

ECONOMIC NEWS

Canada: COVID-19 Causes Real GDP to Fall Sharply

HIGHLIGHTS

- ▶ Real GDP declined 2.1% (or 8.2% annualized) between the fourth quarter of 2019 and first quarter of 2020.
- ▶ Domestic demand fell 6.0% annualized due to a drop in consumer spending (-7.5%) and gross fixed capital formation (-0.3%).
- ▶ Goods and services exports declined 11.3% annualized, while imports shrank 10.7%. Consequently, the trade balance went from +\$5.7B in 2012 dollars to +\$4.5B in 2012 dollars.
- ▶ The change in inventories went from +\$9.4B in 2012 dollars to -\$2.0B in 2012 dollars. This contributed -2.1% to the quarterly annualized variation in real GDP.

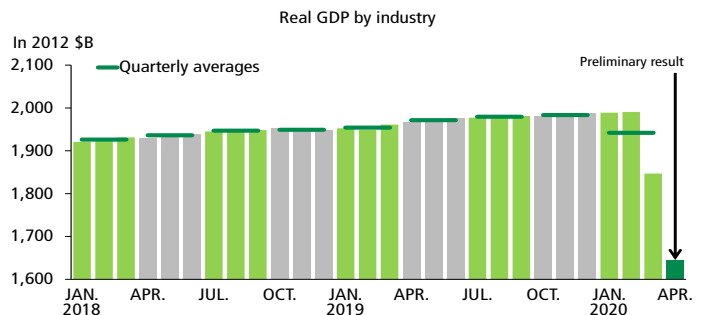
COMMENTS

As expected, after January and February saw moderate growth, the Canadian economy collapsed in March because of COVID-19's adverse effects. That said, the contraction of the Canadian economy is less marked than anticipated. Statistics Canada's preliminary estimate counted on real GDP by industry declining approximately 9% between February and March. Instead, the figures released today indicate a 7.2% contraction. This means that the entire first quarter ended down a little less than Statistics Canada's preliminary estimate (approximately -10% annualized).

Still, expectations are that the drop in real GDP will be bigger in the second quarter. According to Statistics Canada, the preliminary data indicate that real GDP by industry declined 11% between March and April. Even if we were to assume that lifting the lockdown would help the Canadian economy begin to regain lost ground in May and June, the entire second quarter could end down anywhere between -8.5% and -12.0% (i.e., between -30% and -40% annualized). This highly negative outlook is understandable given the extremely unfavourable fundamental arithmetic effects arising from the major declines in March and

GRAPH

The Canadian economy is expected to contract even further in April



Sources: Statistics Canada and Desjardins, Economic Studies

April. Therefore, we will have to wait until the third quarter before the quarterly results reflect the Canadian economy's rebound.

IMPLICATIONS

Today's results confirm the extent of the uphill battle the Canadian economy is facing. As the lockdown measures gradually ease more or less throughout the country, we now turn our attention to the shape that the economic recovery will take. Clearly, there is still a lot of uncertainty, and the way in which the pandemic evolves will be decisive in the coming months. However, everything leads us to believe that the recovery will be slow and that it will take the Canadian economy several quarters before it regains lost ground. It is also clear that the recovery will be more painful in some sectors, especially those related to tourism.

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