COVID-19 Second Wave: What Next for the Economy?

November 18, 2020

As daily infections rates have reached historic highs in Canada and the United States, suffice it to say that the second wave of the coronavirus pandemic is upon us. Many jurisdictions have rolled back their earlier mobility easements and have moved to localized activity curtailments. Though the second wave of the pandemic is not expected to result in extensive shutdowns, it is still likely to have some poignant effects on human life and economic conditions.

Today's report will provide a brief analysis of current economic conditions, its impacts on marine shipping and offer some projections going forward.

ECONOMIC OVERVIEW

The current political climate in Canada and the U.S. casts a higher level of uncertainty on economic forecasts. Projections for 2021 are highly dependent on the trajectory of the pandemic and the consequent fiscal policy response. **Canada has announced the transition away from the CERB program to an updated EI system**. This is intended to provide income support for individuals through till September 2021 and continue to support the economic recovery.

In the U.S., the level of stimulus (and by extension 2021 GDP growth) is contingent on the results of the elections and the balance of power in the U.S. Senate. If Democrats manage to take the Senate, then we might expect a more boisterous level of fiscal stimulus, which would bode well for the ongoing economic recalibration. If the Republicans keep hold of the senate, **it is likely any additional stimulus will not exceed $1 trillion**.

Over the summer, the Congressional Budget Office (CBO) projected U.S. GDP in Q3 2020 would grow by 5.0% (17% annualized). However, according to the most recent data released by the U.S. Department of Commerce's Bureau of Economic Analysis, **the U.S. economy surpassed analysts' projections and grew by a record 33.1% (annualized). This makes for a 7.4%**[1](quarter-over-quarter) increase. This growth was propelled majorly by a growth in personal consumption expenditure, private inventory investments, fixed and nonfixed residential investment, and exports. Personal consumption expenditure grew by approximately 40%, which lends credence to the proposition that the North American consumer is still spending.

According to Statistics Canada's preliminary estimates, Canada's economy grew by roughly **10%** (quarter-over-quarter), which makes for an annualized rate of **46.4%.** More detailed data is expected to be made available in the coming weeks. CMC will report on this as they become available.

[1]This is nearly twice the previous record of 3.9% growth recorded in 1950

With news of two vaccine candidates currently showing promising signs in trial stages, it is likely that 2021 avoids the dire and gloom projected by many analysts. **Moderna and Pfizer have announced that their COVID-19 vaccine trials have shown 94.5% and 90% success rate, respectively**. This is likely to lead to an upward revision of economic conditions in 2021.

Based on a weighted average of revised estimates from the select group of economists we follow, CMC is now projecting Canadian GDP for the fourth quarter of 2020 to grow by approximately **3.26%**, while U.S. GDP is also expected to grow by **3.48%**. Canadian GDP for 2020 is expected to fall by approximately **6.2%**, while U.S. GDP is expected to fall by **6.0%**. For 2021, GDP in the U.S. is expected to grow by roughly **3.86%**, while Canadian GDP is projected to grow by **4.82%**. It is important to note that there is likely to be a significant upward revision of the U.S. growth forecast after the results of the elections are certified.

FINANCIAL & ECONOMIC INDICES

	March 02, 2020	October 20, 2020	November 17 2020	Month-Over-Month % Change
Financial Markets:				
TSX Composite Index	16,553.26	16,301.06	16,948.06	3.97%
S&P 500 Index	3,090.23	3,451.63	3,609.53	4.57%
USD/CAD	1.341	1.312	1.309	-0.23%
Commodity and Input Prices:				
West Texas Intermediate Crude	$46.75	$41.05	$41.43	0.93%
Western Canadian Select	$31.35	$30.45	$32.15	5.58%
Intermediate Fuel Oil (380)	$334.50/mt	$273.50/mt	$286.50	4.75%
Marine Gas Oil	$487.00/mt	$362.50/mt	$386.50	6.62%
Steel Rebar	$483.52	$548.22	$625.31	14.06%
Iron Ore	$87.50	$118.50	$123.00	3.80%
Wheat	$542.54	$630.50	$595.25	-5.59%
Canola (Oil)	$459.30	$537.40	$562.90	4.75%
Corn	$369.78	$407.25	$419.25	2.95%
Soybeans	$891.00	$1,062.50	$1,169.00	10.02%
Sugar	$13.81	$14.61	$15.32	4.86%
Economic Indicators:		**U.S.**	**Canada**	
Quarterly GDP Growth Projection (Q4)		+3.86%	+3.48%	
Central Bank Target Interest rate		0.0%-0.25%	0.25%	

IMPACTS ON MARINE SHIPPING

According to newly released data, **the World Trade Organization (WTO) is reporting that global trade has begun rebounding**.

The WTO previously projected that global trade was likely to fall by 12.9%. However, it has since revised this projection and is now expecting trade to fall by 9.2% in 2020. This is a testament that the global supply chains have been more

resilient than initially anticipated. It is expected that global trade will increase by 7.2% in 2021, largely contingent on the path of the virus and other geopolitical considerations.

GRAIN

Soybean and wheat prices have increased somewhat steadily since the onset of the pandemic. There is a multiplicity of factors responsible for this increase. According to reports, Chinese demand for western agriculture produce is still relatively high (in part due to a weaker dollar and shortages in China). Price increases and global demand has helped spur U.S. and Canadian grain shipments via the St. Lawrence Seaway, which are now up 10.7% and 21%, respectively through October, compared to the same period last year.

Dry weather in the U.S. Great Plains, Argentina, Russia, Ukraine and Brazil have reduced yields and expectations for what were forecast to be bumper crops. **The U.S. Agriculture Department, in a report, last week, cut yield projections, due to lower yields in Ohio, Indiana and other states.** If this possibility materializes, we could see continued increase in wheat, soybean and corn prices. This bodes well for Canadian exporters who are reportedly expecting a large harvest and will likely continue to move product at the increased prices.

IRON ORE AND STEEL

Iron Ore and steel markets have experienced incredible softness over the past few months. However, there seems to be signs of respite buried in the details of the economic resurgence of the third quarter. Car manufacturers are enjoying increased patronage from consumers and retailers alike. According to the Bureau of Economic Analysis, the increase in consumer spending was led by increased expenditure on motor vehicles and parts. Similarly, the increase in private inventory investment was led by motor vehicle dealers. This bodes well for manufacturers and transporters of steel and other commodities linked to automobile manufacturing.

General Motors (GM), in a reversal of its initial decision, **has announced its plans to restart its Oshawa assembly plant**. The deal includes a $1.3 billion investment in the facility and will support nearly 2,000 jobs. According to GM Canada President, “construction will begin immediately”. This is in addition to a similar announcement by **Fiat Chrysler Automobile (FCA) to invest $1.5 billion and support 2,000 jobs in a second production line** in Windsor. These deals are likely to lead to increased demand for Canadian steel, aluminum, and other automobile related commodities.

CMC will continue to monitor markets closely and provide members with relevant information and analysis as the data disseminates, both in terms of human health impacts and consumer/business demand.

Questions?

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About The Chamber of Marine Commerce

The Chamber of Marine Commerce (CMC) is a bi-national association that represents more than 130 marine industry stakeholders including major Canadian and American shippers, ports, terminals and marine service providers, as well as domestic and international ship owners. The Chamber advocates for safe, sustainable, harmonized and competitive policy and regulation that recognizes the marine transportation system's significant advantages in *the Great Lakes, St. Lawrence, Coastal and Arctic regions.*

The marine industry is vital to our prosperity by enabling efficient trade within North America and around the world. As the safest, most efficient and environmentally smart method of carrying bulk freight, the increased use of marine transportation alleviates highway congestion, reduces greenhouse gas emissions and is a vital catalyst to overall economic prosperity.
