Bank of Canada expects downturn to be ‘sharpest on record’

By Matt Lundy and David Parkinson
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The Canadian economy plunged by about 9 per cent in March, and the Bank of Canada expects the downturn to be the “sharpest on record” as COVID-19 inflicts devastation on business activity.

In a preliminary estimate, Statistics Canada on Wednesday said March’s decline in gross domestic product would be the largest one-month contraction in records dating back to 1961. For the entire first quarter, GDP would decline by 2.6 per cent, or greater than a 10-per-cent drop at an annualized rate.

Under normal circumstances, Statscan releases its March GDP figures in May. However, given the swift downturn resulting from the novel coronavirus, Canada’s national statistical agency moved to publish a timelier estimate of activity. Statscan stressed that the estimates will change once more information is used in the full report released next month.

“Economic disruptions have been both deep and widespread in the month of March,” Statscan said, noting that industries such as travel and tourism, restaurants, accommodation and retailing have taken major hits. It said, however, that activity in the health sector, food distribution and online retailing has been expanding.

Meanwhile, the Bank of Canada on Wednesday made the extraordinary move of omitting eagerly awaited new economic projections from its quarterly monetary policy report, saying that forecasting can’t be done “with any degree of confidence” in light of the uncertainty surrounding the COVID-19 crisis.

“We had a good discussion around [whether] we had enough material in front of us to be able to construct a forecast. We concluded that the honest answer is no,” Bank of Canada Governor Stephen Poloz said in a teleconference with media Wednesday. “The last thing we want to do is offer some sort of false precision.”

Instead, the bank outlined in its quarterly update alternative scenarios that would affect the pace of recovery from the economic shock delivered by the pandemic, which has triggered government-imposed business shutdowns, massive unemployment and a severe slump in oil prices.

As far as a near-term forecast, the bank would only say that its “scenario analysis” indicates that real GDP would be between 15 per cent and 30 per cent lower in the second quarter (April through June) than it was in the fourth quarter of 2019, after an estimated decline of 1 per cent to 3 per cent in the first quarter, on a quarter-over-quarter basis.

The bank also predicted that the second-quarter inflation rate would be “close to zero per cent,” slumping from slightly above the central bank’s 2-per-cent target in February, before the COVID-19 shock derailed the Canadian economy.

“Despite a high level of uncertainty, these estimates suggest that the near-term downturn will be the sharpest on record,” the report said. “Even with all the policy actions that have been put in place, the effects of COVID-19 on both total supply and total demand in the near term are significant and negative – and are amplified by the oil-price shock.”

If virus containment measures are relaxed relatively soon in Canada and its major trading partners, the bank said, there could be limited “structural damage” to the economy, providing a path for a fairly brisk rebound. “Foreign demand would come back relatively quickly, and global supply chains would be up and running in short order. Consumer and business confidence would also recover, providing an additional boost to growth,” it said.

However, if shutdowns in at least some parts of the economy were to persist for longer and if oil prices remained depressed, the result could be “long-lasting damage to the productive capacity of the Canadian economy, with scarring effects from persistent unemployment and firm destruction,” the bank said.

“Under this second scenario, future growth would be severely dampened, with economic activity remaining below its pre-pandemic level for an extended period,” it said. “These effects could cause structural damage to the economy that might not be undone for several years, if ever.”

To date, very little economic information for March has been published. However, last week’s Labour Force Survey provided an early indication of the severe impact of COVID-19, with roughly one million people losing their jobs in March, and worse numbers expected for April.

The Conference Board of Canada on Wednesday said the distancing measures and business closings “have brought a large portion of the economy to a standstill.” The think tank issued a grim forecast of a 25-per-cent annualized drop in real GDP for the second quarter, and it expects as many as 2.8 million Canadians will lose their jobs at the peak of layoffs.

The Conference Board expects Canada’s real GDP to retreat by 4.3 per cent this year, with steep declines in all provinces. Alberta is expected to fare the worst with a drop of 5.8 per cent as it struggles with a battered energy industry and collapsed oil prices.