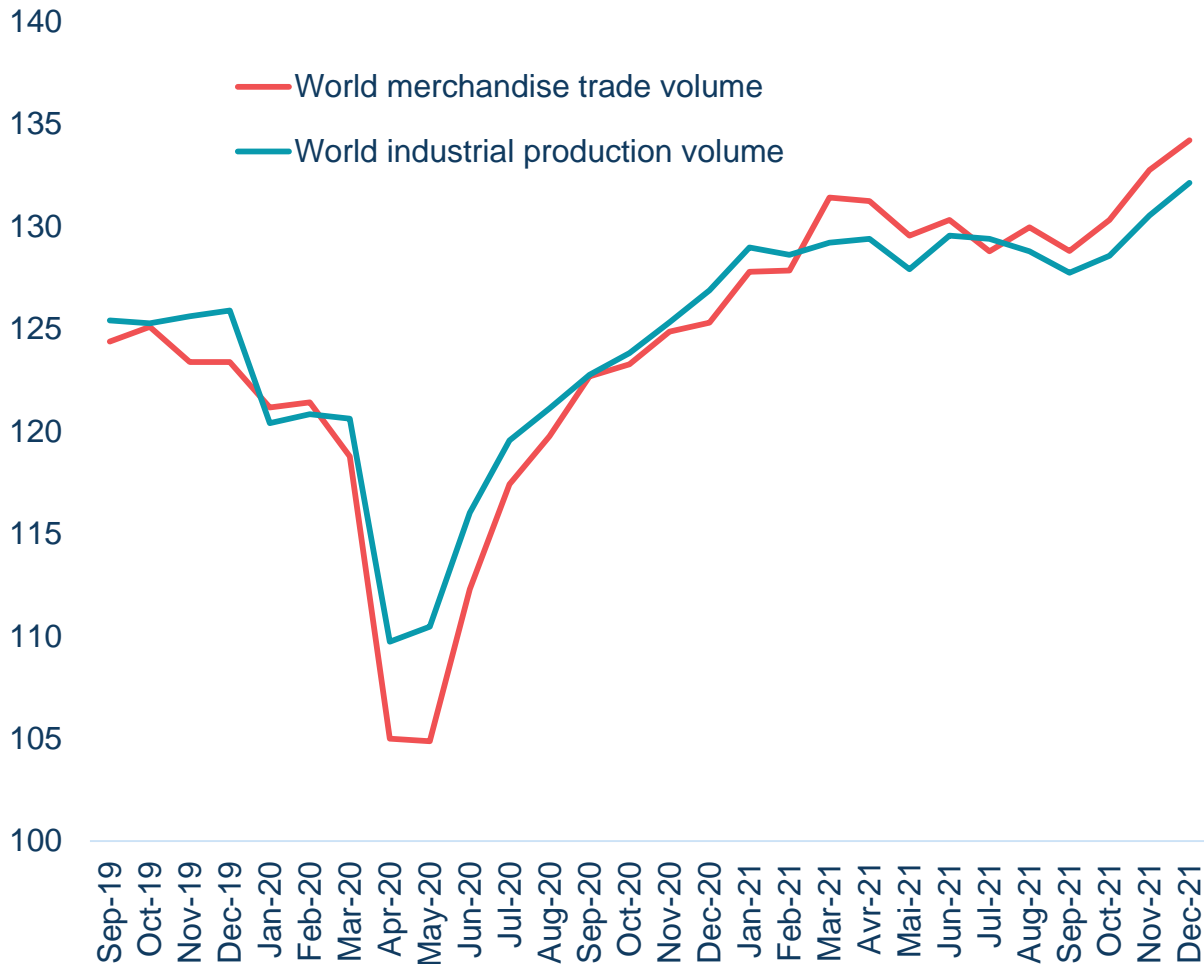
New cases and the Omicron variant

- The new COVID-19 wave supported by the Omicron variant was the largest in terms of the number of cases, leading certain jurisdictions to reinstate containment measures.
- However, due to the reported milder nature of Omicron in combination with a more vaccinated population, peak global daily death remains similar to previous waves.
- After peaking in January, daily numbers of cases have been trending downward, leading to an easing of containment measures around the world.

Statistics as of February 24, 2022

- 63% of the world population has received at least one dose of a COVID-19 vaccine.
- 10.7 billion doses have been administered globally, and 32.9 million are now administered each day.
- However, only 12% of people in low-income countries have received at least one dose.

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



WORLD TRADE AND PRODUCTION REBOUNDED IN Q4

After stagnating for most of 2021, world merchandise trade volumes surged 2.5% during the final quarter of the year. Annual 2021 growth was a strong 10%, but this is from a low level in 2020 following some of the sharpest and deepest contractions in trade in recent times.

World merchandise trade volume growth in the fourth quarter was evenly spread between advanced economies and emerging economies, with export volumes growing 2.3% in advanced economies and 2.7% in emerging economies. For 2021 as a whole, export volumes grew 8.9% in advanced economies and 12% in emerging economies, with a notable growth of 20% in China. A slight easing of supply-chain issues such as port backlogs also helped with global trade growth in the fourth quarter, despite the onset of the Omicron variant.

World industrial production grew 1.4% in the fourth quarter, after experiencing a small decline of 0.2% in the third quarter. On an annual basis, world industrial production grew 7.9% in 2021, more than making up for the losses in 2020. Annual growth in industrial production was led by China (11%) and other emerging Asia (12%), while advanced economies grew only 6.6%.

GLOBAL RECOVERY CONTINUES DESPITE THE ONSET OF OMICRON

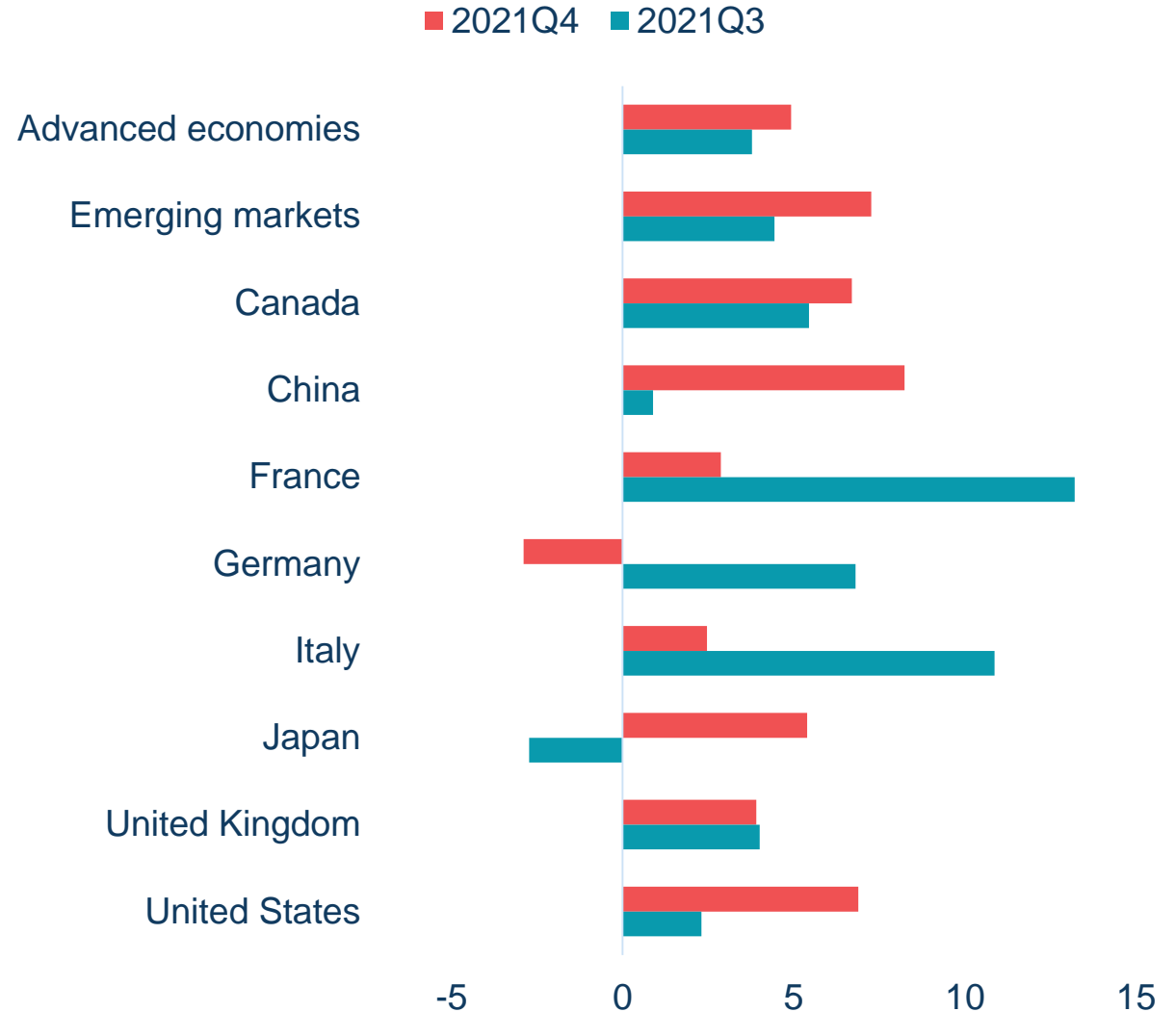
In Q4, annualized quarterly growth in advanced economies was 4.9%, on the heels of strong 3.8% growth experienced in Q3, despite the onset of the Omicron wave in that began in December 2021. A similar pattern occurred in emerging markets, with 7.3% growth in Q4 following 4.4% growth in Q3.

Among advanced economies, the U.S. posted an annualized growth rate of 7.0%, mostly due to inventory restocking which contributed 4.9 percentage points of that growth. While the inventory restocking was necessary, continued supply chain delays meant that inventory-to-sales ratios remained lower than pre-pandemic levels.

After weak growth in the 3rd quarter, Chinese economic growth improved in the 4th quarter as exports rebounded. However, household consumption has lagged the overall recovery from the pandemic, in part due to China's "zero-COVID" approach. Furthermore, the real estate slowdown continued to weigh on homebuyer sentiment and real estate investment.

Unlike the trend for other large economies, economic growth in the Eurozone was weaker in Q4 than in Q3. In France, a major increase in inventories contributed the most to growth, but the restocking process also led to a large increase in imports, resulting in a negative contribution to growth from net trade. In Germany, private consumption was the main drag on economic growth as voluntary social distancing amplified containment measures.

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



Sources: Oxford Economics, Statistics Canada. Seasonally adjusted.
Retrieved on 2022-03-01.

THE GLOBAL ECONOMY ENTERS 2022 WITH MANY CHALLENGES

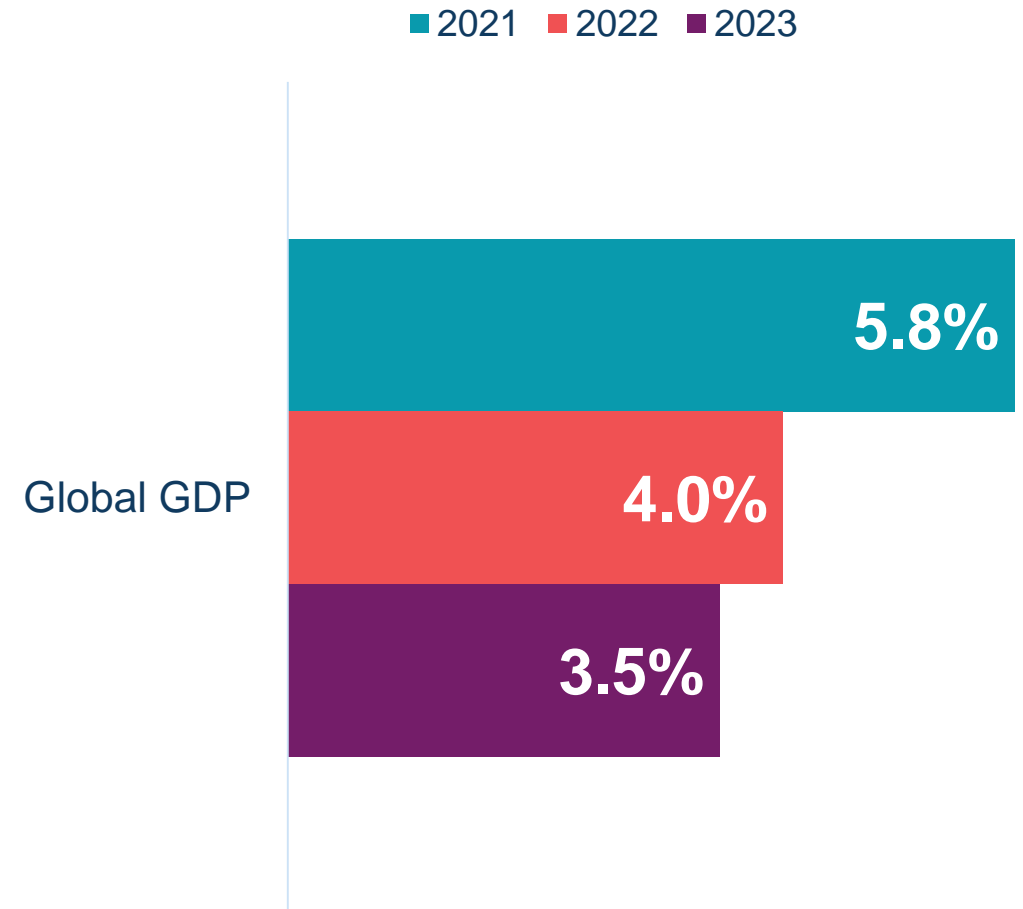
The global economy rebounded strongly in 2021 and surpassed 2019 GDP levels. However, the year ended with ongoing concerns related to supply chains, rising inflation, and fears of new waves of COVID-19. Russia's invasion of Ukraine in February 2022 will only exacerbate these pre-existing weaknesses. On the brighter side, there are some signs that supply chain related issues have eased slightly. Central banks around the world will face the challenge of how much monetary tightening is needed, as they balance rising inflation concerns with the many risks to the outlook.

New cases of COVID-19 due to the Omicron wave rose quickly, but also dissipated relatively quickly. Russia's attack will likely be the largest threat to global economic growth in 2022 and will add to the on-going supply chain issues and inflationary pressures, especially for energy, and a number of commodities and food products as Russia and Ukraine are important producers of energy, wheat, and metals.

According to Oxford Economics, the global economy is expected to be between 0.2% and 0.6% lower in 2022 when compared to forecasts prior to Russia's invasion of Ukraine. However, the impact is uneven, with larger economic impacts on Russia and Ukraine, moderate impacts on the Eurozone due to its dependence on Russian energy exports, and smaller impacts elsewhere.

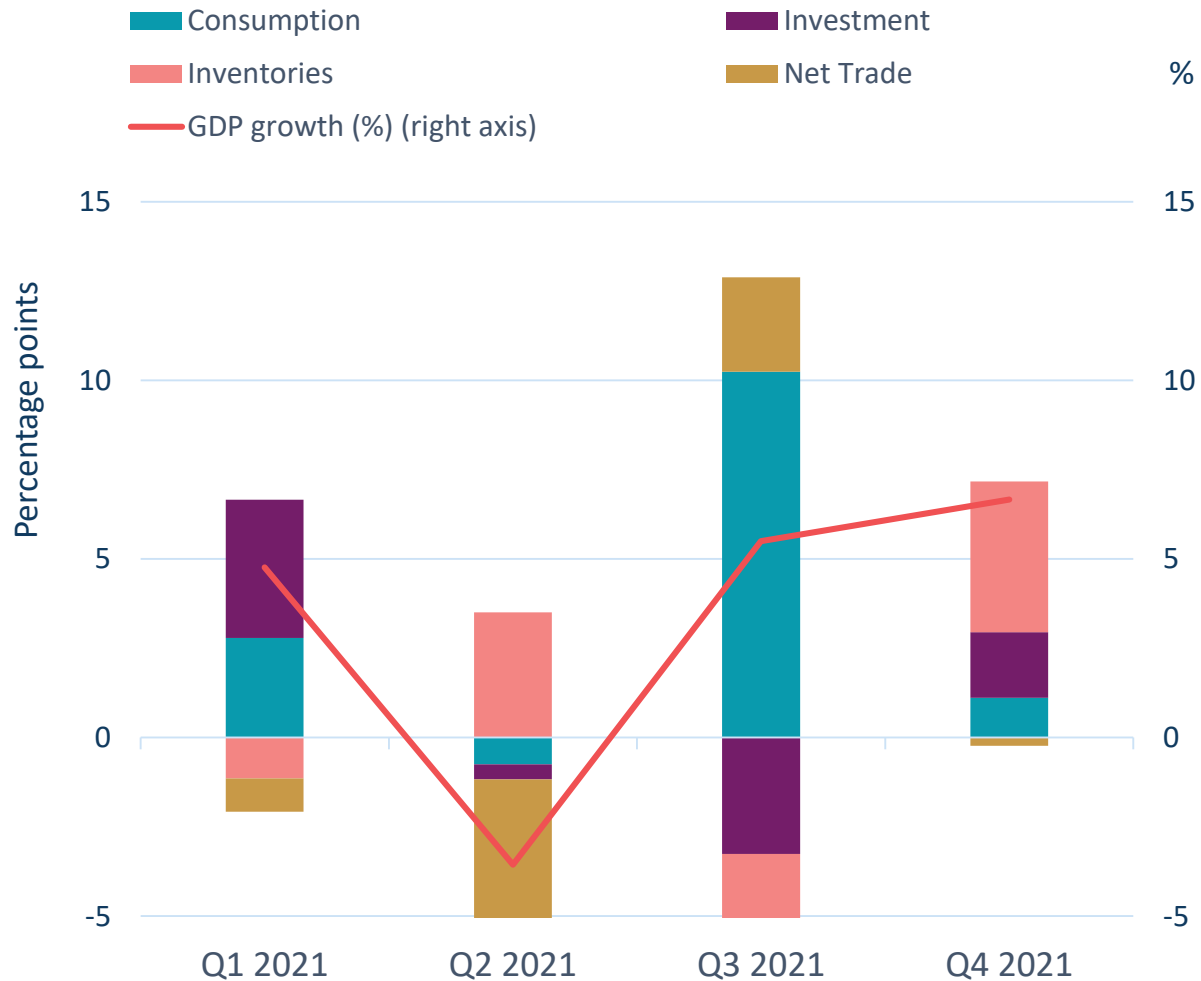
Global economic growth is expected to slow but remain solid in 2023, with the conflict in Eastern Europe being a major unknown to the forecast.

Global forecasted GDP growth (annual % change)



Sources: Oxford Economics, retrieved on 2022-03-01.

Canadian GDP Growth and contribution to growth



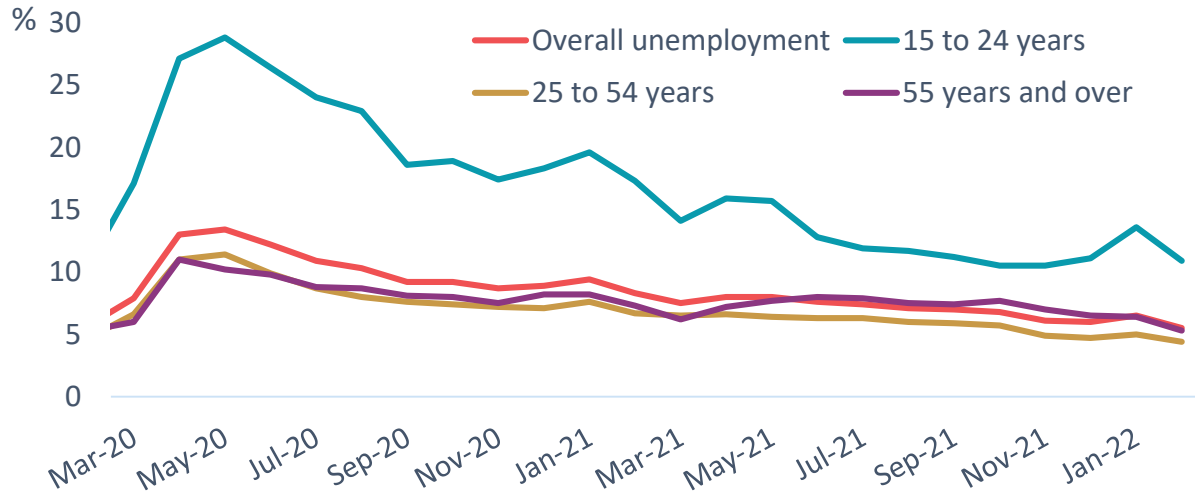
INVENTORY RESTOCKING SUPPORTED CANADIAN GROWTH IN Q4

The Canadian economy grew 6.7% (annualized) in Q4 2021, following a 5.5% rise in Q3. For 2021 as a whole, the Canadian economy posted a strong growth of 4.6%, after the decline of 5.2% in 2020 that was induced by the COVID-19 pandemic. Similar to the U.S., inventory restocking was a major contributor to growth, accounting for 4.2 percentage points of the observed growth in Q4. Inventory restocking was driven by both manufacturers and wholesalers, with manufacturers of non-durable goods accounting for the bulk of the inventory increase within the former. Despite the restocking effort, the economy-wide stock-to-sales ratio was at 0.829, below the 0.842 average for 2018 and 2019, with record-low stock-to-sales ratio at retail motor vehicle dealers.

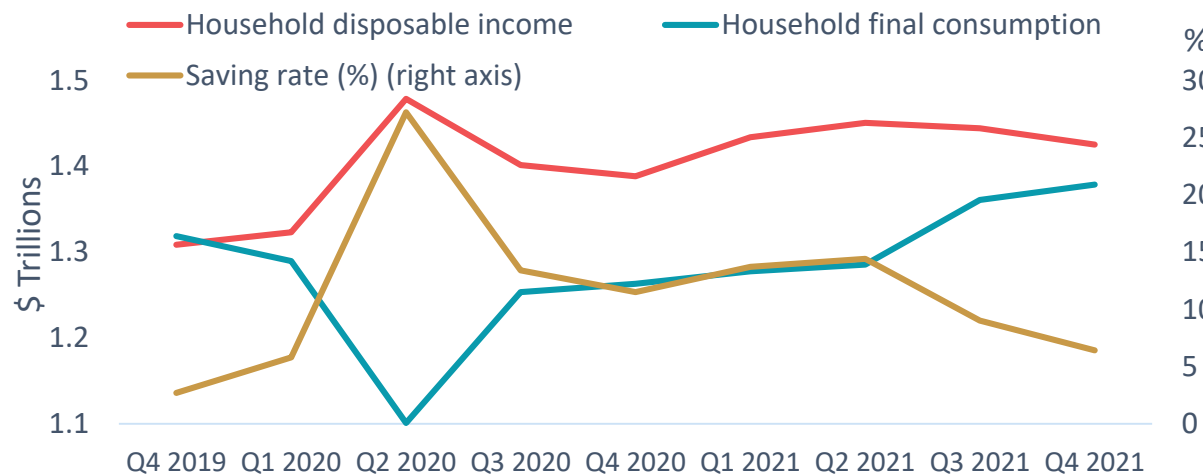
Growth in real GDP was also driven by strong growth in both real investment of residential structures (10% annualized) and non-residential structures, machinery and equipment (8.7%). Real exports posted strong growth (13% annualized) but were overshadowed by real imports (14%), resulting in negative contribution of trade to economic growth in the fourth quarter.

Rising prices moderated real household consumption, which rose only 1.0% annualized in Q4. Real household consumption of services rose 2.4% (annualized) while goods consumption decreased 0.7%, reflecting the continued shift from goods to services consumption.

Unemployment rate



Household consumption



STRONG LABOUR MARKET AND REDUCED SAVINGS SUPPORTED CONSUMPTION

Despite the temporary setback by Omicron, the Canadian labour market continued to show strength. At 5.5% in February 2022, the unemployment rate is now lower than the pre-pandemic level of 5.7% in February 2020. The temporary setback by Omicron in January disproportionately impacted employment in the accommodation and food services industry, and demographic groups that are more likely to work in these industries. These setbacks were mostly reversed in February. Other indicators also pointed to a tight labour market, with total hours worked up 3.6% and average hourly wages up 3.1%.

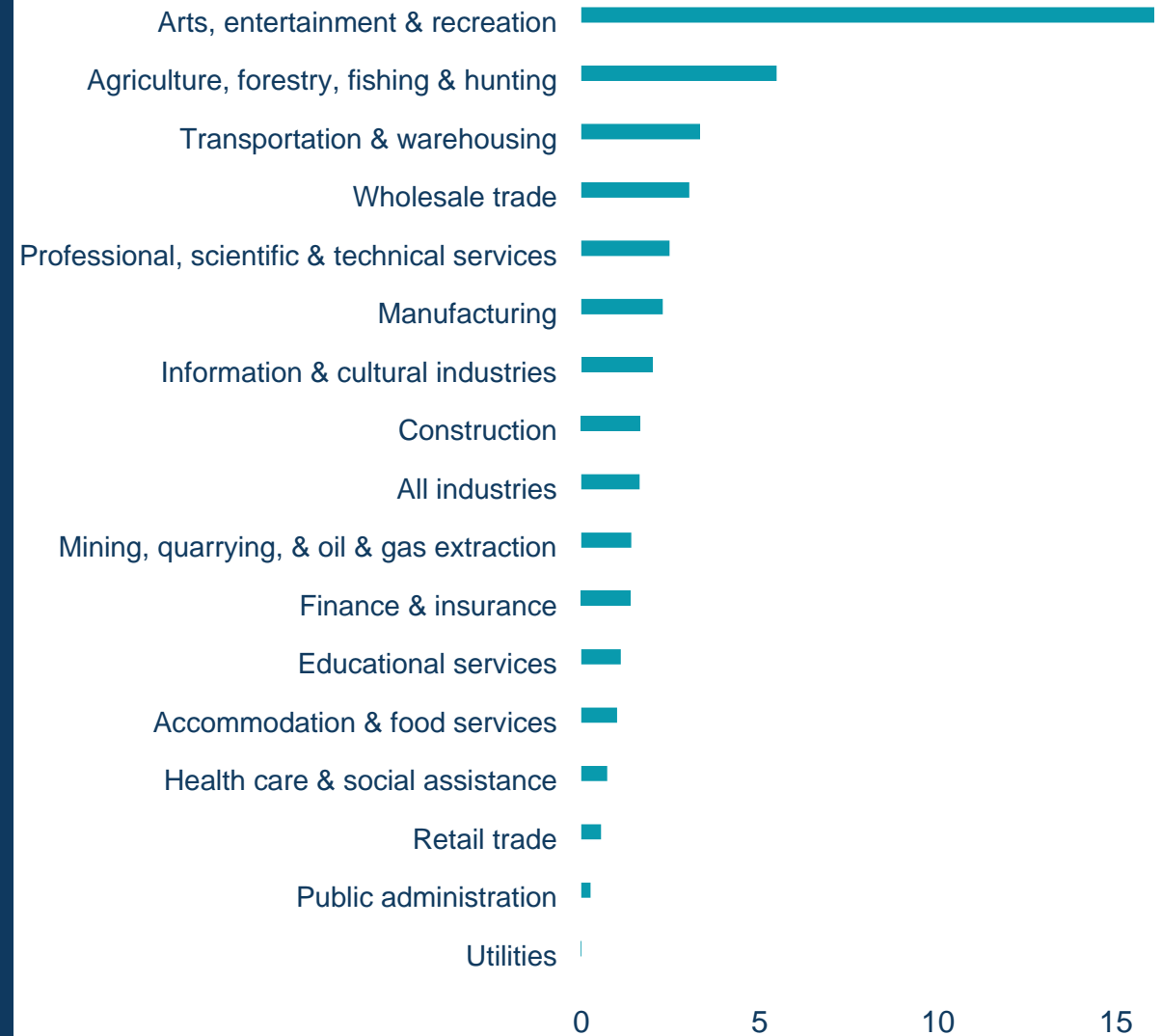
In Q4, the nominal value of household consumption grew 1.3% (a slowdown from 5.9% growth in Q3), but was in spite of a drop of 1.3% in household disposable income. While compensation of employees, the largest component of disposable income, grew 1.9% in Q4, current transfers received dropped a large 8.0% as COVID related assistance continued to decrease. Household consumption was also funded by household net saving which plummeted 29% in Q4, leaving the housing saving rate at 6.4%, which is still higher than the Q4 2019 saving rate of 2.7%. Going forward, inflation, which surpassed 5% for the first time in over 30 years in January, is expected to continue to be a drag on household consumptions.

BROAD GROWTH IN Q4 BUT SOME INDUSTRIES AFFECTED BY OMICRON IN DECEMBER

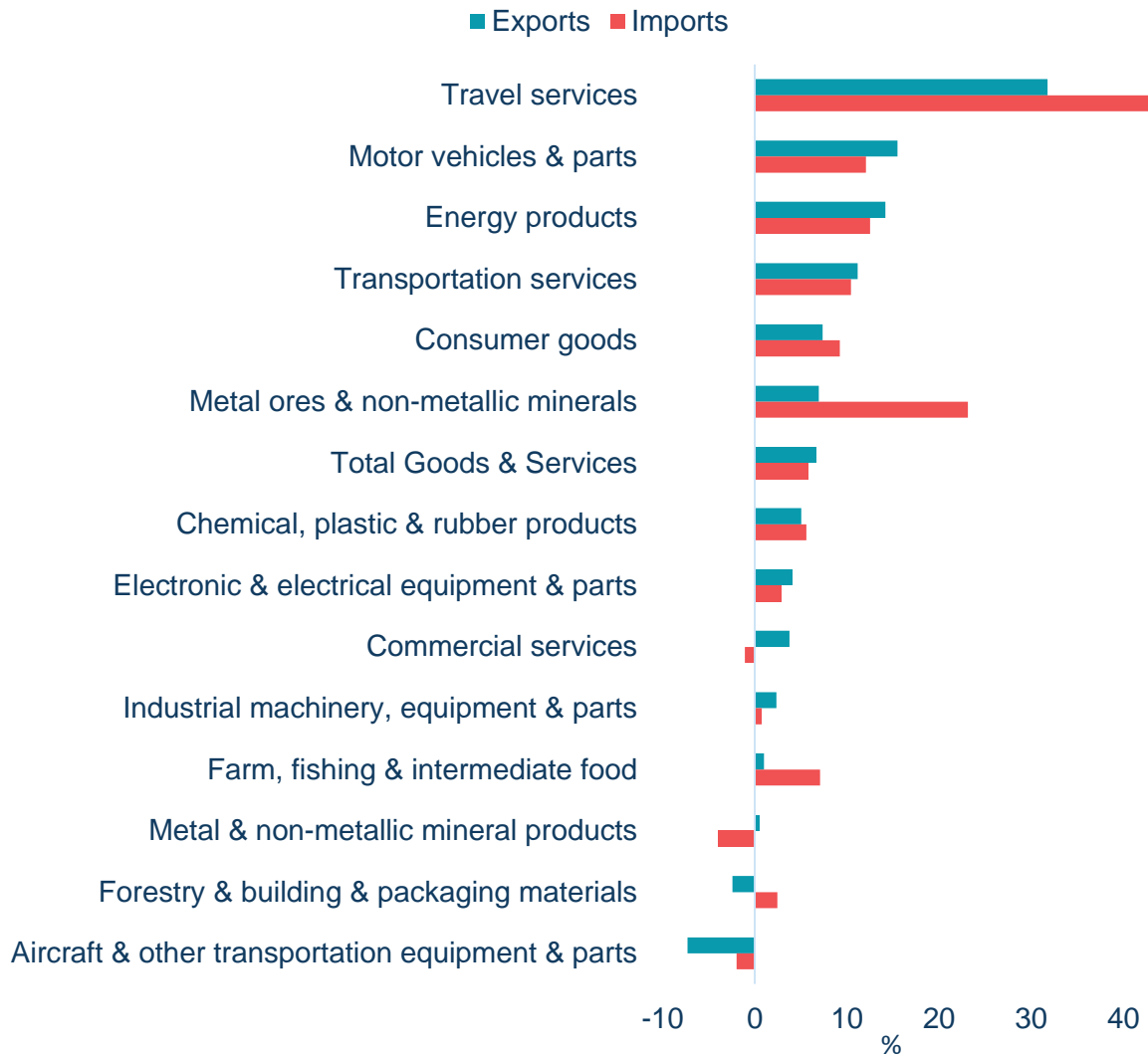
Increased economic activity in Q4 (1.6%) was supported by both goods (1.9%) and services (1.5%) producing industries. Leading the growth was the arts, entertainment & recreation industry (17%), which continued to recover but was still well below pre-pandemic levels. The re-introduction of restrictions in December dampened quarterly increases in retail trade (0.6%) and accommodation & food services (1.0%), and caused monthly declines in December. Supply-chain disruptions also had an impact on retail trade.

The rebounding agriculture, forestry, fishing & hunting industry had the second highest growth (5.5%) in Q4, but are still operating at a low level as heat, drought, and forest fires in Western Canada severely impacted crop production in 2021. Transportation & warehousing had the third largest growth (3.3%) as more domestic and international travellers took to the skies. Wholesale trade had the fourth largest growth (3.0%) due to the restocking of inventories. Manufacturing, the largest goods-producing industry, expanded 2.3% in Q4, as many motor vehicle assembly and parts facilities restarted production on a more consistent basis in Q4.

GDP at basic prices by industry for Q4 (Quarterly % change)



International trade by product (2021 Q4, quarterly % change)



ENERGY, MOTOR VEHICLES AND PARTS, AND TRAVEL LED EXPORT GROWTH IN Q4

Exports of goods and services increased 6.6% in Q4 to \$206 billion, with goods increasing 6.3% to \$171 billion and services increasing 8.2% to \$35 billion. Exports were driven by energy products (14%), which benefited from stronger prices. Another major contributor was motor vehicles and parts which grew 15% as supply chain issues somewhat eased and many motor vehicle assembly and parts facilities restarted production on a more consistent basis in Q4. Consumer goods exports also grew a strong 7.4% in Q4, led by pharmaceutical and medical products. On the services side, travel services exports grew 32% as international travel picked-up, but travel services exports still remained below pre-COVID levels. Transportation services exports also grew a strong 11% as more international travellers took to the skies.

Imports of goods and services rose 5.8% in Q4 to \$204 billion, with goods imports rising 5.9% to \$168 billion and services rising 5.1% to \$36 billion. Similar to exports, consumer goods imports increased a strong 9.2%, largely on higher imports of pharmaceutical and medicinal products. The increase in exports and imports of pharmaceutical and medicinal products reflected large shipments that came into Canada for packaging and labelling and were subsequently exported during the fourth quarter. Motor vehicles and parts imports also rose 12% in Q4 as supply chain issues eased and factories were open more consistently. However, both motor vehicles and parts imports and exports remained below pre-pandemic levels. Similar to exports, imports of travel services and transportation services posted strong growth in Q4 as Canadians traveled more and used more air transportation services.

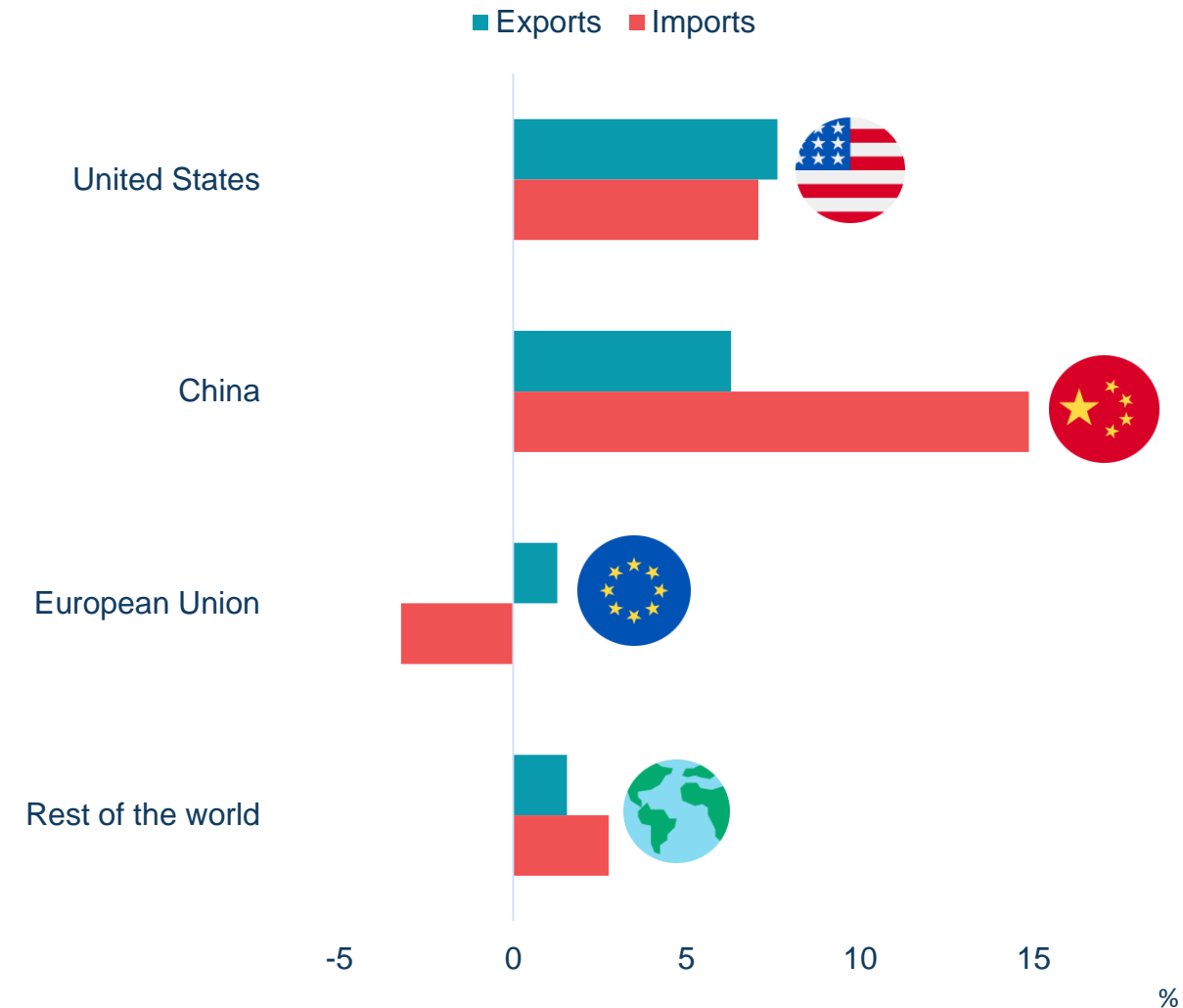
TRADE WITH THE U.S. AND CHINA SUPPORTED GROWTH IN Q4

The goods trade surplus with the United States was up by \$2.3 billion in Q4 with exports (7.6%) increasing by more than imports (7.1%). The growth in exports were driven mainly by energy products (benefiting from high prices) and motor vehicles and parts (benefitting from more consistent production from plants and assemblies). On the imports side, energy products, motor vehicles and parts, and consumer goods were the main drivers of growth.

The trade deficit with China rose by \$1.5 billion as imports reached a record-high \$15.3 billion in Q4. Imports from China were led by communication equipment and computers. Exports to China grew 6.3% on the strength of farm, fishing and intermediate food products, and energy products.

Exports to the European Union increased slightly (1.3%), led by growth in farm, fishing and intermediate food products. A decline in exports of metal ores and non-metallic minerals partially mitigated the growth. Imports from the European Union decreased 3.2%, driven by weaker imports of industrial machinery and parts, energy products, and aircraft and other transportation equipment and parts.

Goods trade, by major trading partner (2021 Q4, quarterly % change)



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

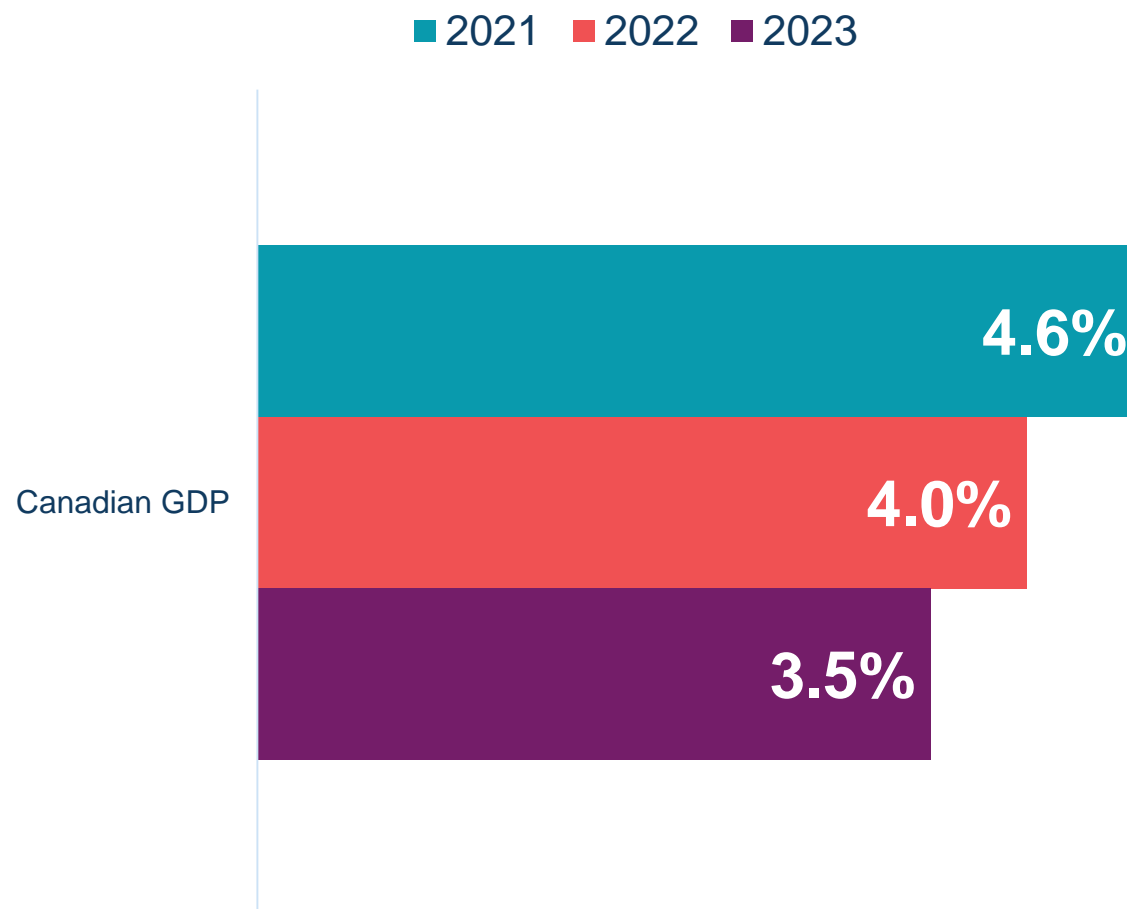
INFLATION REMAINS A CONCERN FOR 2022

Similar to the global economy, the Canadian economy entered 2022 with spill-over challenges from 2021, including the spread of the Omicron variant, supply constraints, and more persistent inflation than expected. While the spread of Omicron has declined significantly and is not expected to weigh heavily on the Canadian economy going forward, supply constraints and inflation remain. Transportation bottlenecks, labour shortages, and difficulty in sourcing important inputs continued to result in reduced hours, production slowdowns, and delayed/cancelled sales. According to the Bank of Canada, the effects of these supply disruptions are estimated to have been larger, broader and more persistent than initially expected. In January (before Russia attacked Ukraine), the Bank of Canada expected inflation to be close to 5% over the first half of 2022, before easing to 3% by the end of 2022.

The Russian attack on Ukraine is expected to add further upward pressure on inflation, as Russia, Belarus and Ukraine combined are major producers of oil, natural gas, wheat, barley, fertilizers and some base metals. While the direct economic impact of the war is expected to be modest for Canada, as Canada-Russia trade is minor, upward pressure on inflation is expected to put further pressure on consumers who are already concerned about rising energy and food costs. According to Oxford Economics, inflation is expected to be around 6% in Canada in Q2 2022 before easing to around 4% by Q4. Some Canadian producers are expected to benefit from higher prices, but there may be limited potential for Canada to supply and export more oil (distribution bottlenecks), liquid natural gas (limited export capacity), and agriculture products like wheat (poor harvest in 2021) to Europe in the short-term.

The Canadian economy is expected to continue to post solid but slightly slower growth in 2023, but there is much uncertainty around the forecast. The length of the conflict in Eastern Europe and its impact on supply chain disruptions and inflation are major sources of uncertainty.

Canadian forecasted GDP growth (annual % change)



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

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

	Exports			Imports		
	Q4 – 2021	Q/Q %	YTD %	Q4 - 2021	Q/Q %	YTD %
Goods	170,734	6.3	21.8	167,905	5.9	12.2
Resource products	103,421	6.1	36.6	57,317	4.8	18.9
Energy products	41,037	14.2	80.9	9,525	12.5	37.7
Non-resource products	62,829	7.0	4.9	103,937	6.6	8.5
Industrial machinery & equipment	9,901	2.4	5.5	17,742	0.7	13.7
Electronic machinery & equipment	7,074	4.1	4.9	19,268	2.9	8.8
Motor vehicles and parts	19,240	15.5	-4.3	25,825	12.1	8.1
Aircraft & other transportation equipment	5,263	-7.3	7.2	5,060	-2.0	0.8
Consumer goods	21,351	7.4	13.9	36,042	9.2	7.2
Services	35,249	8.2	3.6	35,705	5.1	0.2
Travel	5,407	31.8	-9.1	4,072	44.2	-40.5
Transportation	4,119	11.2	8.6	7,676	10.4	14.0
Commercial	25,343	3.8	5.3	23,573	-1.1	3.9
Government	380	4.7	4.4	384	2.4	7.5
Total Goods and Services	205,983	6.6	18.2	203,610	5.8	9.9

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: Goods trade by trading partner
(\$ millions)

	Exports			Imports		
	Q4 – 2021	Q/Q %	YTD %	Q4 – 2021	Q/Q %	YTD %
United States	130,295	7.6	26.8	105,581	7.1	12.1
Mexico	2,220	3.0	32.3	5,174	4.1	15.2
European Union	7,992	1.3	8.7	14,373	-3.2	11.8
France	1,225	4.3	9.2	1,336	-0.8	13.3
Germany	1,594	-21.6	7.0	4,043	1.2	11.3
United Kingdom	4,471	-3.0	-14.4	2,381	-21.2	6.5
India	889	0.5	-19.5	1,206	0.2	18.3
China	7,445	6.3	13.3	15,293	14.9	14.8
Japan	3,586	-11.6	16.5	2,578	-4.9	11.4
South Korea	1,627	13.7	20.7	2,195	-6.4	16.9
Rest of the world	12,209	6.3	12.8	19,124	9.1	10.5
Total Goods Trade	170,734	6.3	21.8	167,905	5.9	12.2

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: Services trade by trading partner
(\$ millions)

	Exports		Imports	
	Q4 - 2021	YTD %	Q4 - 2021	YTD %
United States	19,397	7.5	18,945	-2.8
Mexico	534	17.1	571	-35.7
European Union	4,097	4.4	4,726	11.3
France	1,032	7.3	772	9.9
Germany	680	-1.2	768	9.6
United Kingdom	1,584	3.5	2,015	-5.3
India	1,597	-12.4	647	-1.4
China	1,819	-8.9	785	9.5
Japan	459	3.2	729	7.7
South Korea	285	-8.9	104	-0.7
Rest of the world	6,301	-2.5	7,372	5.5
Total Services Trade	36,073	3.6	35,894	0.2

Note: "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 36-10-0024-01. Balance of payments basis, seasonally unadjusted.