

ECONOMIC NEWS

The Canadian Economy Proves More Resilient than Expected to Third Wave Restrictions

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HIGHLIGHTS

- ▶ Real GDP declined by 0.3% in April, which is better than the 0.8% drop that was expected by Statistics Canada's preliminary results.
- ▶ Overall, output dropped in 12 of the 20 industrial sectors. Public health measures related to the third wave had a disproportional impact on the services industries (-0.6%), while goods-producing industries (+0.5%) recorded solid growth. Accommodation and food services (-4.6%) and retail trade (-5.5%) were by far the two hardest hit industries.
- ▶ Statistics Canada's preliminary results report that real GDP decreased again in May, by 0.3%.

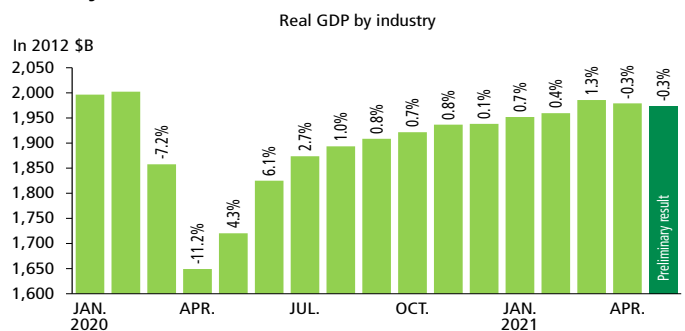
COMMENTS

While the Canadian economy proved itself to be surprisingly resilient to the restrictions imposed during the second wave of the pandemic, the negative effects of the third wave are having a larger impact. The 0.3% decline in real GDP is the first monthly decline since April 2020, but this result is better than the 0.8% decline reported by Statistics Canada's preliminary results. All in all, output is just 1.2% lower than in February 2020, before the pandemic, and 2.1% higher than in December 2020, during the second wave.

Unsurprisingly, services have been disproportionately affected by public health measures, while growth in goods-producing industries was far more resilient. More specifically, the construction sector—driven by the housing market—has shown vigorous growth of over 2% for the third consecutive month. April was far more difficult for services, especially those involved in accommodation, food services and retail trade. The preliminary results also indicate that the decline in real GDP continued in May, with a further decrease of 0.3%.

GRAPH

The third wave of the pandemic should result in two consecutive monthly declines in real GDP



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

April's results and May's preliminary results are aligned with our forecasts for real GDP growth that is weaker but still positive in the second quarter of 2021. The quarter should end with positive growth in the month of June, as Canadian provinces continue to reopen their economies. If everything goes as planned, this gradual reopening should lead to a strong rebound in the third quarter.