



CANADIAN
MANUFACTURERS
& EXPORTERS

MARCH 2020
ECONOMIC OUTLOOK
SUMMARY

CORONAVIRUS
PUSHES WORLD
INTO A RECESSION

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HIGHLIGHTS

CORONAVIRUS PUSHES WORLD INTO A RECESSION

- The coronavirus has pushed the world into a recession, with global GDP growth forecast to reach just 0.4 per cent this year.
- A collapse in growth in the second quarter will be followed by a rebound in economic activity over the second half of the year and into 2021. This will allow global real GDP growth to turn positive and reach 3.9 per cent next year.
- The United States economy is projected to contract by 3.1 per cent in 2020, before rebounding with a 3.4 per cent gain in 2021.
- Canadian real GDP is forecast to fall by an even steeper 3.8 per cent this year, with the economy recovering and expanding by 3.2 per cent in 2021.
- As an essential service, the Canadian manufacturing sector will continue operating through the government-imposed shutdowns. Even still, it is set to post its biggest decline in output since the global financial crisis this year, due to weak demand for certain products.
- Manufacturing output growth will bounce back in 2021, in line with improving domestic and global economic conditions.

ECONOMIC OUTLOOK SUMMARY

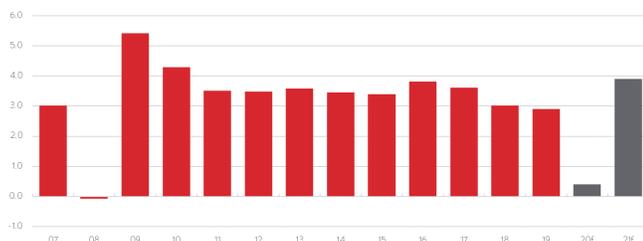
GLOBAL GDP GROWTH TO SLOW SHARPLY THIS YEAR

The coronavirus outbreak, a once-in-a-century global pandemic, is forcing country after country to close schools, shutter restaurants, and order lockdowns of large populations. All these efforts are having serious economic repercussions. In fact, the coronavirus outbreak has pushed the world into a recession, the first since the global financial crisis, and it will take coordinated efforts from governments and central banks to ensure that the recession does not morph into an economic depression. Given heightened uncertainties, economic forecasts are changing almost daily. As of now, global real GDP growth is forecast to come in at just 0.4 per cent in 2020, the weakest performance since the output decline recorded in 2008.

China's economy took a big hit in the first quarter due to lockdown measures designed to halt the spread of COVID-19. But thanks to the successful suppression of the virus, at least in China, its economy is already on the road to recovery. However, the virus is rapidly spreading around the world, forcing many other countries to implement lockdowns and other social distancing measures of their own, and this is having severe adverse economic consequences. In fact, many countries in Europe and in North America will see unprecedented declines in economic output in this year's second quarter.

But once the coronavirus is contained, countries will be able to scale back social distancing measures, enabling the economy to bounce back as pent-up demand and government stimulus programs spur activity. Although the coronavirus will remain a menace until a treatment or vaccine become available, most countries will likely adopt the South Korean model of widespread testing and contact screening, a practice that is more economically and socially sustainable than the current measures in place. Accordingly, global real GDP growth is forecast to turn positive and reach 3.9 per cent next year.

WORLD ECONOMIC OUTLOOK
(real GDP growth based on purchasing power parity)

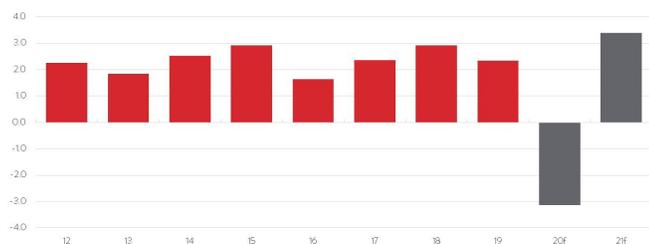


Sources: CME; IMF

US ECONOMY TO SHRINK BY 3.1 PER CENT THIS YEAR

Efforts to contain the virus in the United States, including city-wide shutdowns, have led to a dramatic drop-off in economic activity and massive layoffs. Unemployment insurance claims are shooting through the roof, surpassing levels never seen before. Real GDP is projected to decline by roughly 25 per cent at an annual rate in the second quarter. But assuming COVID-19 testing ramps up and treatments become available, the economy should start to recover sometime in the second half of the year. The recovery will also be supported by ultra low interest rates and a massive federal government spending package worth nearly \$2 trillion. For the full-year 2020, the US economy is projected to shrink by 3.1 per cent, before rebounding with a 3.4 per cent gain in 2021.

US ECONOMIC OUTLOOK
(real GDP growth)

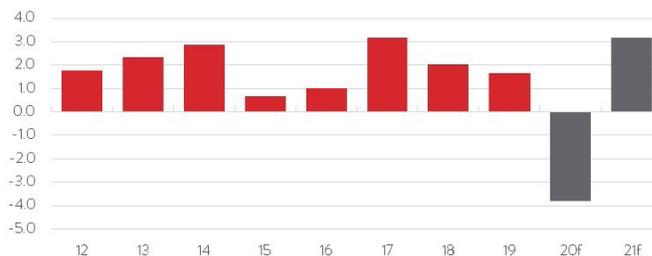


Sources: CME; US Bureau of Economic Analysis

CANADIAN ECONOMY WILL NOT ALSO ESCAPE RECESSION

Canada is also struggling to contain a growing coronavirus outbreak, and as more people stay home to slow the spread of the virus, the economic damage will continue to mount. Along with the direct impact of containment efforts, oil-producing areas of the country are also struggling with an associated plunge in oil prices. With the economy already reeling from the economic harm caused by the rail blockades in February, we expect real GDP to fall steeply in the second quarter, with the decline approaching 25 per cent at an annual rate. Accordingly, Canada is on track to record its first annual decline in GDP this year since the global financial crisis, with output tumbling by 3.8 per cent. This would be the country's largest annual contraction on records going back to 1961.

CANADIAN ECONOMIC OUTLOOK
(real GDP growth)



Sources: CME; Statistics Canada

Employment is also set to experience a terrifying drop in the second quarter. In fact, nearly 1 million Canadians applied for Employment Insurance (EI) in the week ending March 20th. In comparison, just under 27,000 people applied for EI in the same week one year ago. Along with these 1 million EI applications, some 4 million Canadians are expected to apply for the Canadian Emergency Response Benefit, implying that up to 5 million workers will be laid off or lose their income as a result of the COVID-19 pandemic. This is equal to over 25 per cent of the current workforce.

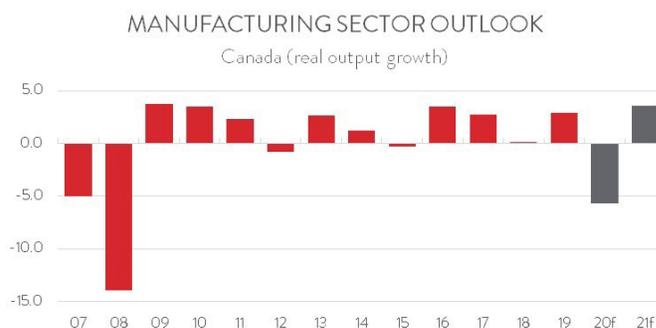
In response to the crisis, the Bank of Canada has slashed interest rates and taken other steps to ease credit market strain, while the federal government has unveiled \$52 billion in direct aid and up to \$55 billion of tax deferrals to help households and businesses get through the crisis. Assuming the outbreak is brought under control sometime during the summer, the economy should start to stabilize. Even then, COVID-19-related economic disruptions appear likely until a vaccine or other therapies are introduced. Nevertheless, the economy is expected to post a solid rebound in 2021, with real GDP projected to rise by 3.2 per cent.

CANADIAN MANUFACTURERS FACE TOUGH YEAR

Manufacturing is rightly considered an essential business, with firms along the supply chain producing goods needed to support Canadians at home as well as health care workers on the front lines who need products for themselves and their organizations to fight COVID-19 effectively. Accordingly, we expect

manufacturers to remain operating through the government-imposed shutdowns, but at reduced levels due to weak demand for certain products.

Unfortunately, this means the sector will not escape unscathed from the unprecedented decline in economic activity. Indeed, Canada’s export-oriented manufacturing industry typically sees output fall during global recessions, and this year will be no different. To make matters worse, manufacturing activity was already weakening as 2019 came to an end and was hit further in early 2020 by supply chain disruptions related to the coronavirus outbreak in China and to the February rail blockades. Now it must contend with a significant deterioration in demand. As a result, manufacturing activity is expected to suffer its biggest decline since 2008 this year, with output falling



5.7 per cent. Fortunately, manufacturing output is forecast to bounce back with a 3.6 per cent gain in 2021, in line with improving domestic and global economic conditions.

Sources: CME; Statistics Canada

Note: CME will release a full economic outlook report soon.

ABOUT US



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Canadian Manufacturers & Exporters

Alan is a member of the National Policy team where he is responsible for developing and executing CME’s major national research projects, conducting CME’s macroeconomic analysis to support the organization across the country, leading our tax policy efforts, and be a leading voice representing the interests of the association and members with government and with the public. Before joining CME, Alan spent 19 years at The Conference Board of Canada where he held multiple roles, including the Associate Director of the Centre for Municipal Studies. Alan’s background includes expertise in municipal, regional, and national economic matters including economic forecasting and analysis.

ABOUT CANADIAN MANUFACTURERS & EXPORTERS

Since 1871, we have made a difference for Canada’s manufacturing and exporting communities. Fighting for their future. Saving them money. Helping manufacturers grow.

The association directly represents more than 2,500 leading companies nationwide. More than 85 per cent of CME’s members are small and medium-sized enterprises. As Canada’s leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business, and service-related industries.

CME’s membership network accounts for an estimated 82 per cent of total manufacturing production and 90 per cent of Canada’s exports

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