
# COVID-19 Economic Recovery: A Tale of Two Countries

February 8, 2021

The second wave of the pandemic still continues to make an indelible mark on many aspects of North Americans' lives. While Canada and the United States have secured doses of different vaccines and began the process of inoculating citizens, there is a sense that the North American economies are still many months away from a new normal.

The latest economic indicators show that the different responses by Canadian and U.S. governments during the past months and the varying pace of vaccinations has led to disparate economic outcomes which will likely continue in the near-term.

Today's report will provide a brief analysis of the economy and offer some insights and projections for the marine industry going forward.

## ECONOMIC OVERVIEW


Since the onset of the pandemic, the U.S. and Canada have had varied approaches and outcomes with COVID. According to the Bank of Canada's **Monetary Policy Report**, the Canadian economy shrunk by approximately **5.5% in 2020.** Conversely, according to the U.S. Department of Commerce's Bureau of Economic Analysis, the **U.S. GDP fell by roughly 3.5%**. This disparity is likely due to the different approaches both governments took to controlling the spread of the virus. While Canada opted for tighter restrictions in 2020, the U.S. federal and state governments' restriction were not as stringent.

This discrepancy is likely to persist even in the new year, as Canada's two largest provinces are currently under lockdowns, while a number of states in the U.S. are not as restricted. Furthermore, the U.S. is faring better on the vaccine front, as there are now **more people who have received a dose of the vaccine than have contracted the virus.** Canada's vaccine rollout has been relatively disjointed and is now a source of concern for many Canadians. According to reports, **Canada's vaccine rollout ranks 20th in the world**. This has led analysts to believe that both countries will likely continue to experience disparate economic outcomes in the near-term.

Based on a weighted average of revised estimates from the select group of economists we follow, CMC is now projecting Canadian GDP for the first quarter of 2021 to fall by approximately **-1.46%**, while U.S. GDP is also expected to grow by **2.58%**.

For 2021, GDP in the U.S. is expected to grow by roughly **4.65%**, while Canadian GDP is projected to grow by **4.3%**. It is important to note that there is likely to be a significant upward revision of the U.S. Q1 and 2021 growth forecast after congress approves **additional stimulus funding**.

The Canadian 2021 growth forecast could also be upwardly revised, if any new short-term stimulus measures are announced in the upcoming federal budget (expected by mid-March). However, if Canada's lackluster vaccine program continues into the spring, there could be some downward revision to the forecast.


On Friday, February 5, Statistics Canada (StatsCan) and the Bureau of Labour Statistics (BLS) both released jobs reports for Canada and the U.S. According to the StatsCan report, the Canadian economy defied analysts' expectations and shed **212,800** jobs in January. According to a survey of Bloomberg economist, **the expectation was that the economy would lose roughly 40,000 jobs in January**.

However, the outcome was much worse than predicted, given the severity of Canada's lockdowns. The unemployment rate also increased by 0.6 percentage points to **9.4%**. One note of import is the fact that all the job losses were in part-time jobs. In fact, full-time jobs increased by 12,600. This caused total hours worked to tick up by **0.9%** in January. This suggests a certain resiliency in the economy, which is also seen in the fact that the job losses were highly concentrated in Ontario and Quebec (two provinces that have instituted stringent lockdowns).

Conversely, the U.S. economy added approximately **49,000** in January, and the unemployment rate reduced by 1.4 percentage points to **6.3%**. Total hours worked also ticked up in the U.S., seeing a **0.9%** increase from the previous month. The disparity in labour market outcomes in Canada and the U.S. is a microcosm of the overall divergence in health and economic outcomes in both countries.

## FINANCIAL & ECONOMIC INDICES

| | January 02, 2020 | January 04, 2021 | February 05, 2021 | Month-Over-Month % Change |
|---|---|---|---|---|
| **Financial Markets:** | | | | |
| TSX Composite Index | 17,099.95 | 17,527.77 | 18,127.95 | 3.42% |
| S&P 500 Index | 3,257.85 | 3,700.65 | 3886.75 | 5.03% |
| CAD/USD | 0.770 | 0.783 | 0.783 | - |
| **Commodity and Input Prices:** | | | | |
| West Texas Intermediate Crude | $60.84 | $47.62 | $56.82 | 19.32% |
| Western Canadian Select | $37.93 | $32.37 | $45.87 | 41.71% |
| Intermediate Fuel Oil (380) | $376.50/mt | $328.00/mt | $359.50/mt | 9.60% |
| Marine Gas Oil | $674.50/mt | $476.00mt | $505.50/mt | 6.20% |
| | | | | |
| Steel Rebar | $564.29/T | $648.40/T | $641.29/T | -1.10% |
| Iron Ore | $92.50/T | $163.50/T | $155.50/T | -4.89% |
| | | | | |
| Wheat | $561.37/Bu | $642.00/Bu | $642.75/Bu | 0.12% |
| Canola (Oil) | $471.50/T | $628.20/T | $692.10/T | 10.17% |
| Corn | $391.91/Bu | $483.75/Bu | $548.75/Bu | 13.44% |
| Soybeans | $957.08/Bu | $1,318.00/Bu | $1,371.75/Bu | 4.08% |
| Sugar | $13.13/Lbs | $15.76/Lbs | $16.46/Lbs | 4.44% |
| **Economic Indicators:** | | **U.S.** | **Canada** | |
| Quarterly GDP Growth Projection (Q1) | | +2.58% | -1.46% | |
| Central Bank Target Interest rate | | 0.0%-0.25% | 0.25% | |

## IMPACTS ON MARINE SHIPPING


### Oil:

In the face of growing global demand and output, oil prices have increased somewhat steadily. Western Canadian Select (Canadian benchmark) is now trading 45% above its price at the beginning of 2021, while west Texas Index (U.S. benchmark) is also trading roughly 19% above its opening 2021 price. This is a sign that the global economy is now in the recovery phase of this economic cycle and should continue to expand in 2021 (barring any major resurgence or mutations of the virus).

### Agriculture:

Corn and canola prices have seen a gradual increase in recent months, with corn reaching its highest point in nearly eight years and canola reaching its highest point in 13 years. This is due to a surge in demand from Asian and European markets, particularly China. Despite the Sino-Canada canola trade dispute which saw China ban oilseed imports from Canadian exporters in 2019, **China has more than doubled its imports of Canadian canola as at the end of 2020.** Analysts believe this trend will continue at least in the short-term and continue to present an opportunity for Canadian farmers and shippers of canola.

### Iron Ore and Steel:

Iron ore and steel prices have continued to rise steady in the past year. This has largely been due to a combination of reduced supply and sustained Chinese demand. However, over the past month, there has been downward pressure on steel and iron ore prices. This is likely due to the global decrease in automobile manufacturing. **A global shortage of semiconductors has forced automakers to shut down plants across Europe and North America.** This is likely to continue into the second half of the year, as these chips require a production lead time of about 3 months. The shortage of semiconductors is also likely to affect the demand for containerized shipping.

President Biden has officially rescinded TC Energy Corp's permit to build the Keystone XL pipeline. **This executive order is projected to put about 48,000 tonnes of scrap steel on the market.** It is also likely to lead to reduced demand for steel, as the project was expected to utilize 660,000 tons of steel for just the U.S. portion of the pipeline. The cancellation of the Keystone XL pipeline could lead to renewed pressure for Canada to complete the Trans Mountain Pipeline Expansion project. However, this remains to be seen.

**General Motors (GM) has signed an agreement to invest $1 billion at its Ingersoll, Ontario plant.** The car manufacturer is looking to retool the plant and begin producing electric vans at the site. This investment will likely lead to increased demand for Canadian steel, aluminum, and other automobile-related commodities.

### Construction:

**Housing starts in Canada fell by roughly 12.6% in December 2020**. Construction of multi-family units fell by 15.5%, while single family housing starts fell by 6.1%. Though the housing market has been an exceptionally bright spot through the pandemic, if this drop persists, it could likely affect demand for containerized shipping. Demand for furniture and other housing needs will likely suffer as a result. Cement and construction related commodities could also experience softness.

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*

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*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.*

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