

Canada's Economy Is Well Positioned Into Fourth Quarter Risks

- Q4 has 3½% growth tentatively baked in
- Q3 GDP grew by 46% annualized
- August GDP slightly beat expectations...
- ...and September maintained momentum as expected
- Over three-quarters of lost output has been recovered...
- ...but the results vary widely by sector

Canadian GDP, m/m % change, SA, August:

Actual: 1.2

Scotia: 1.0

Consensus: 0.9

Prior: 3.1 (revised up from 3.0%)

September guidance: 0.7

Canada's economy ripped higher in Q3 and very early indications point to sustained growth into Q4.

Statistics Canada guided that Q3 GDP growth is tracking at about +10% q/q at a seasonally adjusted non-annualized pace which is about 46% annualized. That matches expectations (Scotia 46%, consensus 45%).

August GDP landed at 1.2% m/m and September's guidance was for a further rise of 0.7% while July growth was revised up a tick to 3.1%. They were in the ballpark of expectations after StatsCan had previously indicated August would climb by about 1% and based upon limited tracking information that we had for September.

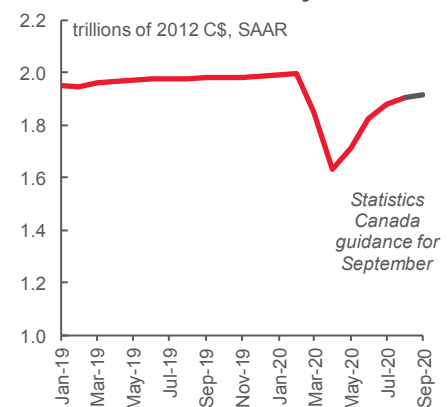
The Canadian economy is well positioned into q4 risks with 3½% growth 'baked in'. This estimate is derived from taking September GDP over the Q3 average and annualizing that in order to see what kind of growth would occur if monthly GDP was flat throughout the October to December period. The reason for this approach is to have an estimate that is independent of imposed judgement on the possible evolution of Q4 data.

The way the quarter ended therefore provides a solid starting point to Q4 growth tracking that at least temporarily downplays fear over what would happen in the wake of a 46% Q3 expansion. It's a solid start compared to the BoC's forecast for 1% annualized Q4 growth. The BoC's estimate includes a forecast for how Q4 data will evolve and is also an estimate of expenditure-based GDP growth which can differ from using monthly production-based GDP due to things like inventory and import swings. During Q3, there was no material difference between the two approaches to estimating GDP growth.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

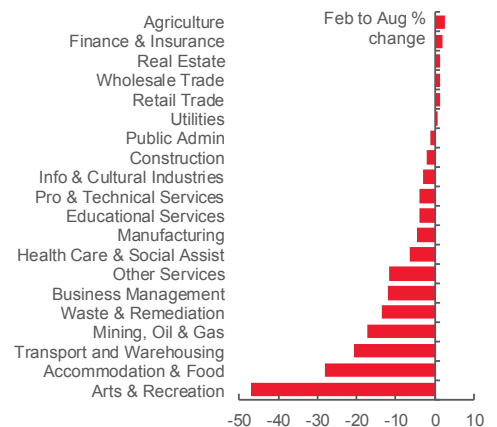
Chart 1
Canadian Industry GDP



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Change in Canadian Industry GDP Levels Through the Pandemic



Sources: Scotiabank Economics, Statistics Canada.

Canada's economy has recovered about 78% of the pandemic hit from February to the bottom in April and now sits just 3.9% smaller than where it was in February (chart 1). The supply side has continued to grow such that a combination of greater potential to produce and a shortfall in recovered actual production continues to result in material slack in the overall economy.

Having said that, the degree of recovery sharply varies across individual sectors as shown in chart 2. A caution is that this only goes to August because the preliminary GDP estimate for September is not broken down by sector. Another caution is that some sectors like restaurants, bars, gyms etc face renewed downside risk into Q4 on tightened restrictions.

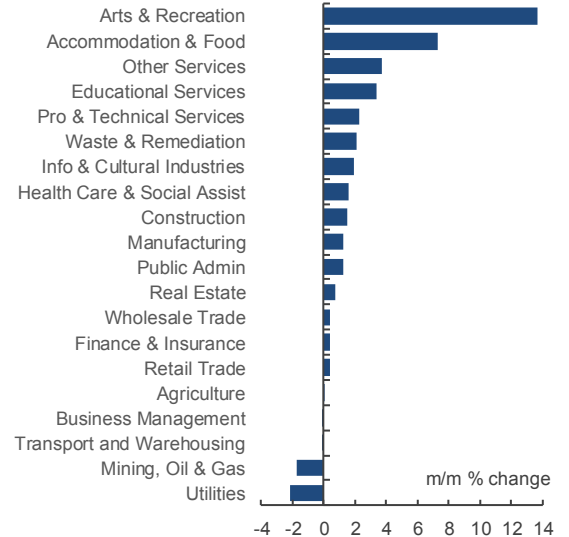
Nevertheless, some sectors like agriculture, finance and insurance, real estate, wholesale trade, retailers and utilities have fully recovered in aggregate and then some. Some other sectors like public administration, construction, info/culture, professional/scientific services, education and manufacturing are not far behind. The health sector is still down on net, but not by much. Mining/energy remains almost one-fifth smaller than in February and so does transportation and warehousing.

But deserving separate recognition is that two sectors in particular remain very hard hit. Arts and recreation is about half of what it was in February and the accommodation and food services sector including restaurants and bars is still almost 30% smaller. Those two sectors will remain challenged into 2021.

Chart 3 provides a breakdown of August GDP growth by sector. Chart 4 does the same thing on a weighted basis.

Chart 3

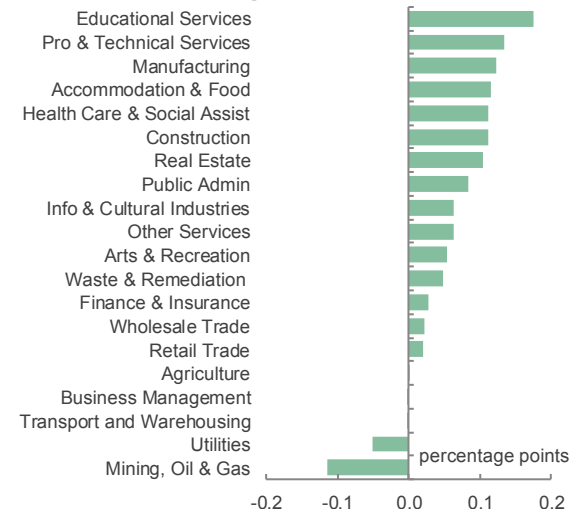
August Real GDP Growth by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

Weighted Contributions From Sectors to August Real GDP Growth



Sources: Scotiabank Economics, Statistics Canada.

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