

# ECONOMIC NEWS

## Canada: Record Drop in GDP in the Second Quarter

### HIGHLIGHTS

- ▶ Real GDP retreated 11.5% (38.7% quarterly annualized) in the second quarter.
- ▶ Most of the decline comes from domestic demand, when consumption and investments plunged due to the lockdown measures in the spring.
- ▶ The inventory variation was also very negative, which hampered real GDP growth.
- ▶ Exports and imports of goods and services also dropped significantly during the quarter. However, because imports retreated more than exports, the trade balance improved and made a positive contribution to the quarterly variation in real GDP.

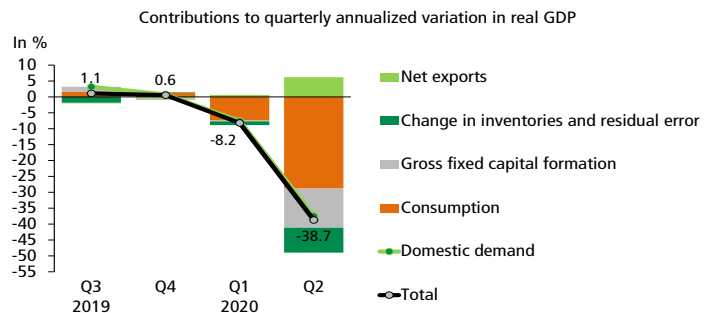
### COMMENTS

Overall, second-quarter results are consistent with expectations. The worst is in all likelihood behind us and all eyes are now on the reopening and recovery of the Canadian economy. In this regard, the figures released today are encouraging.

On the one hand, the financial situation of households stood up to COVID-19 fairly well. While the many job losses led to a drop of 8.9% in employee earnings in the second quarter, this drop was more than offset by the increase in government transfers to individuals through the Canada Emergency Response Benefit (CERB). As such, household disposable income actually increased 10.8% during the quarter. Also factoring in the 13.7% decrease in household spending as a result of the lockdown, the household savings rate rose sharply from 7.6% to 28.2%—a new all-time high. Households' solid financial situation will allow them to participate fully in the recovery of the Canadian economy.

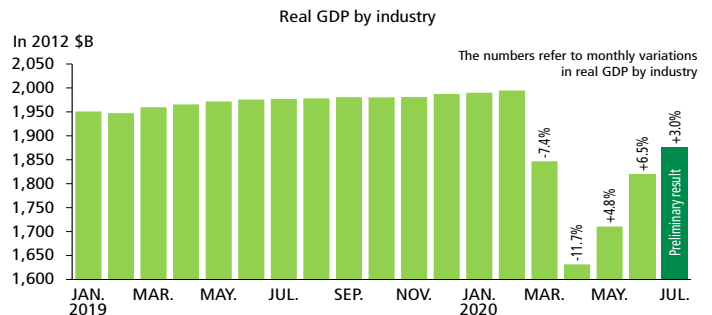
On the other, Statistics Canada today released the preliminary results for real GDP by industry, which confirm that the recovery continued in July with an increase of roughly 3%. Combined

**GRAPH 1**  
A widespread drop in domestic demand in the spring



Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 2**  
The recovery of the Canadian economy forged ahead in July



Sources: Statistics Canada and Desjardins, Economic Studies

with the gains in May and June, carryover for the third quarter is fairly high. Assuming that real GDP continues to climb in August and September, albeit at a slower pace, the third quarter as a whole could close with growth of about 10% (45% quarterly annualized). This is a slightly more optimistic forecast than our latest scenario.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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**IMPLICATIONS**

The recovery of the Canadian economy is clipping along. That said, it still has quite a ways to go before returning to a pre-pandemic level. There is still much uncertainty, and the recovery has been uneven across sectors. Furthermore, the possibility of a second wave of the pandemic later in the year cannot be completely ruled out.

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