

ECONOMIC NEWS

Canada: Rebound in Real GDP Weaker than Anticipated in the Summer

HIGHLIGHTS

- ▶ Real GDP climbed 8.9% between the second and third quarters, equivalent to a quarterly annualized gain of 40.5%.
- ▶ Domestic demand rose 50.8% (quarterly annualized) due to a major increase in household consumption spending (+62.8%), residential investment (+187.3%) and non-residential investment (+25.8%).
- ▶ Exports of goods and services grew 71.8%. Imports saw a larger increase of 113.7%. The trade balance therefore deteriorated significantly over the quarter, which hindered growth in real GDP.
- ▶ The change in inventories went from -\$31.9B in 2012 dollars to -\$36.0B in 2012 dollars, resulting in a contribution of -0.7% to the quarterly annualized variation in real GDP.

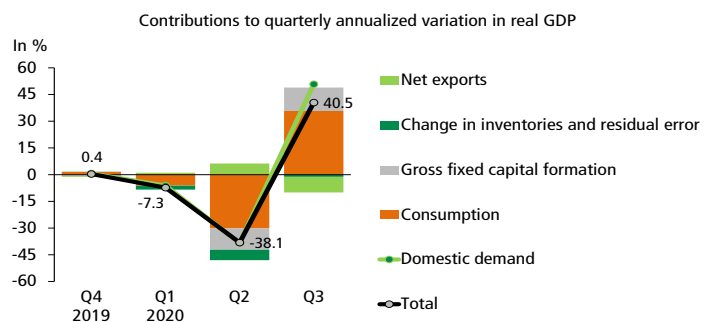
COMMENTS

After quarterly annualized decreases of 7.3% in the first quarter and 38.1% in the second quarter, expectations were high for the rebound in real GDP in the third quarter. While the 40.5% jump (quarterly annualized) recorded over the period was certainly significant (the largest quarterly increase since data began to be published in 1961), it still fell slightly below expectations. In addition, the third quarter ended with slightly lower growth than anticipated, with real GDP by industry seeing a gain of just 0.8% between August and September. Growth for the previous months was also revised slightly downward by Statistics Canada.

Furthermore, all signs point to a significant slowdown in growth for the Canadian economy in the fourth quarter. The onset of a second wave of the pandemic recently forced a number of provinces to introduce new restrictions, which will surely have a negative impact on real GDP. According to Statistics Canada's preliminary data, real GDP by industry ticked up just 0.2% in

GRAPH

Domestic demand drove economic growth in the third quarter of 2020



Sources: Statistics Canada and Desjardins, Economic Studies

October. In our opinion, we may even see decreases in November and December. Under these circumstances, the fourth quarter could end with very weak growth in real GDP.

IMPLICATIONS

The Canadian economy isn't out of the woods yet. Real GDP is still about 5% below its pre-pandemic level. Short-term uncertainty remains high, and the end of 2020 and start of 2021 will be marked by the second wave of the pandemic. Fortunately, the latest news about a vaccine is encouraging. This should eventually help put Canada's economic recovery on solid footing.

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