

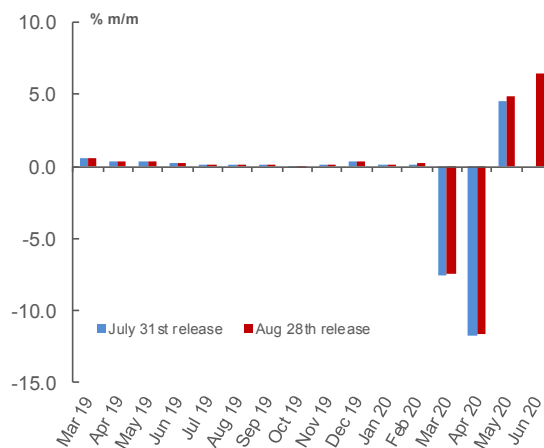
Scotiabank Nowcast: Canadian GDP Contracted -38.7% as Expected

This note is part of a series that will be published after important data releases, documenting mechanical updates of the nowcast for Canadian GDP coming from the Scotiabank nowcasting model. The evolution of this nowcast will inform Scotiabank Economics' official macroeconomic outlook.

The model is described in a related note [here](#).

- Wrapping up one of the most challenging quarters in recent history, Statistics Canada released its estimate of the real GDP contraction in Q2-2020. At -38.7% Q/Q SAAR, the worst decline on record, the GDP print was in line with the latest nowcast of -38.52%. Moreover, since early July the nowcast growth predictions clustered in the -38/-40 range.
- As expected, most expenditure categories experienced unprecedented declines, with final domestic demand contracting -37.4% Q/Q SAAR, on the back of a large pull-back in final consumption expenditures (-34.9%) and business gross fixed capital formation (-50.7%).
- The decline in consumption occurred despite fiscal support measures that more than offset the decline in (non-annualized) household incomes before net government transfers (chart 2).
- Net trade contributed positively in the quarter, but this was due to a much faster fall in imports (-64.1%) than exports (-55.6%), as border shutdowns stopped Canadian tourists from travelling abroad.
- On the industry side, monthly GDP strengthened towards the end of the quarter, clocking in a +6.5% m/m expansion in June, with all major sectors outside of mining and oil and gas growing. As of June, monthly GDP has recouped about half of the losses, coming in about 9% below the pre-pandemic February level.
- Going forward, with the flash estimate of Canada's July monthly GDP growth at +3% m/m, Q3-2020 has a baked in growth of +41% Q/Q SAAR, assuming flat August and September, which is a faster rebound than we would have anticipated.

Chart 3: GDP by industry, Canada

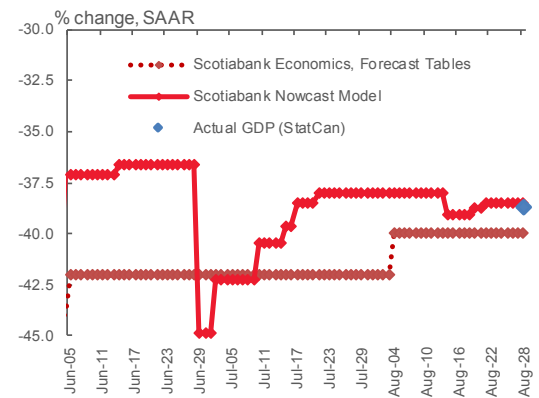


Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

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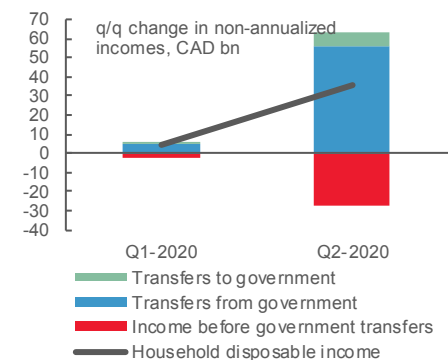
Chart 1: The Evolution of the Scotiabank Economics Q2-2020 Nowcast



Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

Chart 2

Government Support Measures More than Offset the Decline in Primary Household Income



Sources: Scotiabank Economics, Statistics Canada.

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