Economic Resiliency Dominates in Canada and the U.S.

May 18, 2021

On Thursday, May 13, the U.S. Centers for Disease Control and Prevention (CDC) released new guidelines advising fully vaccinated individuals that they may resume certain pre-pandemic activities without wearing masks. Conversely, on the same day the Ontario provincial government announced an extension of the ongoing stay-at-home order. This sort of disparity in health outcomes has proven to be thematic through many months of the pandemic, and has had impacts on the economic realities of both countries.

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

COVID has proved to be a test of the resiliency of many parts of our economies. And time and time again, the North American economies, in spite of numerous lockdowns and mobility restrictions have defied expectations and been up to the test. Despite initially projecting a **-2.5%** economic downturn in the first quarter of 2021, the Bank of Canada, in its latest **Monetary Policy Report**, has jettisoned its forecast and is now estimating that the Canadian economy grew by **7.0%** in Q1 2021, which is also in line with Statistics Canada's preliminary estimates suggesting the Canadian economy grew at an annualized rate of **6.5%** in the first quarter of 2021. The Bank has also increased its growth projection for the year from 4.0% to **6.5%.**

The U.S. economy has also continued to expand in the past several months, owing to loosened mobility restrictions and the whopping $1.9 trillion **American Rescue Plan Act of 2021. The U.S. Department of Commerce's Bureau of Economic Analysis has estimated that the U.S. economy grew by roughly 6.4% in the first quarter of 2021**. This growth has been fueled by increased consumer and government expenditure, and increased fixed residential and non-residential investments. The higher consumer expenditure was led by outlays and motor vehicles and parts, while the increase in non-residential fixed investment was propelled by expenditure on information processing equipment.

While GDP in both economies has sang from the same song sheet of growth over the past few months, there is a disparity in the labour market outcomes of both countries.

On Friday, May 7, Statistics Canada (StatsCan) and the Bureau of Labour Statistics (BLS) both released jobs reports for Canada and the U.S. According to StatsCan, employment in the Canadian economy fell by **207,000** in April 2021. And

the unemployment rate ticked up by 0.6 percentage points to **8.1%**. Conversely, employment in the U.S. economy increased by **266,000** in April, and the unemployment rate remained relatively stable at **6.1%.**

Additionally, there is a subset of individuals who are employed but did not work at all in the week of the survey or worked less than half their usual hours. If all these individuals are included in the "potential labour force", this would bring the **"labour underutilization rate"** to approximately **17%** in Canada. This figure is the equivalent of the **U-6 unemployment**, which the U.S. Bureau of Labor Statistics reports is approximately **10.4%.**

Despite this divergence in the labour market outcomes of both countries, it is important to point to the significant strides both economies have taken in the past year. According to jobs reports released on May 8, 2020, unemployment stood at **13%** and **14.7%** in Canada and the U.S. respectively. Labour underutilization rate (or U-6 Unemployment) was at **36.7%** in Canada and **22.8%** in the U.S. The labour markets of both economies have moved in the right direction over the past 12 months.

FINANCIAL & ECONOMIC INDICES

Commodity prices have been steadily increasing in recent months, with some **analysts now investigating the possibility of a supercycle** (a period of sustained increase in commodity prices above their long-term trend due to demand outsizing supply). Strong demand from China, a transition to greener energy sources and increased pandemic-related government spending have increased global demand for many key industrial commodities like iron ore, copper, and lumber. Key agriculture commodities like corn, sugar and canola have also experienced sustained price increases in recent months. **This increased demand has put upward pressure on dry bulk shipping rates, with the Baltic Dry Index reaching its highest level in over a decade**.

	January 02, 2020	April 15, 2021	May 14, 2021	Month-Over-Month % Change
Financial Markets:				
TSX Composite Index	17,099.95	19,321.92	19,366.69	0.23%
S&P 500 Index	3,257.85	4,170.40	4,173.85	0.08%
CAD/USD	0.770	0.797	0.826	3.64%
Commodity and Input Prices:				
West Texas Intermediate Crude	$60.84	$63.46	$65.37	3.01%
Western Canadian Select	$37.93	$51.86	$52.63	1.48%
Intermediate Fuel Oil (380)	$376.50/mt	$390.50/mt	$391.00/mt	0.13%
Marine Gas Oil	$674.50/mt	$556.00/mt	$635.00/mt	14.21%
Steel Rebar	$564.29/T	$797.63/T	$867.38/T	8.74%
Iron Ore	$92.50/T	$175.50/T	$205.50/T	17.09%
Wheat	$561.37/Bu	$653.75/Bu	$727.25/Bu	11.24%
Canola (Oil)	$471.50/T	$829.30/T	$924.30/T	11.46%
Corn	$391.91/Bu	$590.0/Bu	$676.75/Bu	14.70%
Soybeans	$957.08/Bu	$1,418.25/Bu	$1,593.75/Bu	12.37%
Sugar	$13.13/Lbs	$15.76/Lbs	$16.46/Lbs	4.44%
Economic Indicators:		**U.S.**	**Canada**	
Quarterly GDP Growth Projection (Q2)		+10.4%	+14.8%	
Central Bank Target Interest rate		0.0%-0.25%	0.25%	

IMPACTS ON MARINE SHIPPING

Agriculture:

Owing to a strong harvest and increased demand, grain continues to be a bright spot for the Great Lakes economy. Grain movement through the St. Lawrence Seaway has been robust during the opening period of the season, with an approximately 10% increase in shipments compared to the same period a year ago. Though it will be quite a feat to surpass overall grain tonnage moved in 2020, the expectation is that grain movements will continue to show strength through the rest of the 2021 shipping season.

Construction:

Construction related commodities like cement, limestone, and lumber have benefitted from the red-hot housing markets in Canada and the U.S. Housing prices in both countries have continued to soar, as demand for housing outpaces supply. Increased demand has caused lumber prices to triple. **There is a renewed push in the U.S. for the Biden administration to negotiate a new U.S.-Canada softwood trade deal**, which would lift duties on Canadian softwood imports and increase the demand for Canadian softwood. However, it remains to be seen whether such a deal will materialize.

Iron Ore and Steel:

Iron ore and steel movements on the Great Lakes have been strong at the start of the shipping season, with the St. Lawrence Seaway reporting a near **7%** increase in iron ore. These commodities continue to benefit from increased government infrastructure spending as well as private investment and construction. The provincial government of Ontario and the Canadian federal government have committed **$3.4 billion to a new light rail transit (LRT) project.** In addition, The city of Toronto in conjunction with the Canadian federal government and the Ontario provincial government, has committed to an over **$500-million investment in made-in-Ontario streetcars**. This will likely increase the demand for iron ore, steel and aluminum.

Despite the recent strength shown by industrial metal markets, there is growing concern that the ongoing global microchip shortage risks dampening this strong showing. According to recent estimates, the temporary closures of certain car plants stand a chance to cause U.S. auto production to fall by 7% and Canadian auto production to fall by 17% in 2021. Though **Intel has committed $20 billion to the construction of new microchip fabs**, and Taiwanese microchip producer (TSMC) has committed to rectifying the supply shortage by the end of June, these shortages present a near-term risk to the demand for steel and aluminum.

Government Infrastructure Expenditure:

The Canadian Federal Budget 2021 proposes to invest $1.9 billion over four years, starting in 2021-2022, to recapitalize the National Trade Corridors Fund. This funding could attract approximately $2.7 billion from private and other public sector partners, resulting in total investments of $4.6 billion. This would spur investments in much-needed enhancements to our roads, rail and shipping routes, building long-term resilience for the Canadian economy, and support international trade.

Similarly, though it is yet to pass, President Biden's proposed $2.3 trillion **America Jobs Plan** is a plan which focuses primarily on augmenting the infrastructure deficit in the U.S. Of the $621 billion earmarked for transportation infrastructure, $42 billion is expected to go towards improving the country's airports, terminals, inland waterways, shipping ports, and the country's freight system.

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 Canadian 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.

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