The Conference Board of Canada

COVID-19 and Uncertainty to Flatten the Curve of Economic Recovery

Canada's Two-Year Outlook Summary

Canada's economy bounced back in recent months following the economic plunge sparked by the COVID-19-related shutdown in March and April. At its trough in April, real GDP was at 82 per cent of February's (pre-COVID) level, 3 million Canadians were out of work (a 15.6 per cent decline in employment), and total hours worked had plummeted a staggering 28 per cent.

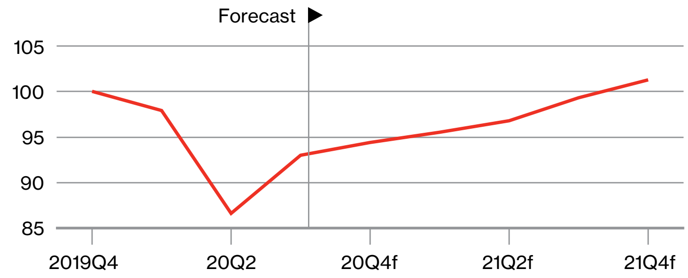
As health restrictions began being lifted in May, the rebound set in. Statistics Canada estimates that July's economic activity was at 94 per cent of February levels, and by August, 1.9 million jobs had been recovered. Still, a gaping chasm remains to be closed before Canada's economy is back to normal. (See Chart 1.)

While economic activity is fully restored in some sectors, many will not see a return to normal until a vaccine is available to the wider public, both in Canada and globally. And for some industries, difficulties will persist beyond that and the business environment might never fully return to normal.

The arrival of colder weather, coupled with a rise in the number of COVID-19 cases in recent weeks, is expected to continue to disrupt Canada's recovery. The health measures and testing currently in place should prevent another full shutdown of economic activity, but we do expect localized or regional shutdowns to continue to flatten the path of recovery.

We assume that a vaccine for the COVID-19 virus is found and widely available to Canadians by June 2021, after which most domestic-driven industries will recover. Globally, a vaccine is unlikely until the fall of 2021. This will keep international travel suppressed, further hurting industries like air travel, accommodations, and arts and culture.

Chart 1
COVID-19 is flattening the recovery
(index of Canada's real GDP by quarter, 2019Q4 = 100)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

A flattened recovery means that businesses and households will continue to rely on extraordinary monetary and fiscal measures put in place since the start of the crisis. The Canadian Emergency Wage Subsidy was adjusted in August to support businesses that have lost varying amounts of revenue. Though set to expire by the end of this year, we assume it will be extended through to the second quarter of 2021.

Households have benefited from the Canada Emergency Response Benefit, which is set to be replaced by an updated employment insurance system and the Canada Recovery Benefit. These programs will help boost real household disposable income by a record 9 per cent this year, despite the recession and massive loss in labour income.

Unable or unwilling to spend in the second quarter of this year, households let their balance sheets swell, as the aggregate household savings rate jumped to over 28 per cent. Spending has since rebounded, helping to bring retail sales back to more normal levels over the summer. But consumers remain worried about future job prospects and the resurgence in COVID-19 cases, suggesting that the pace of recovery will slow in coming quarters.

Global real GDP will decline by 4.7 per cent this year, crushed by the downturn in the second quarter. Assuming that a second wave of the virus doesn't derail the global economy, we expect a rebound next year. The U.S. recovery depends crucially on Congress and the president agreeing to additional stimulus measures to keep the economy on track over the next few months. Canadian exports have rebounded, but continued progress is tied to the U.S. and global recoveries.

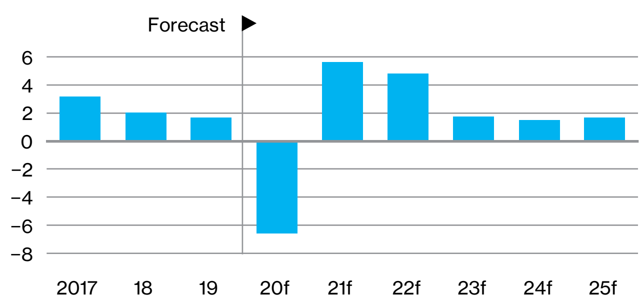
Business investment has underperformed in recent years, and the COVID-19 crisis will take a further bite out of investment this year as firms delay any major investment decisions. One notable exception is the LNG Canada project, a multi-year, multi-billion-dollar project that will propel investment in British Columbia over the next few years.

Amid the carnage in Canada's consumption, investment, and trade sectors, the housing sector has provided a ray of hope for the economy. Canada's existing housing markets have largely recovered from spring lockdowns. The bounce-back has been aided by ultra-low interest rates and strong job growth, combined with generous helpings of support from government and financial institutions. However, slowing economic momentum and weaker government support will soften housing markets early next year.

Federal and provincial governments face extraordinary deficits in fiscal 2020–21 and will add substantially to debt over the next two years. Luckily, interest rates in both Canada and the United States are expected to remain near zero, helping federal and provincial governments manage their debt-financing costs.

Overall, real GDP is forecast to shrink by 6.6 per cent in 2020. Still, that's an improvement over our summer outlook, which called for an 8.2 per cent decline this year. Solid gains in 2021 and 2022 will not suffice to bring Canada's economy back to full potential. (See Chart 2.)

Chart 2
Full recovery delayed
(Canadian real GDP growth, per cent)



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