

Prepared by: New Zealand High Commission, Ottawa

Summary

- Statistics Canada has reported that the country's economy contracted at an annualized pace of 8.2 percent in the first quarter of 2020.
- Unemployment rates rose to 13.7 percent in May, the highest level in more than four decades.
- The Bank of Canada announced on 3 June that it would be holding its benchmark interest rate steady at 0.25 percent.
- The central bank also announced that it had revised its GDP estimates – now forecasting GDP to decline between 10 and 20 percent in the second quarter of 2020 compared with the fourth quarter of 2019 (as opposed to between 15 and 30 percent).
- A few positive signs of growth have started to emerge in May as the country starts to reopen, including housing sales in Toronto (Canada's biggest city) jumped by 55 percent in May from April.

Report

Statistics Canada's March GDP report underscored the widespread impact of measures introduced to contain the spread of COVID-19 on all segments of Canada's economy. Real gross domestic product fell 7.2 percent in March as 19 out of 20 industrial sectors declined. Canada's economy contracted at an annualized pace of 8.2 percent in the first quarter. Preliminary information from Statistics Canada indicates an 11 percent decline in real GDP in April.

2 The Bank of Canada announced on 3 June that it would be holding its benchmark interest rate steady at 0.25 percent, commenting that it thinks the economic impact of COVID-19 on the world's economy "appears to have peaked". Canada's central bank dropped its rate dramatically since the pandemic began, cutting its rate from 1.75 percent in late February to 0.25 percent less than a month later.

3 The central bank now expects GDP to decline between 10 and 20 percent compared with the fourth quarter of 2019, less than the 15 to 30 percent decline forecast in April. While the outlook for the second half of 2020 and beyond remains "heavily clouded", the Bank expects the economy to resume growth in the third quarter. While the economic impact of the pandemic appears to have plateaued, the bank has cautioned that uncertainty about how the recovery will unfold remains high.

4 Real gross domestic product fell 2.1 percent in the first quarter of 2020 compared to the previous three months. The bank has projected that it is likely to further decline by 10 to 20 percent in the second quarter as "continued shutdowns and sharply lower investment in the energy sector take a further toll on output".

5 Parliamentary Budget Officer Yves Giroux has estimated that federal deficit is on track to be CAD\$260 billion this year (nearly five times larger than the CAD\$56 billion deficit during the financial

crisis in 2009). Giroux has commented that it was “not unthinkable” that federal debt could reach CAD\$1 trillion this fiscal year.

6 Canada’s unemployment rate rose to 13.7 percent in May, despite the economy adding 289,600 jobs in May as several provinces began to ease public health restrictions and allow some non-essential businesses to re-open. This followed record breaking losses of more than three million jobs from February to April.

7 April’s international trade report (released 4 June) underscored the severe impacts of COVID-19 on Canadian trade flows. Merchandise exports fell by 29.7 percent in April to CAD\$32.7 billion (the lowest level in more than 10 years). Merchandise imports declined by 25 percent to CAD\$35.9 billion. Almost all of the reduction in trade activity in April was due to lower trade flows between Canada and the United States, reflecting the high degree of economic integration between the two countries.

8 *Oil and gas:* the Consumer Price Index declined 0.2 percent on a year-over-year basis in April as lower energy prices pushed the headline rate into negative territory for the first time since September 2009. Energy prices continued to fall sharply as a result of the COVID-19 pandemic, and were down 23.7 percent on a year-over-year basis in April. Gasoline prices in April were down 39.3 percent, the largest year-over-year decline on record. Excluding energy prices, consumer price inflation in April was 1.6 percent. Energy exports fell by over 40 percent in April.

9 *Travel/Tourism:* with the border partially closed on 18 March, travel from overseas was down by 52.7 percent in March. When the Canada-US border closed on 21 March to non-essential travel, this pushed border crossings down by 2.8 million trips for March, the lowest number in almost 50 years. Leading indicators of international travel for April provided a glimpse into the hit this sector is taking, with cross-border travel between the US and Canada at a near standstill. The number of Americans entering Canada by automobile was down 97 percent from April of 2019. At the four major Canadian airports still accepting international flights, the number of US and overseas residents entering Canada was down 99.5 percent and 97 percent respectively from April 2019.

10 *Accommodation and food services:* from February to April employment in accommodation and food services industries declined by half, while hours worked decreased by almost two thirds. Accommodation services contracted 30.9 percent in March as the restrictions on international and interprovincial travel drastically reduced the demand for these services.

11 *Airline industry:* the Canadian airline industry hit financial turbulence in March with major carriers reporting a 41 percent decline in revenues, driven by the largest (44.1 percent) year-over-year drop ever recorded in the number of scheduled and charter passengers carried. The damage will be carried into April as aircraft itinerant movements (take-offs and landings) at major airports fell by almost 70 percent from the week ending 14 March until the week ending 24 April.

12 As Canada’s thirteen provinces/territories start to gradually open, there are a few positive signs starting to emerge. Housing sales in Toronto (Canada’s biggest city) jumped by 55 percent in May from April, and the average selling price gained 4.6 percent. Compared with late March, Canadians started spending again in May on things like a round of golf and clothes. Commercial transport trucks crossing into Canada from the US each week jumped 15.6 percent in the third week of May, from a low in early April (although volumes are still down 25 percent from a year earlier). New job posting were up 20 percent on 29 May compared with 3 May (though this is subdued compared with 2019).

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author's own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.