

April 15, 2020

Early Q1 GDP reading worse than thought

- Early estimate of Q1 GDP shows 10% annualized decline
- Economic activity down 9% (non-annualized) in March
- US retail sales, IP reports add some colour

Desperate times, desperate for measures:

Recognizing the need for timelier measures of economic activity during the coronavirus crisis, Statistics Canada took the extraordinary step of releasing a March GDP "nowcast" this morning, about six weeks ahead of the official release. This early approximation based on available data suggests Canada's economy shrank by 9% in March, the largest monthly decline on record dating back to 1961. That leaves Q1 GDP 10% lower (at an annualized rate) than the previous quarter—yet another record, though one that will be smashed in Q2. A sharp slowdown heading into the current quarter and a further drop in April leaves our forecast for a 32% annualized decline in Q2 GDP looking as reasonable as any at this stage. A worse-than-expected Q1, though, adds some downside risk to our 2020 growth forecast (-4.9%) with the IMF's projection from yesterday (-6.2%) looking a bit likelier. But we caution that it's very early yet, and even this March GDP estimate needs to be taken with a handful of salt. We'll get one more forecast later this morning when the Bank of Canada releases its own economic projections.

StatCan's nowcast didn't feature any numbers beyond the headline reading—industry detail was entirely qualitative. Many Canadians would have easily guessed at the sectors that were hardest hit: travel and tourism, restaurants, accommodation, non-food retail and entertainment (many of those details were mirrored in this morning's US retail sales report, with overall sales down 8.7% in March). Government and education have also suffered from shutdowns. Health, food distribution, online retail and streaming were among the sectors seeing an increase in activity in March. In the energy sector, a collapse in prices and pullback in investment didn't come with an immediate decline in production and transportation volumes though that's surely on the way. There was little mention of the factory sector, though a 6.3% decline in US manufacturing output in March (also released this morning) shows Canada won't be spared in that regard.

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