HIGHLIGHTS

- The IMF expects global real GDP to shrink by 3.0 per cent this year, the worst recession since the Great Depression. Assuming that the pandemic fades in the second half of 2020 and restrictions can be gradually lifted, the world economy will rebound with a 5.8 per cent expansion in 2021.
- The United States, one of the countries hardest hit by the pandemic, is forecast to see real GDP contract by 6.5 per cent in 2020, before rebounding with a 6.1 per cent gain in 2021.
- Canadian real GDP is forecast to fall by an even steeper 10.0 per cent this year, as oil-producing areas of the country also get hammered by an associated collapse in oil prices. The economy is projected to recover and expand by 7.5 per cent in 2021.
- Manufacturing activity is projected to suffer its biggest decline since 2009 this year, with output falling 13.0 per cent. Output is forecast to bounce back with a 7.0 per cent gain in 2021, in line with improving domestic and global economic conditions.
- All major manufacturing subsectors are forecast to see output shrink in 2020, with motor vehicle and parts posting the most precipitous decline and food experiencing the smallest drop.
- All provinces are expected to see a steep drop in output this year, with oil-dependent economies suffering the biggest declines. In addition, all provinces are forecast to see growth rebound in 2021, albeit not strong enough to fully recover from the damage done in 2020.
- Given that several key aspects of the virus are still unknown, including potential timelines for therapeutics and vaccines, worse outcomes are possible.
ECONOMIC OUTLOOK KEEPS DETERIORATING

GLOBAL PANDEMIC BATTERING WORLD ECONOMY

The economic impact of the COVID-19 outbreak and life-saving physical distancing measures have been more devastating than predicted just a few short weeks ago. As a result, analysts from around the world have been downgrading their 2020 economic forecasts. CME is following suit.

In its April assessment, the International Monetary Fund (IMF) forecasts that the global economy will shrink by 3.0 per cent in 2020. This would make the “Great Lockdown” the worst recession since the Great Depression, and far deeper than the Global Financial Crisis. With this update, the IMF has downgraded global growth prospects a remarkable 6.3 percentage points since its January forecast.

SCENARIOS FOR GLOBAL ECONOMIC GROWTH

Real GDP Growth

<table>
<thead>
<tr>
<th>Scenario</th>
<th>2019</th>
<th>2020f</th>
<th>2021f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>2.9</td>
<td>-3.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Longer outbreak in 2020</td>
<td>2.9</td>
<td>-5.8</td>
<td>3.9</td>
</tr>
<tr>
<td>New outbreak in 2021</td>
<td>2.9</td>
<td>-3.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Longer outbreak in 2020 plus new outbreak in 2021</td>
<td>2.9</td>
<td>-5.8</td>
<td>-1.5</td>
</tr>
</tbody>
</table>

Sources: IMF; CME.

To stave off an even deeper economic downturn, governments from across the globe have taken aggressive action to help financial markets, households, and firms maintain liquidity until the virus is contained. This historic fiscal and monetary response will also put the economy in a stronger position to recover once the worst of the crisis has passed. Accordingly, assuming that the pandemic fades in the second half of 2020 and restrictions can be gradually lifted, the IMF predicts that the global economy will rebound with a 5.8 per cent expansion in 2021. However, there remains considerable uncertainty around the forecast, given that several key aspects of the virus are still unknown, including timelines for potential therapeutics and vaccines. Unfortunately, worse outcomes are possible.

Given this uncertainty, the IMF’s April outlook considers the economic impact of three potential alternative outcomes for the evolution of the global fight against COVID-19. In the first alternative scenario, the virus takes longer than expected to contain this year. A lengthier outbreak would result in global GDP falling by a steeper 5.8 per cent in 2020 and rebounding at more modest pace of 3.9 per cent in 2021. In alternative scenario two, the world is hit by a second wave of the virus in 2021. In this case, real GDP growth would remain at -3.0 per cent in 2020, but it would be pulled down to just 1.0 per cent in 2021. In the final and most pessimistic scenario, the first two alternative outcomes are combined—the virus takes longer to contain in 2020 and a second outbreak occurs in 2021. In this situation, the world economy would face a two-year downturn, with real GDP shrinking by 5.8 per cent in 2020 and by a further 1.5 per cent in 2021.

The US and Canadian outlooks presented in this report are more pessimistic than the IMF’s baseline scenario. Nevertheless, worse outcomes are still likely.
US ECONOMY HIT HARD BY CORONAVIRUS

The United States has become one of the countries hardest hit by the pandemic, home to about one-third of worldwide confirmed cases and one-quarter of global deaths. Efforts to contain the virus have strangled the economy and resulted in massive layoffs. First-time claims for unemployment benefits came in at 3.8 million in the week ending April 25, bringing the six-week total to 30 million. This amounts to roughly 18 per cent of the workforce. With large swaths of economic activity coming to a near standstill, real GDP is expected to decline by over 40 per cent annualized in the second quarter. For the full year, the US economy is forecast to contract by 6.5 per cent.

![US Economic Outlook Chart](chart)

Sources: US Bureau of Economic Analysis, CME.

Several states have already started lifting some coronavirus-related restrictions, setting the stage for a resumption of economic growth in the third quarter. The recovery will be supported by Federal Reserve actions to improve the flow of credit to households and businesses as well as massive federal government emergency spending totalling US$2.5 trillion. However, even though we will likely see double-digit growth once the economy starts to reopen, real GDP is not expected to reach pre-virus levels until the first half of 2022. Polls show that a clear majority of Americans will be wary of going to the movies, getting haircuts, or dining out as long a vaccine or therapy do not exist. All told, economic growth is projected to rebound to 6.1 per cent next year.

CANADIAN ECONOMY ALSO RAVAGED BY COVID-19

Canada also suffered an abrupt halt in economic activity after the country went into lockdown and implemented physical distancing measures in mid-March. Along with the direct impact of containment efforts, oil-producing areas of the country are also being hammered by an associated collapse in oil prices. Accordingly, employment plummeted by more than 1 million in March, while GDP dropped by 9 per cent (not annualized), both the worst on record. Unfortunately, April data will no doubt show deeper declines. In fact, more than 7 million Canadians have applied for the Canada Emergency Relief Benefit (CERB), a program designed to provide temporary income support to those that have stopped working. This is amounts to about 35 per cent of the labour force. Economic activity in Canada is expected to fall by nearly 50 per cent annualized in the second quarter, with this deep contraction leading to a 10.0 per cent decline in real GDP this year.

![Canadian Economic Outlook Chart](chart)

Sources: Statistics Canada, CME.

In response to the crisis, the federal government has unveiled direct support for individuals and businesses totalling $146 billion, along with up to $155 billion of tax deferrals and loan guarantees. These measures...
include $76 billion for the Canada Emergency Wage Subsidy and $35.5 billion for the CERB. In addition, the Bank of Canada has slashed interest rates and embarked on a large-scale asset purchase program in a bid to ease financial market strain and limit the economic damage of the pandemic. Finally, the provinces have also announced their own fiscal packages that total in the billions of dollars.

Assuming the outbreak is brought under control, the economy should start to stabilize in the third quarter. But the economy will not immediately roar back to life. Restrictions are being lifted very slowly to make sure outbreak risks are minimized. Consumers will also be reluctant to visit crowded places due to lingering concerns about their health. All in all, we think real GDP will expand by 7.5 per cent in 2021. Under current growth projections, the Canadian economy will not return to its pre-virus peak until the second half of 2022.

**CANADIAN MANUFACTURERS FACE DOUBLE-DIGIT DECLINE**

Many economic activities have been shut down to slow the spread of the coronavirus, with only vital functions still operating. Manufacturing is one such vital function. The sector has played a critical role during the crisis, producing the goods necessary to keep Canadians safe at home and on the front lines fighting COVID-19. That is why the provinces have designated most manufacturing activities as essential.

Despite its vital role, the manufacturing sector still faces several near-term challenges. First, as an industry that is highly dependent on international trade, it faces the grim reality of plummeting trade activity this year. In fact, the World Trade Organization expects world trade volumes to fall by between 13 per cent and 32 per cent in 2020.1 At the same time, business and consumer demand for high-value, durable goods is likely to be especially weak.

![Manufacturing Sector Outlook](image)

Sources: CME; Statistics Canada.

1World Trade Organization, ‘Trade Set to Plunge as COVID-19 Pandemic Upends Global Economy’.
until the crisis subsides. For example, global auto sales fell by over 40 per cent on a year-over-year basis in March, on the heels of a 20 per cent drop in February. Finally, the sector remains highly vulnerable to COVID-19-related supply chain disruptions, and this could make it difficult for some firms to maintain production.

In addition, the sector was already on shaky footing heading into the pandemic, due to a trade war-induced decline in global trade in 2019 and supply chain disruptions caused by both the coronavirus outbreak in China and the CN rail blockades in early 2020. Given these conditions, manufacturing activity is expected to suffer its biggest decline since 2009 this year, with output falling 13.0 per cent. Fortunately, output is forecast to bounce back with a 7.0 per cent gain in 2021, in line with improving domestic and global economic conditions.

All major manufacturing subsectors are expected to see output shrink this year. Food manufacturing should experience the smallest decline at -3.0 per cent. Although demand for food from grocery stores has spiked, this has been offset by a sudden plunge in demand for food from restaurants, hotels, and caterers. Supply chain issues have also disrupted the industry’s production.

At the other end of the spectrum, the motor vehicle and parts industry is forecast to record the most precipitous decline this year at -21.0 per cent. The industry already started the year on the wrong foot after GM closed its Oshawa Assembly Plant in December 2019. The onset of the COVID-19 pandemic has only added to the sector’s woes. Automotive factories have been shut down since mid-March, as firms look for ways to restart production while guaranteeing the safety of its workers. As of now, production is scheduled to restart in early May. At the same time, vehicle sales have crashed, not surprising given that most auto dealerships have been closed during the lockdown. Although dealerships are expected to be among the first non-essential businesses to open as restrictions are lifted, consumers may continue to delay major purchases until the threat of the virus recedes.

The negative outlook for the motor vehicle and parts sector bodes ill for other industries along the supply chain. Indeed, two big auto sector suppliers—plastic and rubber products and primary metals—will also post double-digit declines in 2020.

Sources: CME; Statistics Canada.

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2 Tapp, ‘COVID-19’.

3 Young and Ghazarian, ‘Global Auto Report - Global Auto Sales Plummet Further in March (With Worse Still to Come)’. 
At the same time, aerospace manufacturing output is poised to record a steep fall of -18 per cent this year. Air travel has ground to a halt since the start of the outbreak and a full recovery is likely a long way off, as people will remain reluctant to fly until there is a therapeutic solution or a vaccine. Accordingly, aerospace manufacturing faces a very uncertain outlook, with airlines pushing back deliveries and cancelling orders in a bid to survive the crisis.

Finally, the petroleum and coal product manufacturing industry is also expected to struggle this year, with a 19 per cent output decline on tap. With fewer airplanes in the sky and cars on the road, it is not a surprise that gasoline demand has cratered. Unfortunately, gasoline use will recover only gradually, at the same pace as demand for transportation services.

**ALL PROVINCIAL ECONOMIES TO SEE STEEP DECLINES**

Every region of the country has been hit by the economic fallout of the COVID-19 pandemic. All provinces declared states of public health emergency by March 26 and ordered the closure of all non-essential businesses by April 1. To add to the pain, the collapse in oil prices is delivering another massive blow to oil-producing provinces. As a result, every province is expected to experience a steep drop in output this year, with oil-dependent economies suffering the biggest declines.

Alberta is expected to post the largest output decline among the provinces this year. In fact, real GDP is forecast to tumble by 12.8 per cent, its worst performance on record. The two other major oil-producing provinces—Newfoundland and Labrador and Saskatchewan—will follow close behind with output declines of 12.0 per cent and 10.3 per cent, respectively.

Quebec’s economy is expected to shrink by 10.0 per cent this year, matching the national decline. Among all provinces, it has taken the biggest hit from the virus, accounting for more than half of Canada’s confirmed cases and 60 per cent of its deaths. As such, the province has imposed the strictest physical distancing measures in the country, although restrictions are being gradually lifted outside Montreal.

Real GDP in Ontario is projected to contract by 9.5 per cent in 2020. The province has the second highest number of confirmed COVID-19 cases in the country. Also, Ontario’s manufacturing sector is being hit hard by the automotive industry downturn.

Manitoba and BC are both forecast to see real GDP fall by 8.2 per cent this year. BC has showed good progress in flattening the curve, as the daily growth in confirmed COVID-19 cases has slowed down. However, its economy will be weighed down by slower activity at its ports, attributable to the decline in global trade volumes.

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4 Lucyshyn, ‘Zombie Firms a Danger in Post-COVID-19 Economy’.

Source: CME, Statistics Canada.
Manitoba has reported a low number of cases, allowing the province to reopen some non-essential health care and retail businesses in early May. The province’s economy will also benefit from its large food manufacturing industry, which is playing an essential role in ensuring the country’s food supply remains strong during the coronavirus pandemic. On a negative note, the massive Keeyask generating station project is set to wind down, and this will lead to a big decline in construction activity.

Among the ten provinces, three Atlantic provinces—PEI, Nova Scotia, and New Brunswick—are expected to post the smallest declines in GDP this year. PEI and New Brunswick have both reported a low number of COVID-19 cases and no deaths. As a result, the New Brunswick government had already loosened some of its physical distancing measures in late April. Its economy is expected to contract by 8.1 per cent this year.

Likewise, PEI started lifting restrictions in early May. However, its economy is highly dependent on tourism, and this industry faces a very uncertain outlook. All told, real GDP in PEI is forecast to decline by 7.0 per cent in 2020.

Finally, compared to the other Atlantic Provinces, Nova Scotia has had a much larger outbreak of COVID-19. Still, the government felt comfortable recently easing some public health restrictions related to outdoor activity, including reopening of parks and trails, and allowing fishing and gardening. Nova Scotia’s real GDP is forecast to shrink by 7.8 per cent this year, with an ambitious provincial government infrastructure program helping to offset the negative effects of the virus.5

REAL GDP GROWTH BY PROVINCE
2021 forecast (per cent)

<table>
<thead>
<tr>
<th>Province</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>QC</td>
<td>8.1%</td>
</tr>
<tr>
<td>BC</td>
<td>7.8%</td>
</tr>
<tr>
<td>AB</td>
<td>7.7%</td>
</tr>
<tr>
<td>CAN</td>
<td>7.5%</td>
</tr>
<tr>
<td>ON</td>
<td>7.5%</td>
</tr>
<tr>
<td>SK</td>
<td>7.1%</td>
</tr>
<tr>
<td>MB</td>
<td>6.5%</td>
</tr>
<tr>
<td>NS</td>
<td>6.2%</td>
</tr>
<tr>
<td>NB</td>
<td>5.6%</td>
</tr>
<tr>
<td>NL</td>
<td>5.0%</td>
</tr>
<tr>
<td>PE</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: CME.

Looking ahead, all provinces are expected to see growth rebound in 2021, albeit not be strong enough to fully recover from the damage done in 2020. Quebec is forecast to post the strongest growth at 8.1 per cent. At the other end of the spectrum, real GDP growth in PEI is expected to come in at a relatively modest 4.4 per cent.

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5 Burleton, Abdelrahman, and Sondhi, ‘Provincial Forecast Update: Provinces Poised For Severe Contractions In 2020’.
BIBLIOGRAPHY


