

ECONOMIC NEWS

Canada: The Third Wave Could Have a Bigger Impact on Economic Growth than the Second Wave

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HIGHLIGHTS

- ▶ Real GDP climbed 1.4% between the fourth quarter of 2020 and the first quarter of 2021, equivalent to a quarterly annualized gain of 5.6%. This growth was slightly below expectations.
- ▶ Domestic demand was up 6.4% (quarterly annualized). Consumer spending was up 3.4%, residential investment jumped 43.3% and investments by public administrations grew by 3.8%. However, non-residential fixed investment by businesses increased by only 0.5%.
- ▶ Goods and services exports rose 6.0%, while imports climbed 4.3%. The trade balance therefore improved during the quarter, translating into a +0.5% contribution to the annualized quarterly change in real GDP.
- ▶ The change in inventories went from -\$0.3B in 2012 dollars to -\$8.5B in 2012 dollars, resulting in a contribution of -1.4% to the quarterly annualized variation in real GDP.

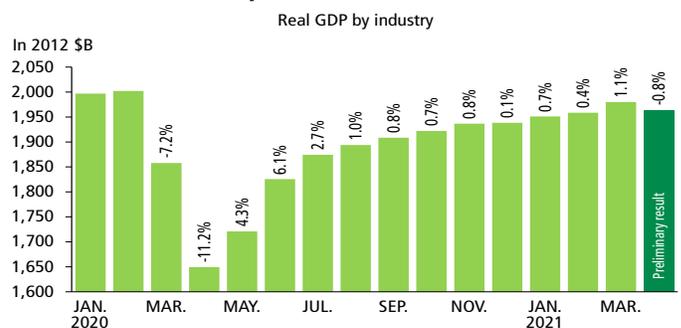
COMMENTS

As expected, the Canadian economy has been fairly successful in withstanding the restrictions implemented at the beginning of 2021 to combat the second wave of the pandemic. Consumer spending even increased by 2.7% in the first quarter, an unexpected gain given the circumstances. A large proportion of the increase in real GDP is due to residential investment, while existing home sales and housing starts reached record levels. Excluding residential investment's contribution, real GDP would have been just 2.1% in the first quarter.

However, there is every reason to believe that the negative effects of the third wave will take a toll on the Canadian economy. It is difficult to do otherwise as the most populous province, Ontario, is in the midst of the difficulties.

GRAPH

The second quarter began on a negative note because of the adverse effects of the pandemic's third wave



Sources: Statistics Canada and Desjardins, Economic Studies

Statistics Canada's preliminary results indicate that real GDP by industry fell by around 0.8% in April. This would be the first monthly decrease since April 2020.

IMPLICATIONS

Even if a gradual return to normal is expected to begin in May, the entire second quarter should close with a markedly weaker increase in real GDP. A rebound is nevertheless expected in the third quarter with the gradual reopening of the Canadian economy.