

Scotiabank Nowcast: GDP Grew by 40.5% in Q3-2020 On A Sharp Rebound in Domestic Demand

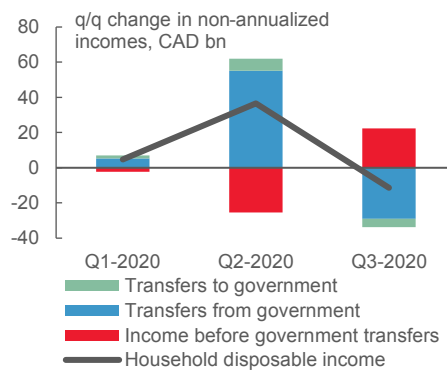
This note is part of a series that will be published after important data releases, documenting mechanical updates of the nowcast for Canadian GDP coming from the Scotiabank nowcasting model. The evolution of this nowcast will inform Scotiabank Economics' official macroeconomic outlook.

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

- Canadian GDP expanded at the rate of 40.5% Q/Q SAAR in Q3-2020, the highest on record, as the Canadian economy bounced back from the pandemic-related lockdowns in Q2-2020. The Q3-2020 expansion was weaker than expected, however, compared to the latest nowcast of 47.87% and the preliminary flash estimate of above 46% growth from Statistics Canada, the latter released at the end of October. The latest data show that the contraction in Q1-Q2 was more shallow than previously reported, which explains the weaker rebound and leaves the level of GDP in Q3-2020 only slightly lower (-0.2%) than previously expected.
- Growth in Q3-2020 was mainly driven by a rebound in domestic demand, with consumption (+62.8% Q/Q SAAR) and residential investment (+187.3% Q/Q SAAR) leading the way. Business investment lagged, with investment in structures held back by the weakness in the oil and gas sector outlook.
- Strength in consumption spending was mainly driven by expanding purchases of goods (+86.8% Q/Q SAAR), in line with retail sales data received in Q3-2020, while spending on services lagged (+44.3% Q/Q SAAR), hobbled by the health-related restrictions. The household spending rebound came despite a slight fall in household income (chart 2), as the decline in government transfers was partly offset by a rise in employment income in line with a recovery in the labour market. Government transfers are set to expand in the first half of 2021 with extensions of various programs announced in yesterday's federal fiscal update.
- A sharp rise in spending on goods fed a significant increase in imports, which grew by +113.7% Q/Q SAAR in the quarter. Exports grew less than imports, leading to significant drag on GDP growth from net trade (-8.7 ppt from annualized growth)
- Finally, going forward, a preliminary estimate of growth in October GDP of 0.2% m/m leaves the snapshot for annualized growth in Q4-2020 at 4.2%, with downside risks due to expanding restrictions in November and December.

Chart 2: Household income and government support measures

Government Support Declined in Q3

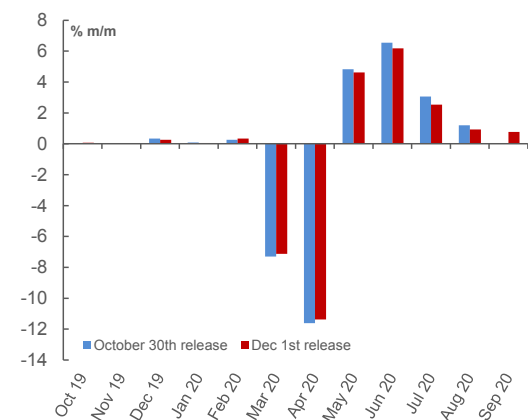


Sources: Scotiabank Economics, Statistics Canada.

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Chart 1: GDP by industry, Canada



Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

Table 1: Canadian national accounts

	% change Q/Q SAAR	
	Q2-2020	Q3-2020
GDP*	-38.1	40.5
Nominal GDP	-40.5	55.2
Final domestic demand	-38.4	50.8
Consumption (households)	-44.3	62.8
Government spending on goods and services	-12.7	15.0
Residential investment	-47.7	187.3
Business investment (businesses & non-profits)	-51.3	26.6
Machinery and equipment	-63.5	91.6
Non-residential structures	-49.7	-1.2
Intellectual property	-30.5	30.6
Exports of goods and services	-56.7	71.8
Imports of goods and services	-65.0	113.7

* Table shows Q/Q % changes, SAAR, in components of GDP measured in chained 2012\$, unless noted otherwise.

Sources: Haver, Statistics Canada, Scotiabank Economics.

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