The $2,000 CRA CERB Helped Canadians Save a Record 28%

Description

Canada's economy recorded its worst-ever contraction in the second quarter of 2020. In April, the widespread lockdowns were the primary reason why real gross domestic product contracted at an annualized rate of 38.7% during the quarter. However, despite the colossal plunge, household disposable income surged.

The COVID-19 Response Plan of the government offset the impact of the coronavirus-induced recession on family finances. Canadians had an income cushion that even pushed household savings rate to a record 28%. Give credit to the Canada Emergency Response Benefit (CERB), the flagship pandemic program.

Canadians are saving

The Canada Revenue Agency (CRA) began distributing $2,000 monthly to displaced Canadian employees, workers, and self-employed individuals in mid-March to prevent financial hardships. People have money to spend as the health crisis drags on for 16 weeks. CERB was twice extended and will conclude by the end of September 2020.

In the second quarter, employee compensation fell by 8.9% due to job layoffs. Meanwhile, Statistics Canada is reporting that one-third of household income came from emergency federal aid. Notably, household spending dropped 13.1%, which indicates that families are saving rather than exhausting their CERBs.

Economists say the massive pandemic-related financial assistance is contributing to economic recovery. Real gross domestic product in May and June rebounded by 4.8% and 6.5%, respectively. More importantly, the elevated household balance sheets should support consumer spending in the second half of 2020.

Recovery Phase

Although Canada's recuperation rate from the 3 million jobs lost in March and April is 55%, analysts estimate the economy to make up the losses until 2022 fully. Brian DePratt, a senior economist at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), said a K-shaped recovery is developing. Some sectors will rebound well, while others will lag.

CERB was instrumental in pulling the country out of the unprecedented economic meltdown. No Canadians were left behind through the expensive but crucial taxable income ($71.3 billion is the latest estimate). However, the consequence is that credit rating agency Fitch Ratings might further downgrade Canada's credit rating if deficits and national debts keep rising.

Invest your savings

If you can save your CERB, it means you can also find the right balance between saving and investing in the recovery phase. You can include stock investing in your strategy to achieve your long-term financial goals. A renowned dividend aristocrat like Toronto Dominion Bank should set you on the right path to wealth.

The bank stock is a reliable income provider, and sharing earnings with shareholders is in its DNA. This second-largest bank in Canada ($114.92 billion market capitalization) has been paying dividends since 1827. In the 2008 financial crisis, it was the only company that reported revenue and earnings growth.

TD sunk to $47.99 at the height of the market crash in March 2020 but has since rebounded. At its current price of $63.42, the resilient bank stock is offering a 4.87% dividend. Your $75,000 investment will generate a permanent quarterly income of $913.13 if you hold the stock for good.

Permanent income stream

Before you invest, make sure the money is free cash and not money you need. The goal is to lock in your capital in a dividend aristocrat that will deliver a permanent, not temporary, income stream like CERB.

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