

# TRADING DURING A GLOBAL PANDEMIC

BETTER THAN FEARED,  
BUT SLOW AND UNEVEN ROAD AHEAD

Queen's Institute on Trade Policy

November 23, 2020

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Trade Research Director

Canada

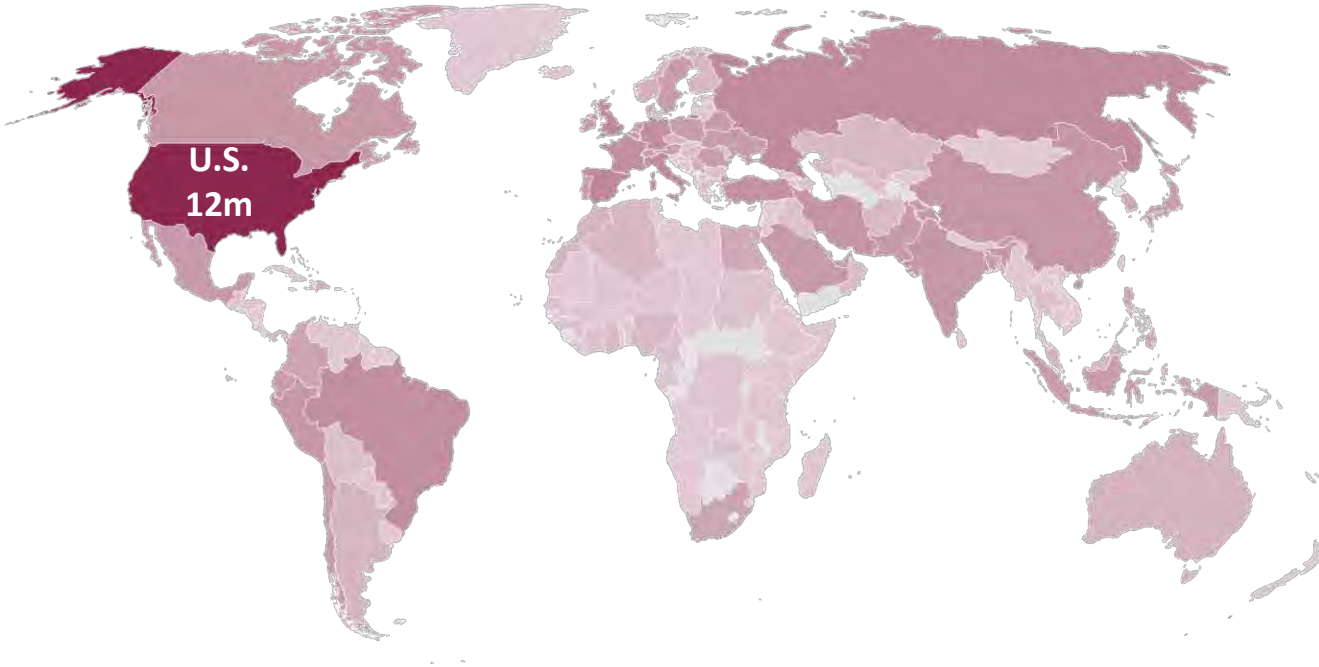


# THE PANDEMIC ECONOMY



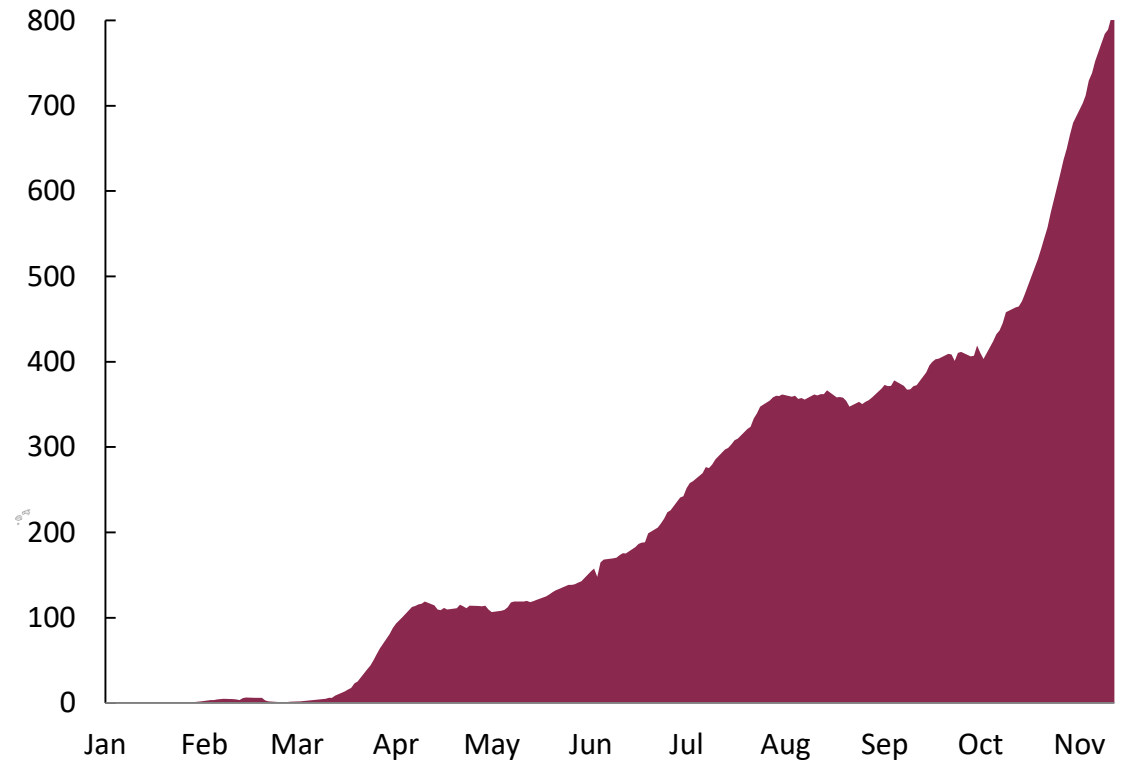
# COVID-19

## 58 million cases



### Global COVID cases

Thousands per day

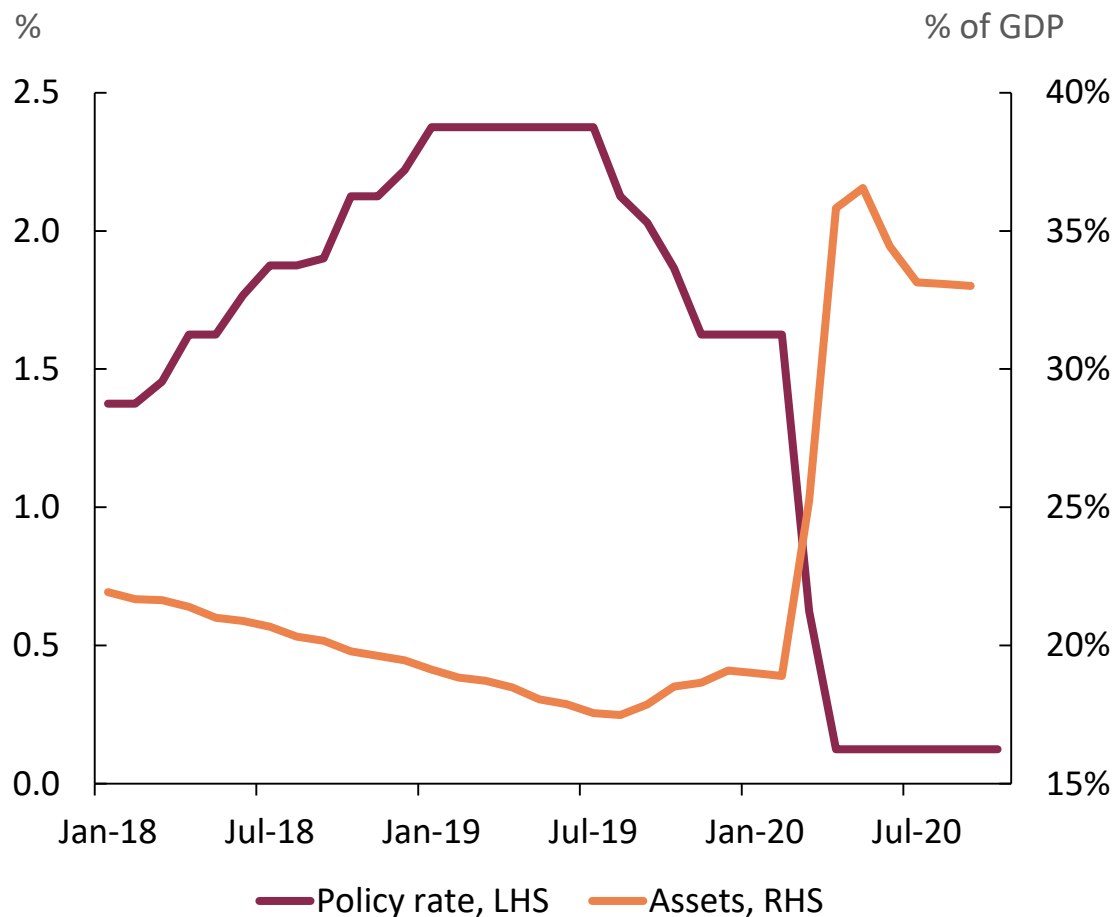


Note: As of Nov 22, 2020

Source: EDC Economics, [John's Hopkins Coronavirus Research Center](#)

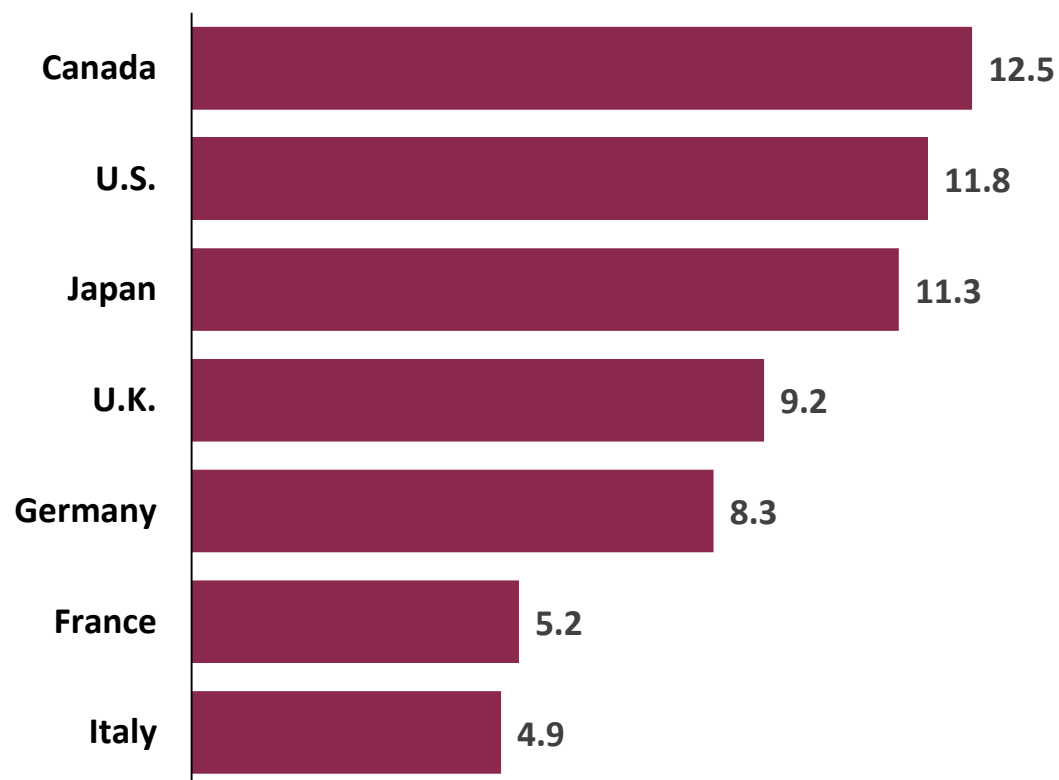
# UNPRECEDENTED POLICY RESPONSE

## Federal Reserve policy rate and asset purchases



## Direct discretionary fiscal support

% of GDP



# STABILIZED FINANCIAL MARKETS

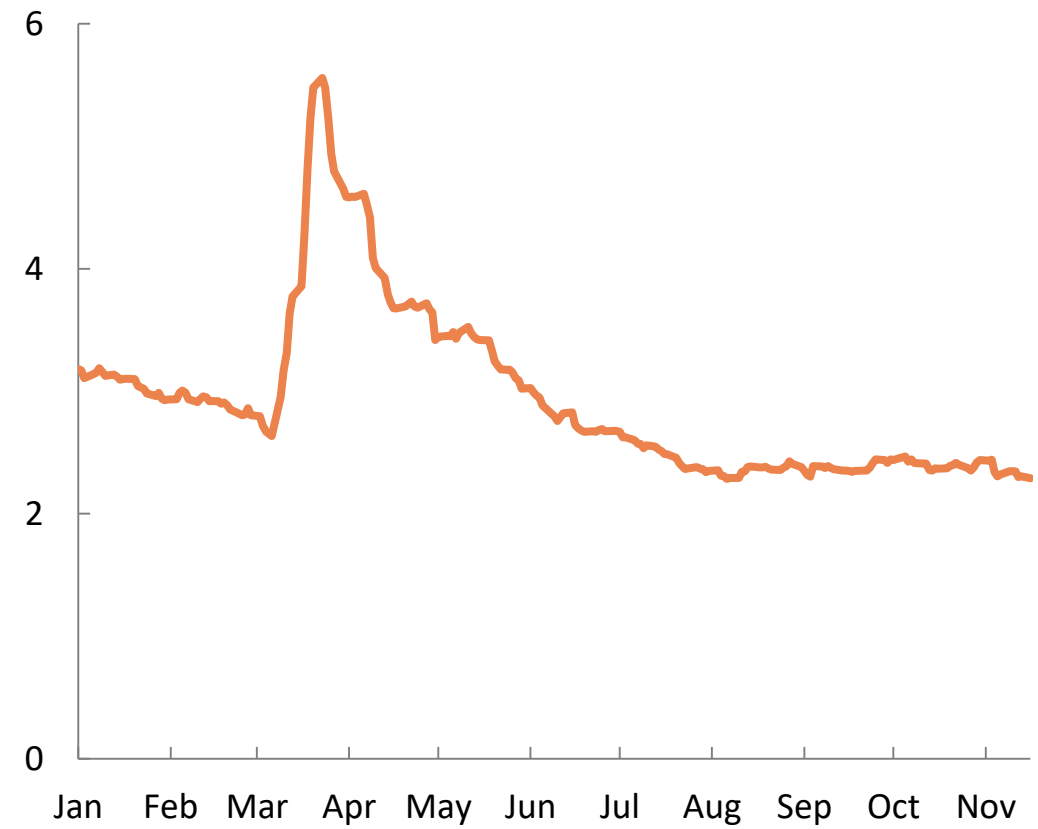
## Stock market

S&P 500 index, % change since Jan 2020



## U.S. investment grade corporate bonds

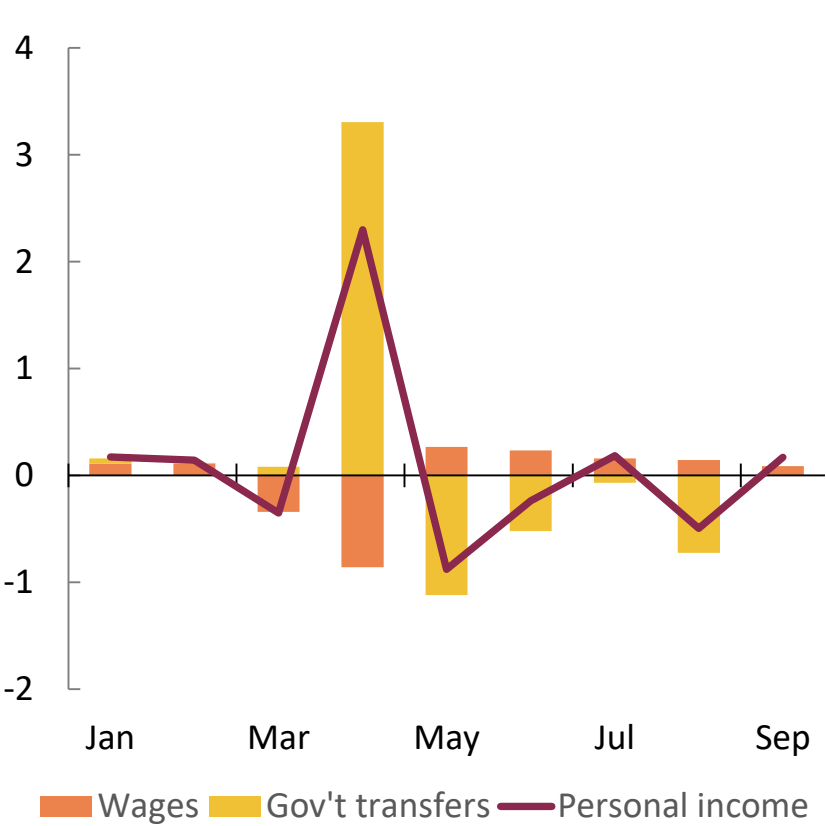
Annualized yields, %



# SUPPORTED CONSUMERS

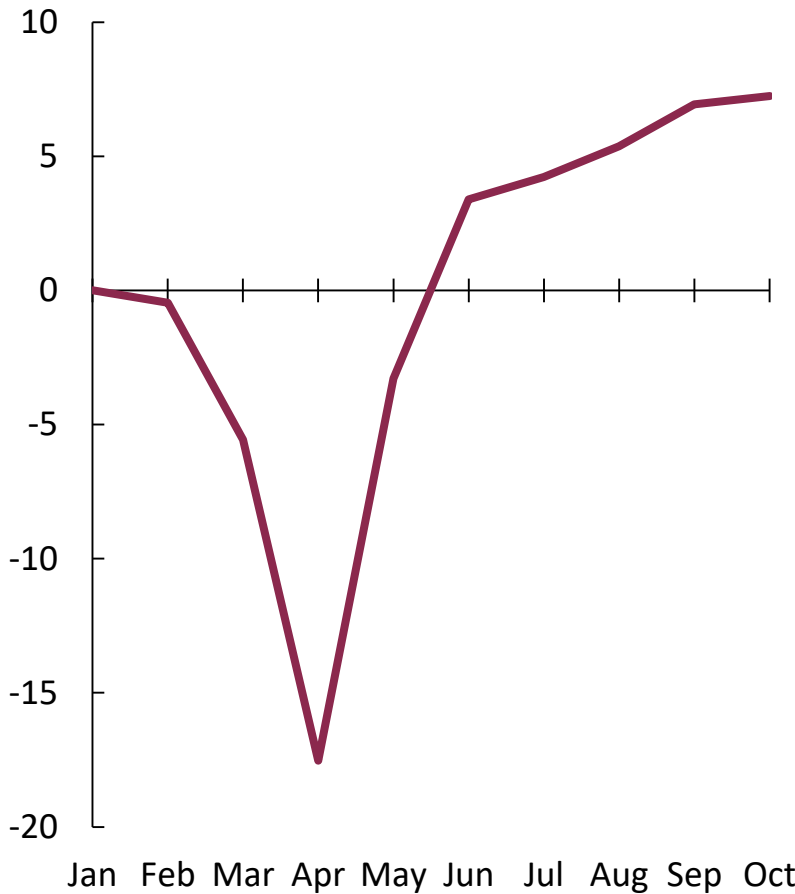
## Monthly change in U.S. personal income

Trillions of dollars



## U.S. retail sales

% change since Jan 2020



## Credit card spending

% change since Jan 2020

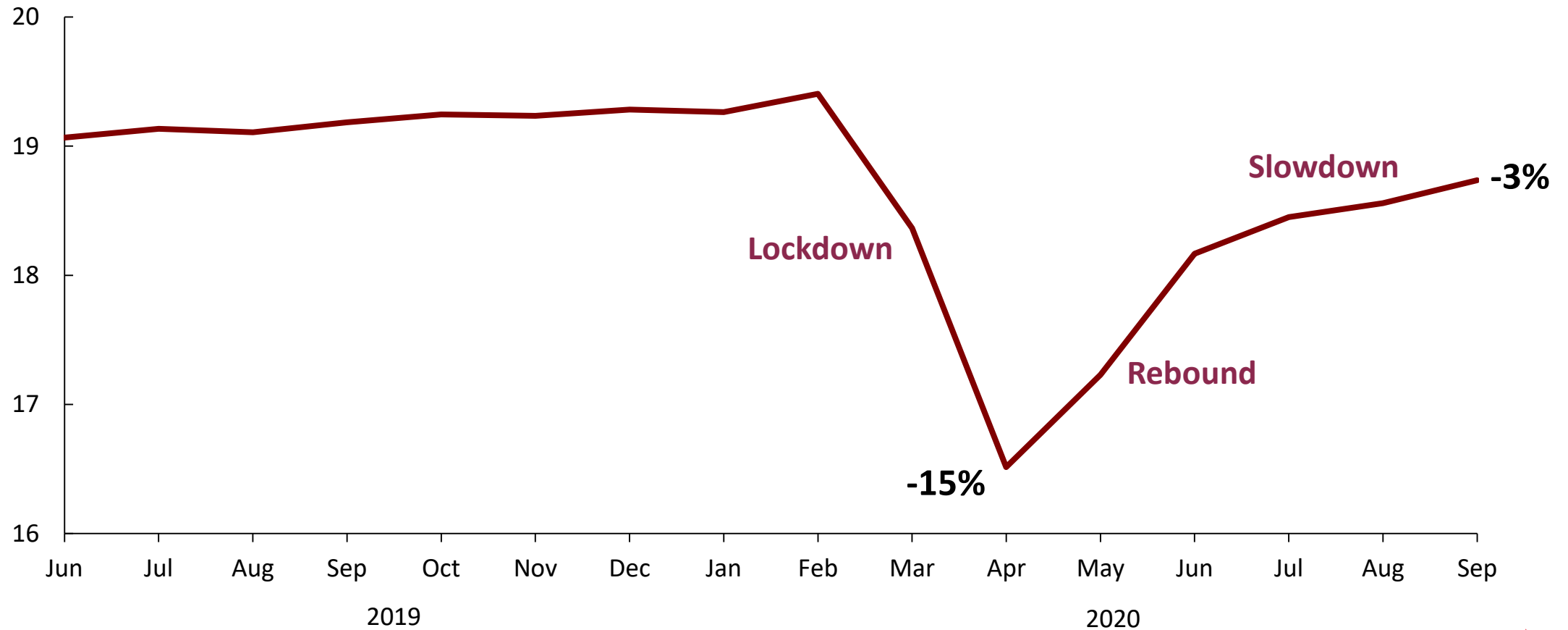
Winners	
Sporting goods	+26
Electronics, appliances	+18
Home, garden	+13
Furniture	+13
Groceries	+11
Losers	
Clothing	-11
Gas stations	-23
Restaurants	-29
Entertainment	-40
Hotels	-53



# ECONOMIC DYNAMICS

## U.S. real gross domestic product

Trillions of 2012 dollars



# GLOBAL TRADE DURING COVID

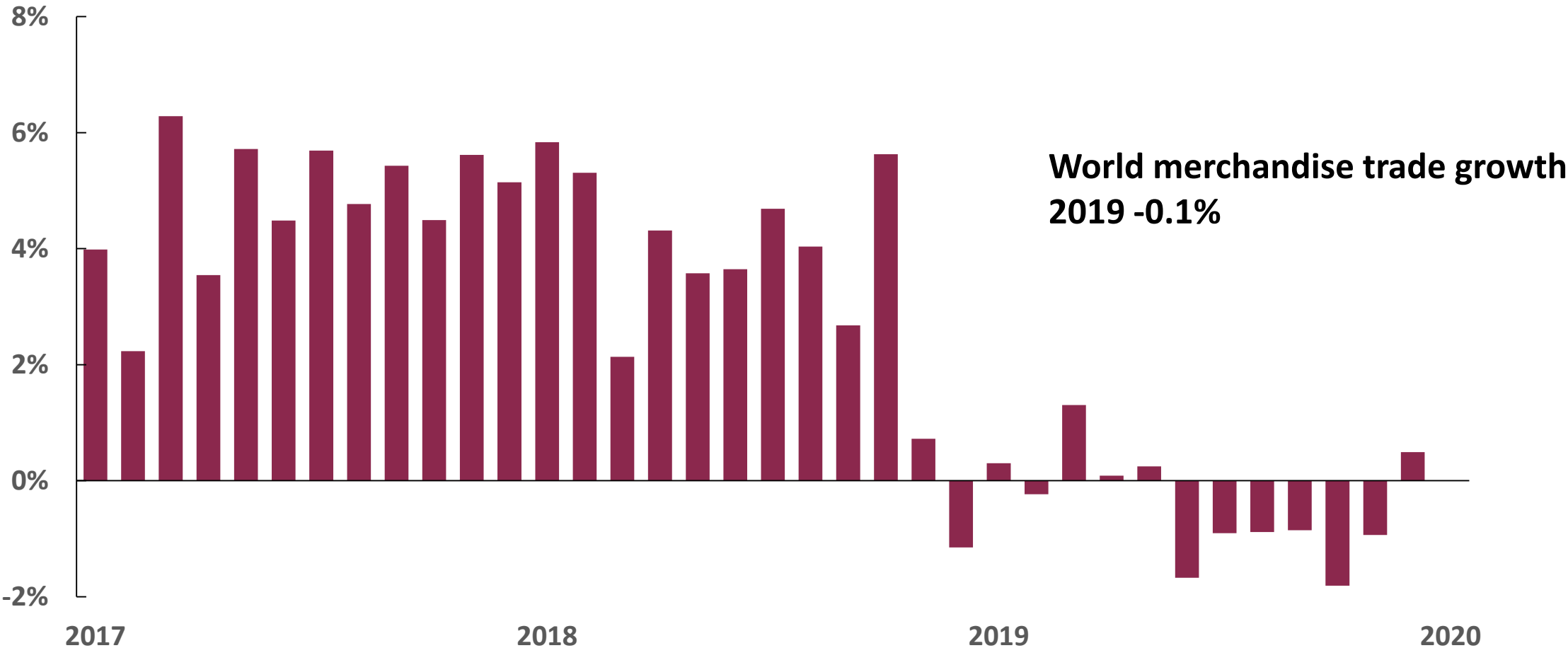




# GLOBAL TRADE SLOWED BEFORE COVID

## Global merchandise trade volumes

Year-over-year, % change





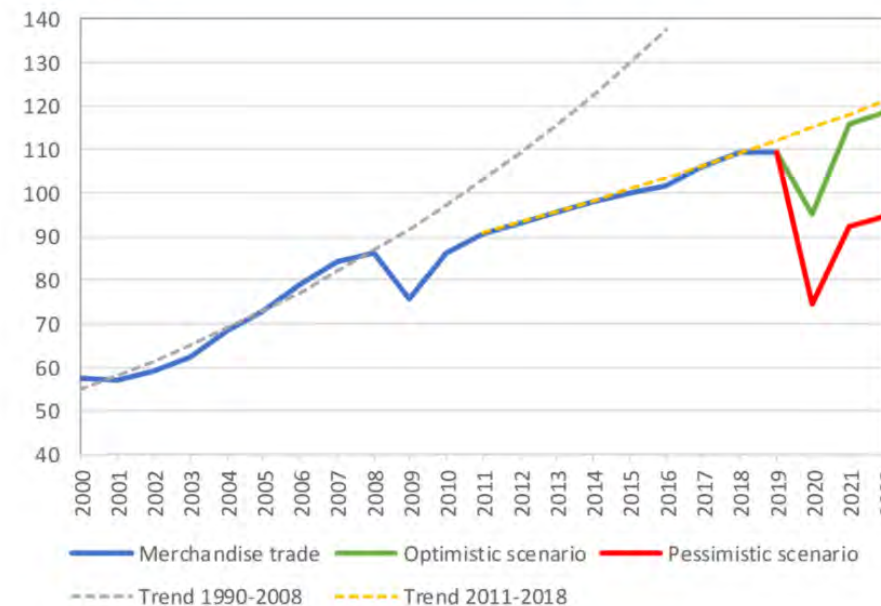
# DIRE INITIAL PREDICTIONS

***“2020 will show a trade collapse far larger than 2008-09, since COVID is a demand and a supply shock, while the great trade collapse was mostly a demand shock.”***

Richard Baldwin, April 7, 2020

Chart 1 - World merchandise trade volume, 2000-2022

Index, 2015=100



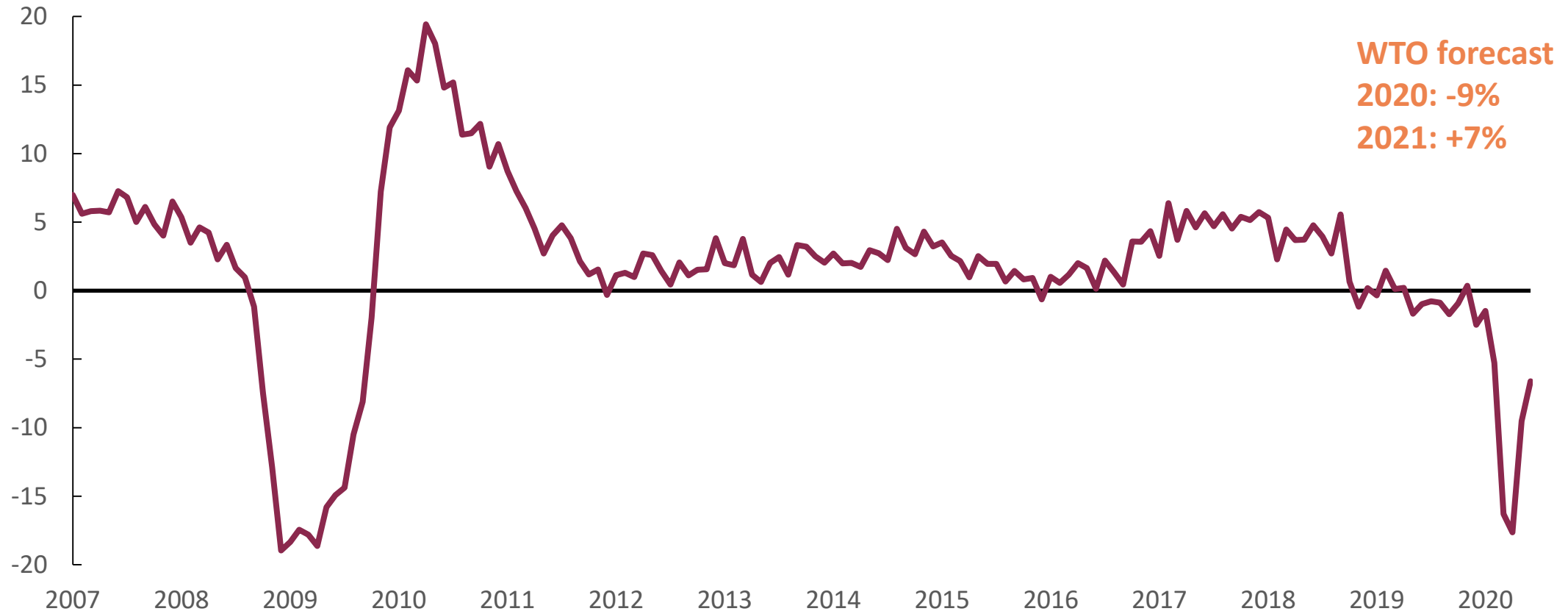
**“WTO economists believe the decline will likely exceed the 2008-09 global financial crisis.”**

**World goods trade in 2020 is set to plummet by between 13% (optimistic scenario) and 32% (pessimistic scenario).**

# BUT TRADE EXCEEDED EXPECTATIONS

## Global merchandise trade volumes

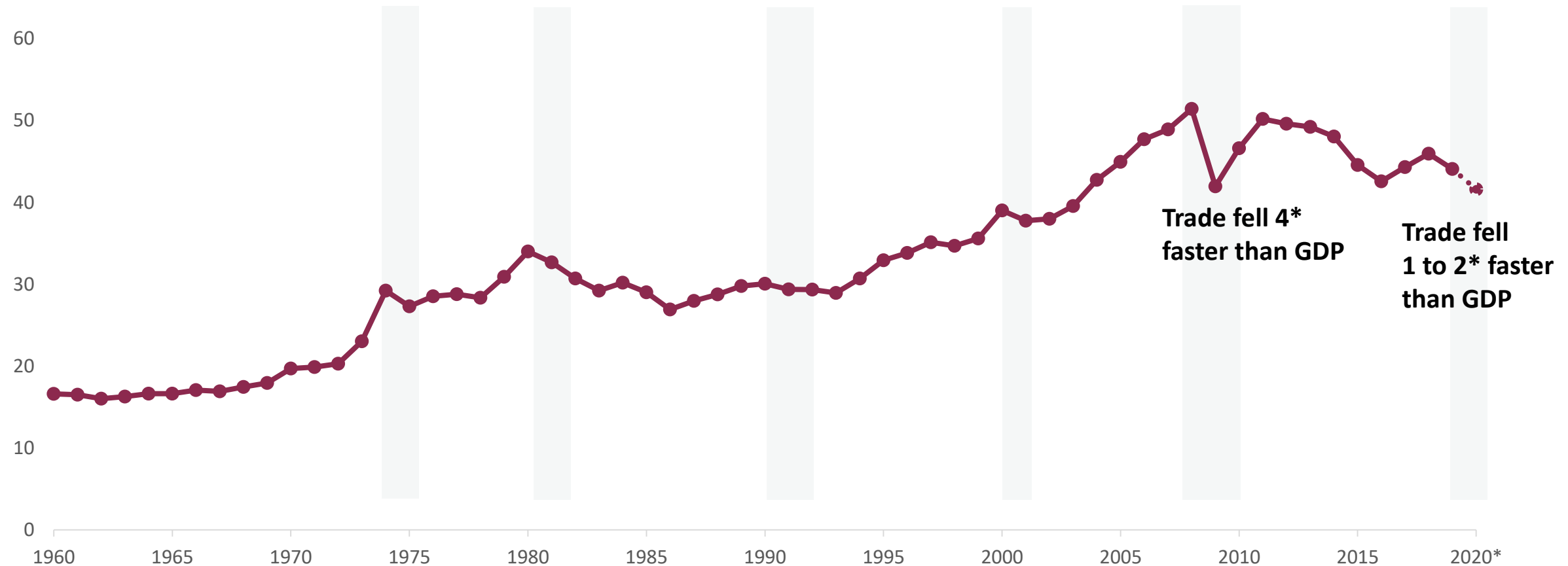
Annual % change



# SUPPLY CHAINS LARGELY HELD UP

## Global merchandise trade

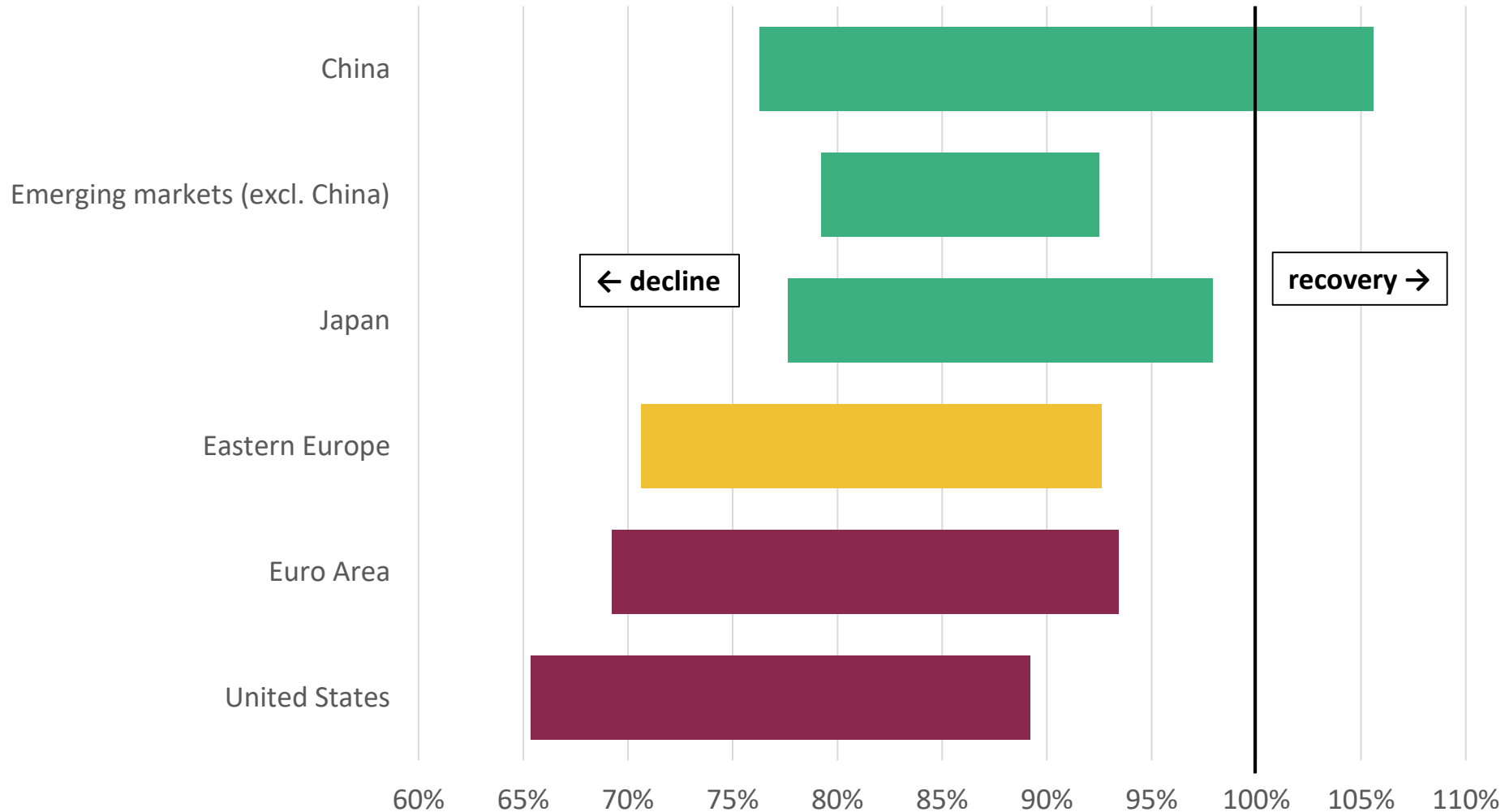
% of GDP



# LED BY ASIA

## Goods exports, dynamics by region

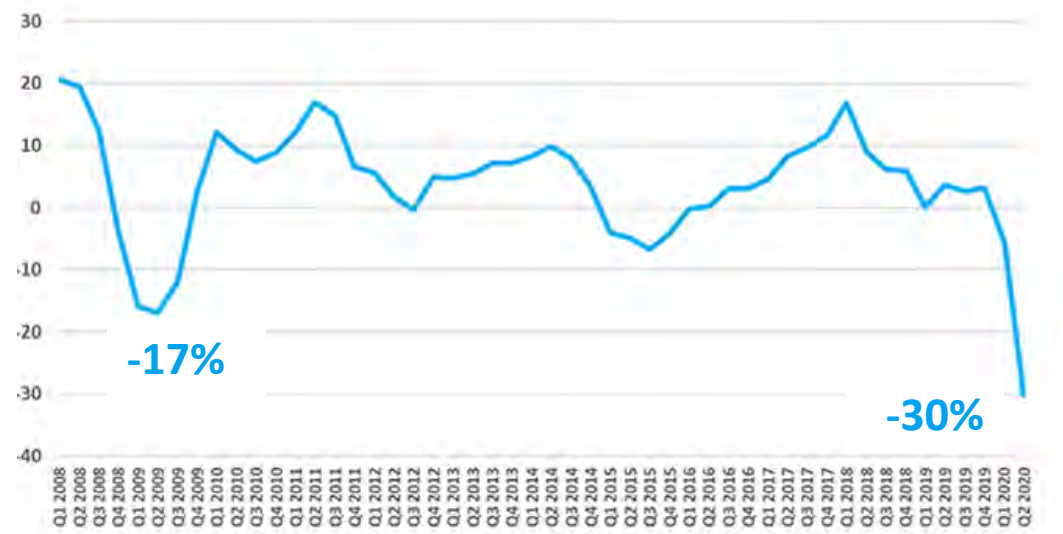
% relative to pre-COVID levels



# SERVICES TRADE HIT HARDEST

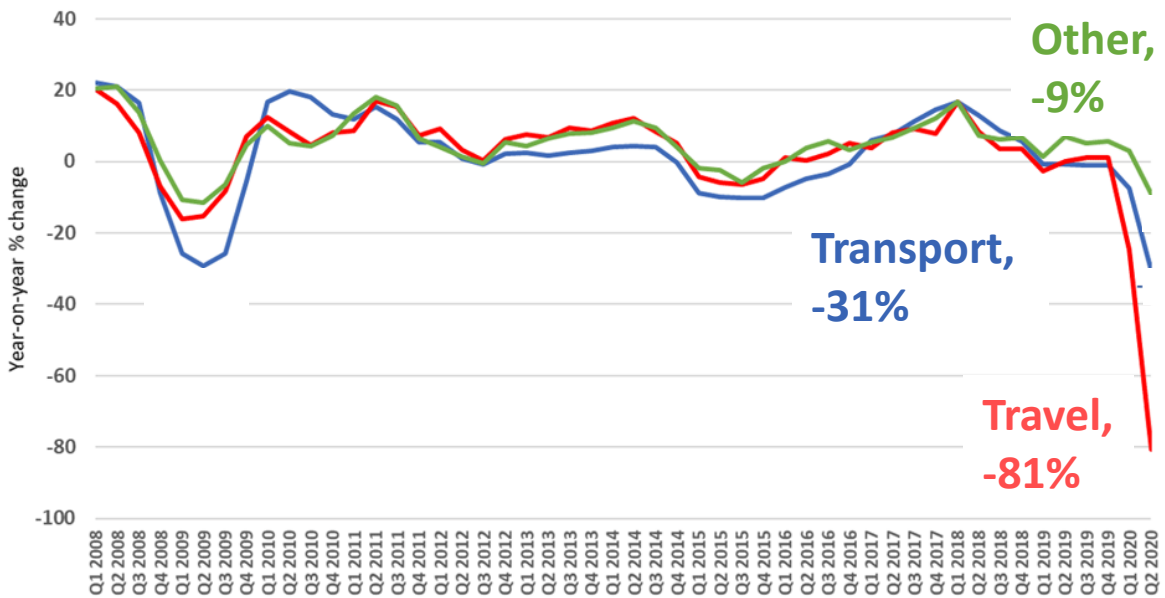
## Global commercial services trade

Year-over-year, % change



## Key services components

Year-over-year, % change



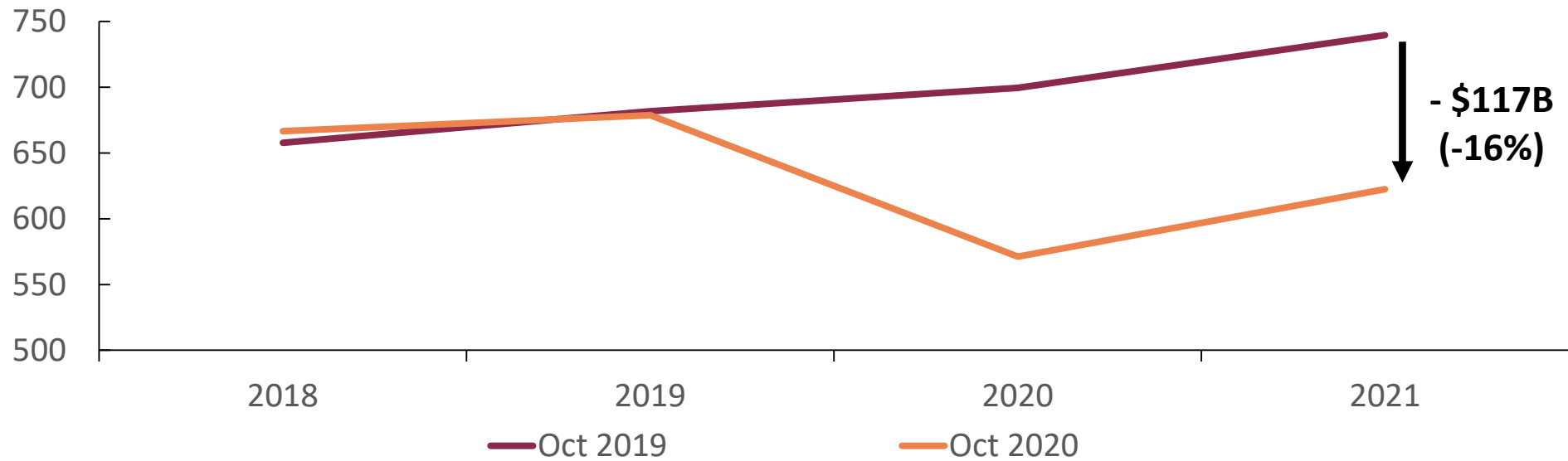
# CANADIAN TRADE DATA



# COVID CREATED A HUGE HOLE

## Canadian export forecasts

Goods and services, billions of dollars



Nominal, annual % change	2019	2020*	2021*
October 2020 forecast	2	-16	9



# BEST PERFORMING EXPORT SECTORS



Forestry products



Agri-food



Consumer goods



Commercial services

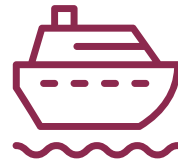
# HARDEST HIT EXPORT SECTORS



Aerospace



Oil & gas

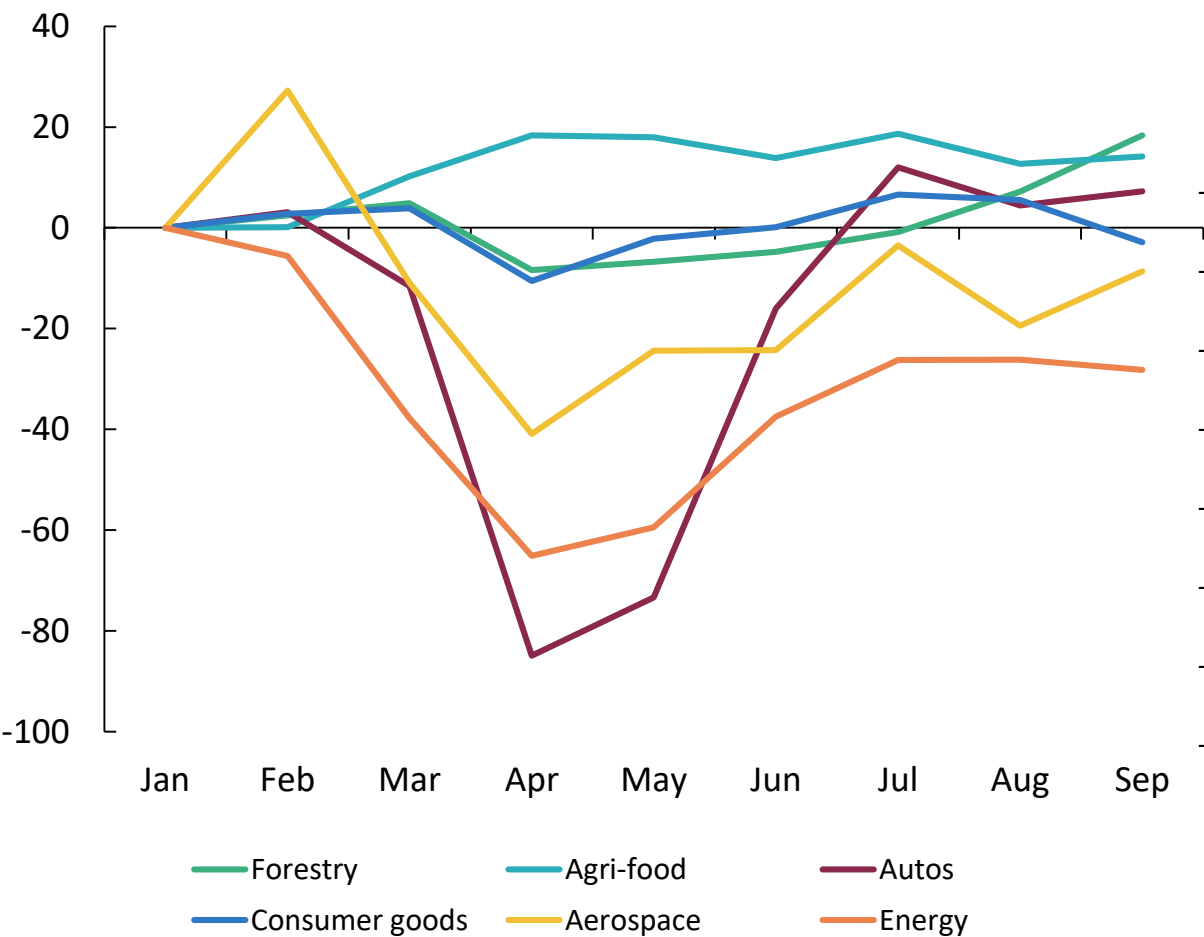


Travel and  
transportation services

# UNEVEN SECTORS IMPACTS

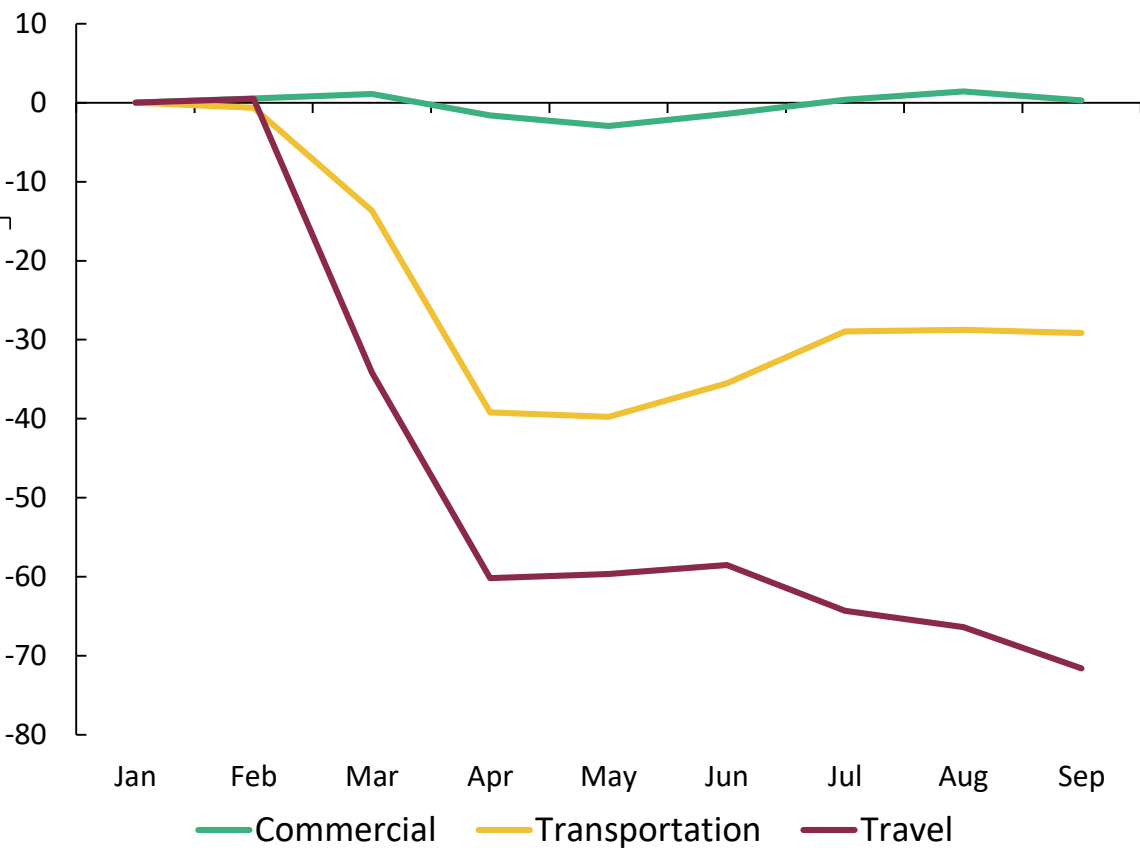
## Canadian merchandise exports, key sectors

% change since Jan 2020



## Canadian services exports, by component

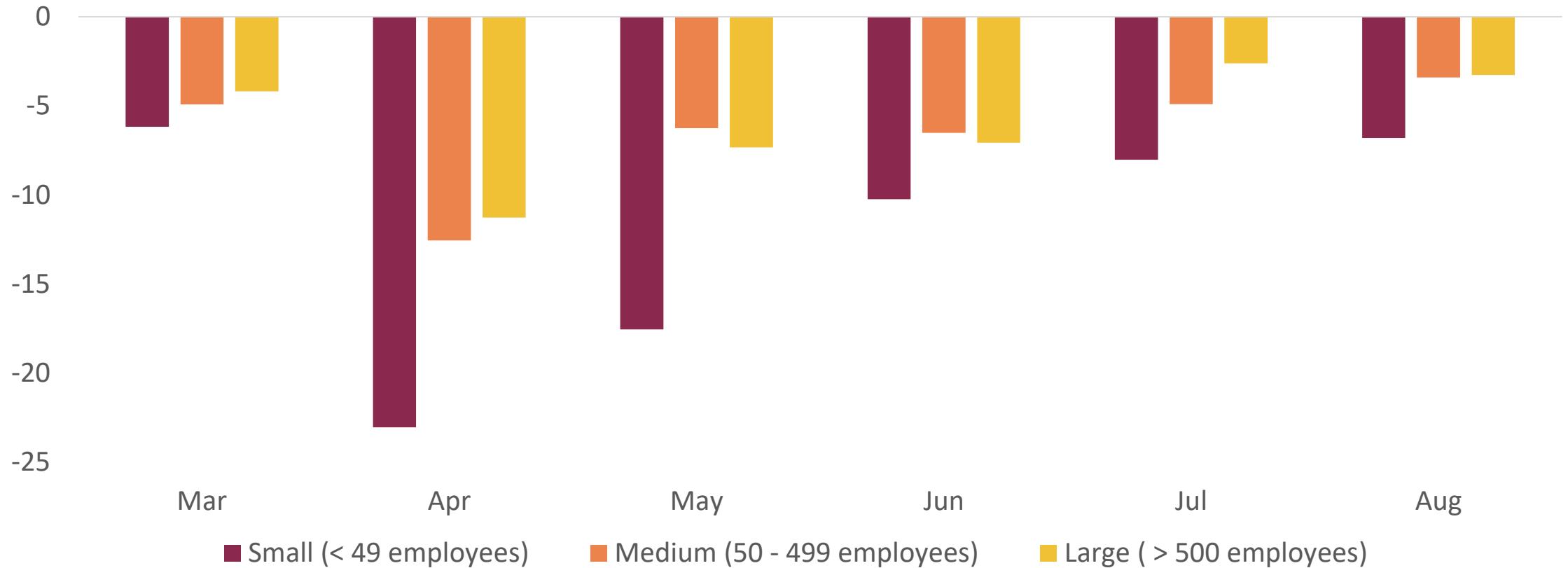
% change since Jan 2020



# SMALL EXPORTER COUNTS HIT HARDER

## Number of Canadian goods exporters, by firm size

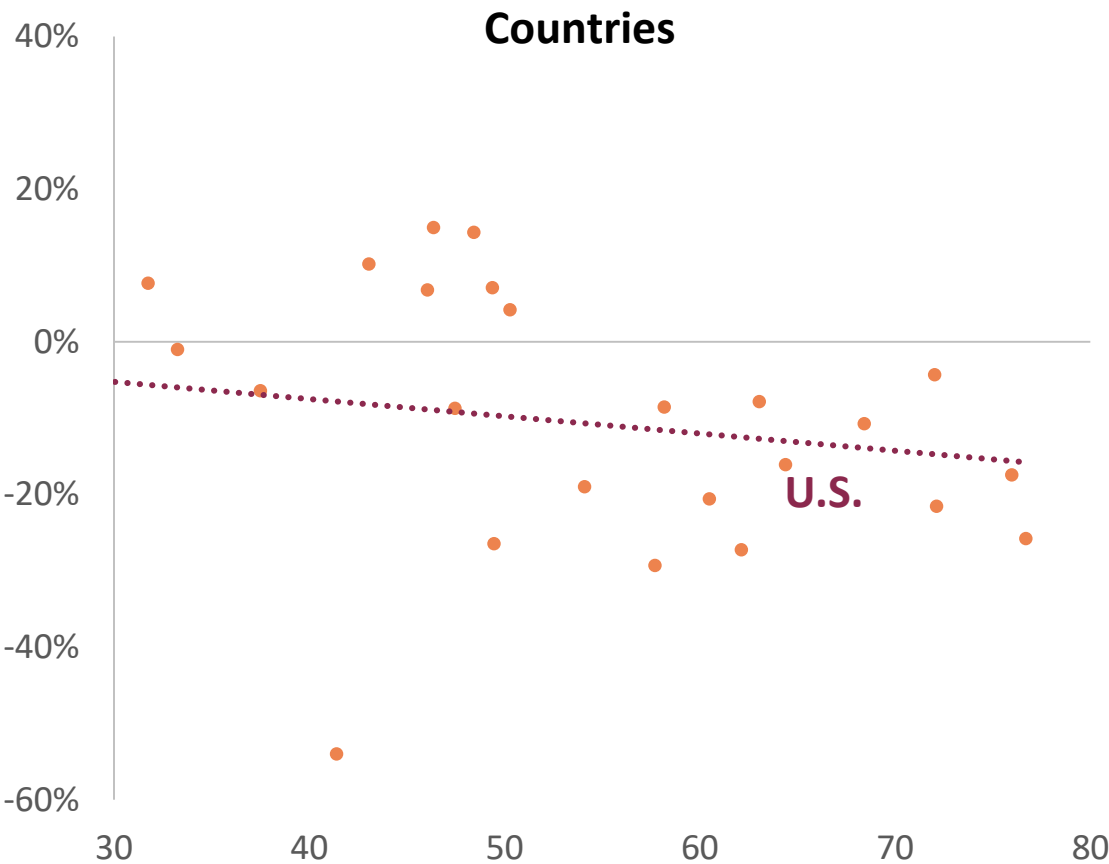
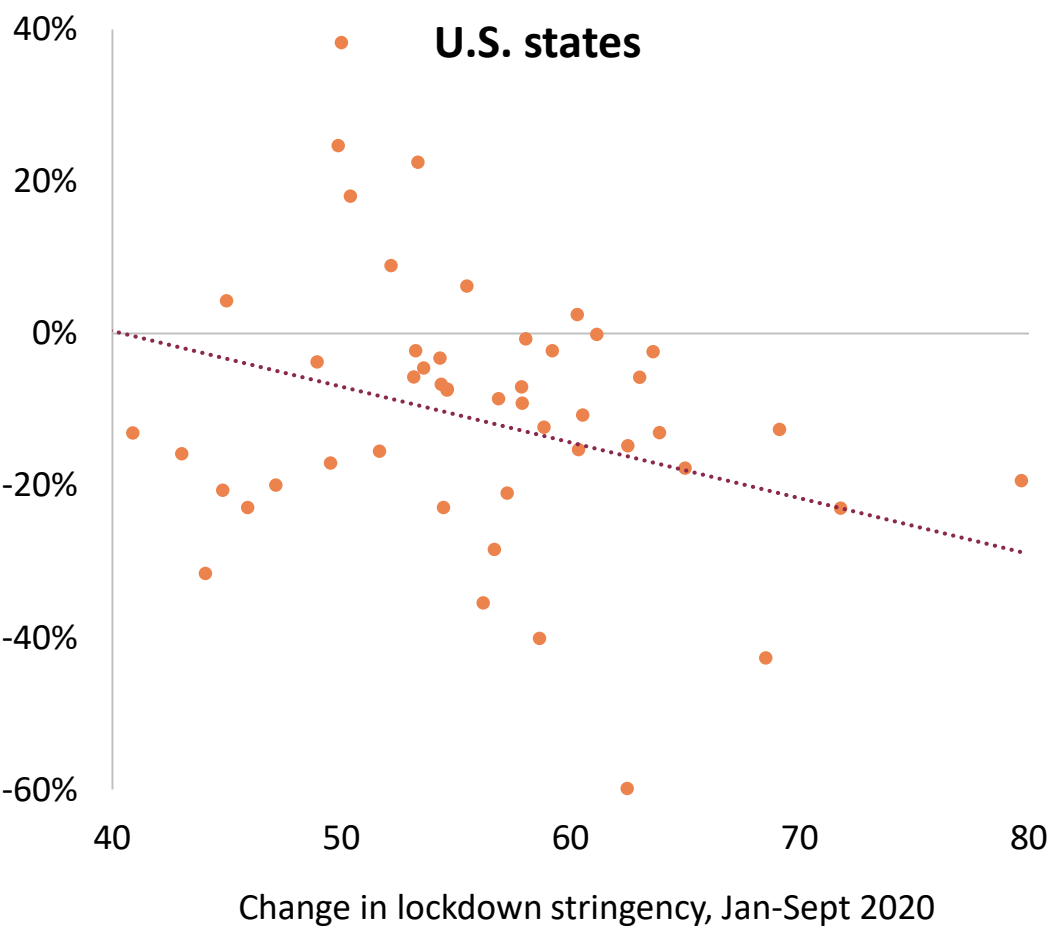
% change since Feb 2020



# STRONGER COVID RESTRICTIONS, WEAKER EXPORTS

## Canadian exports and COVID-19 government stringency index

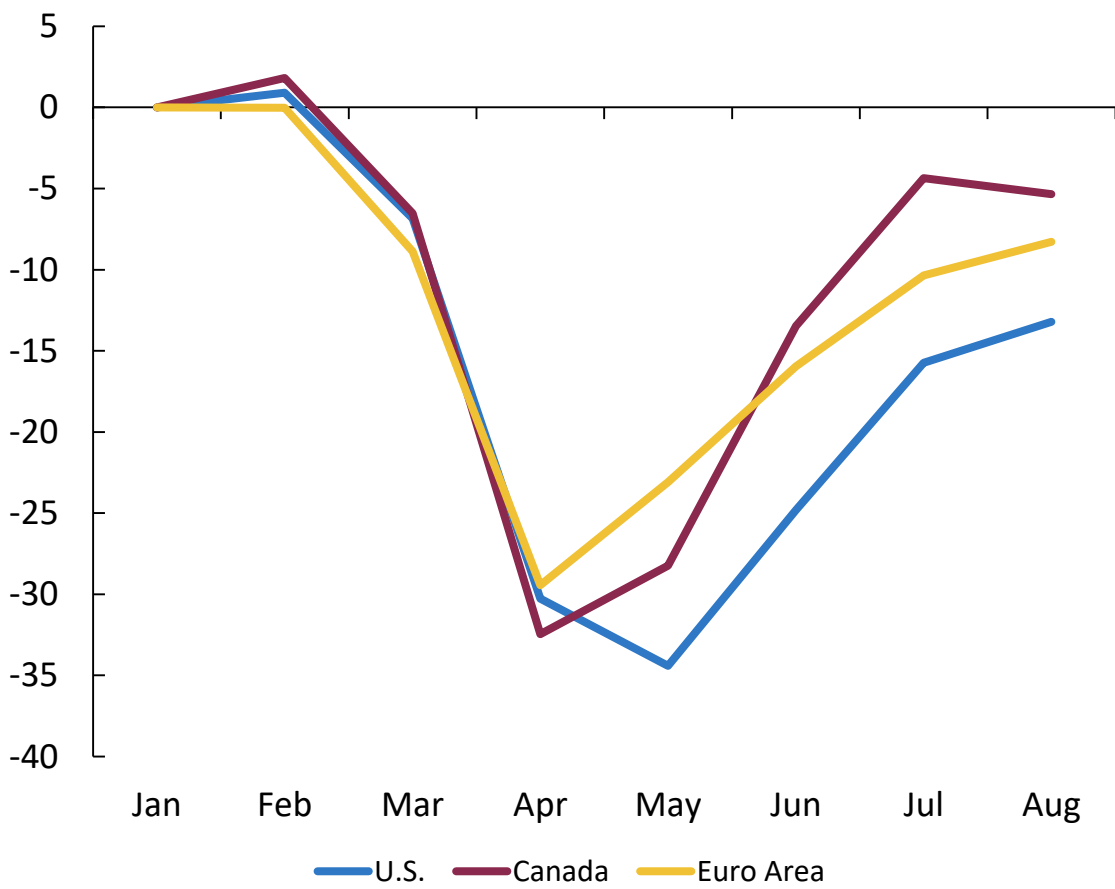
Year-to-date % change in Canada's exports to the state or country



# CANADA OUTPERFORMING U.S. AND EUROPE

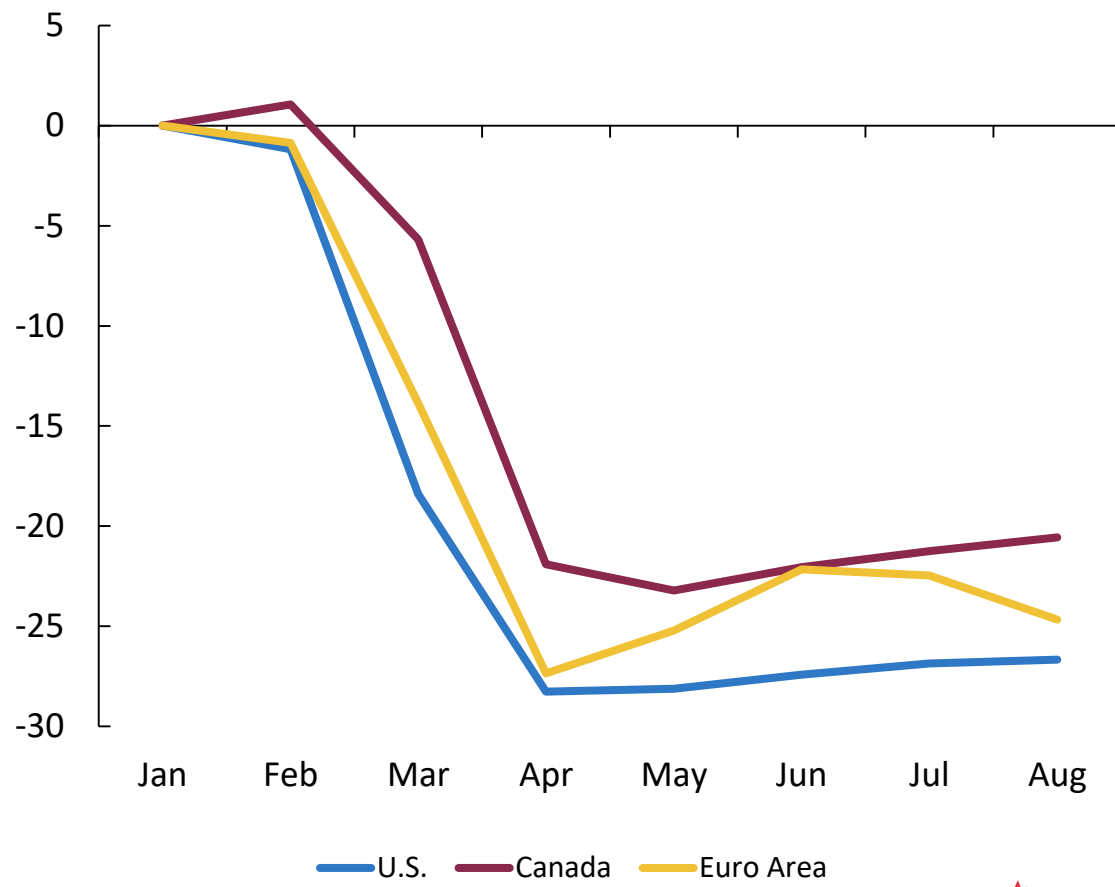
## Merchandise trade

% change since Jan 2020



## Services trade

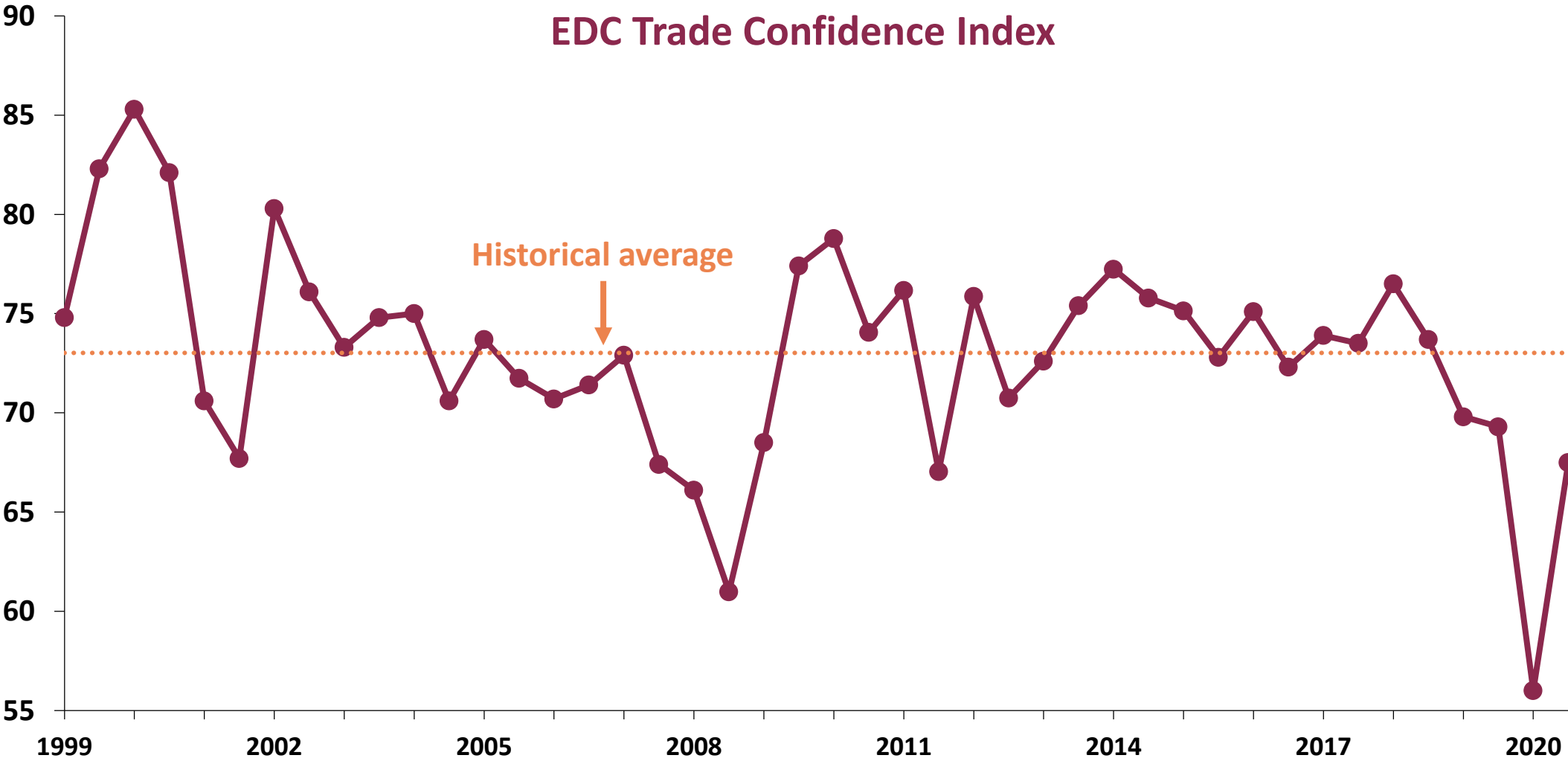
% change since Jan 2020



# SURVEYING THE DAMAGE



# TRADE CONFIDENCE REBOUND FROM ALL-TIME LOW





# ONLINE CAPABILITIES MITIGATED LARGE DECLINES

**Report export sales declines of 50% or more**

% of respondents

**High online capabilities**

**33%**

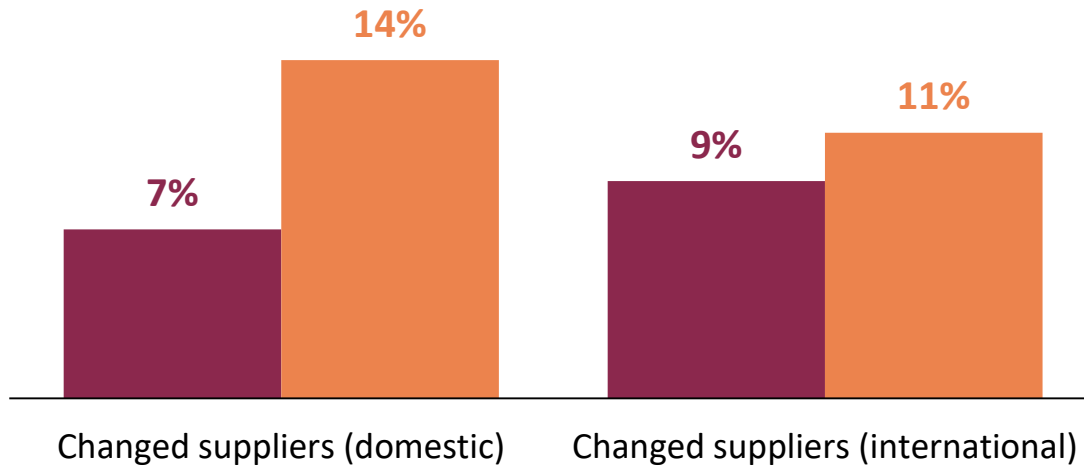
**Low online capabilities**

**58%**

# SUPPLY CHAINS ADJUSTING

## Have changed suppliers

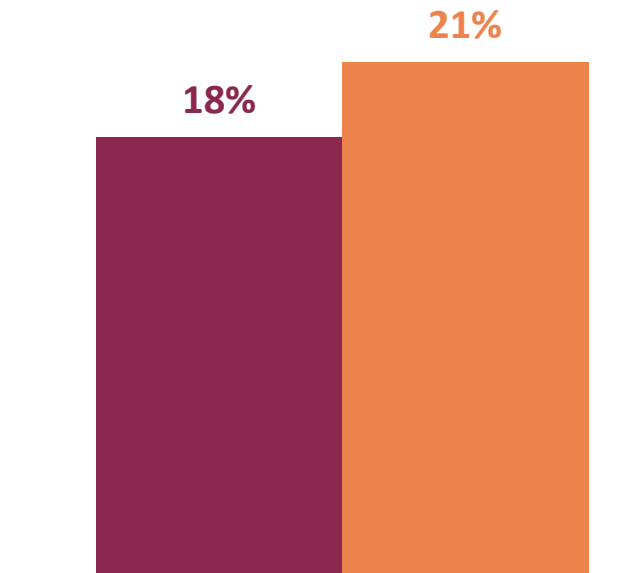
% of respondents



■ Apr 2020 ■ Oct 2020

## Intend to *diversify* supply chains

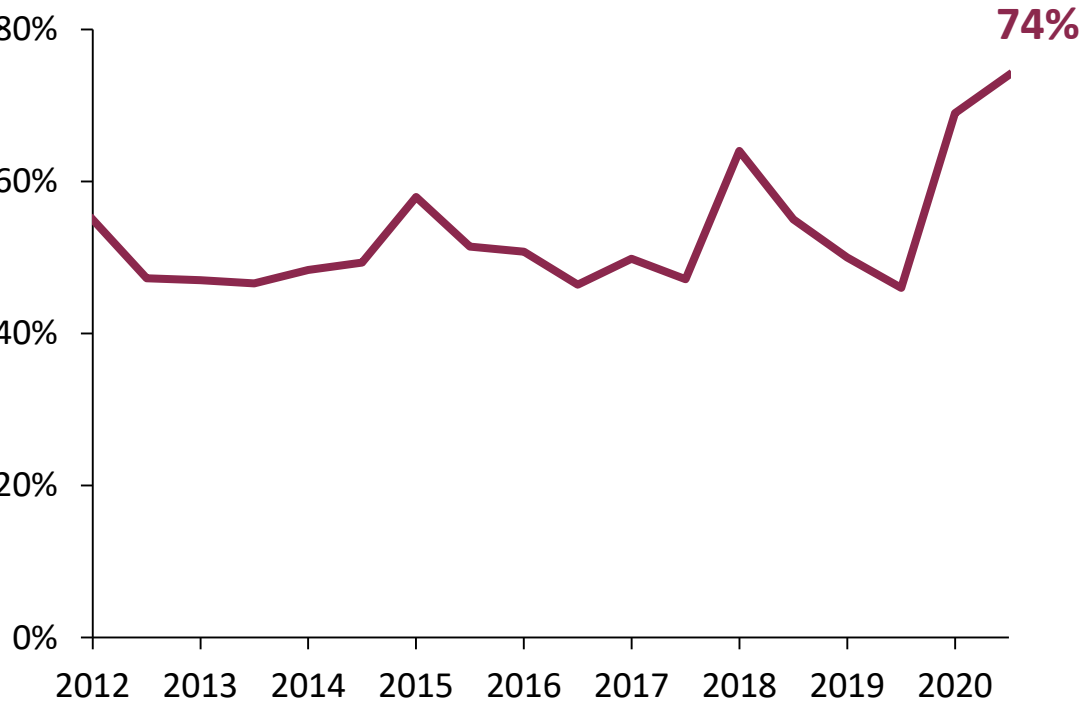
% of respondents, “very likely” or “likely”



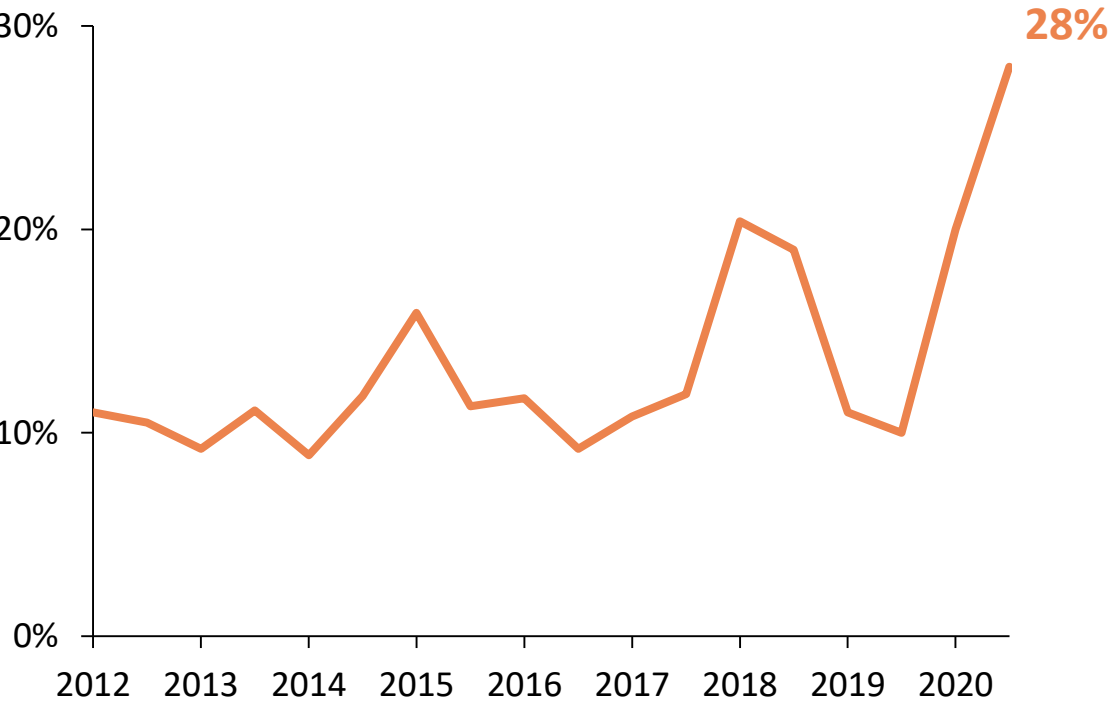
■ May-Jul 2020 ■ Sep-Oct 2020

# RECORD NUMBER OF EXPORTERS PLAN TO DIVERSIFY

Planning to export to new countries  
% of respondents



Planning to invest outside Canada  
% of respondents



# CONCLUSIONS

- Large, unequal COVID shock
  - Winners and losers (sectoral, online, firm size)
- Impressive trade resilience so far
  - Firms adjusting/diversifying supply chains and markets
- But slow, fragile recovery until pandemic is contained

# EDC ECONOMICS RESOURCES

- **Weekly Commentary, Economic Insights newsletter**
- **Global Economic Outlook**
- **Global Export Forecast**
- **Country Risk Quarterly**
- **Trade Confidence Index**
- **Top 10 Global Risks**
- **Trackers: Canadian Recovery, Commodities, Global Markets**
- **Research reports**



**@ExportDevCanada**

**Export Help Hub**  
**ExportHelp@edc.ca**



**[edc.ca/en/tag/economic-insights.html](https://edc.ca/en/tag/economic-insights.html)**



# *the art of the state*

Volume VI



## Redesigning Canadian Trade Policies for New Global Realities



Lots of free reports here  
<https://irpp.org/research/trade/>

Edited by Stephen Tapp, Ari Van Assche and Robert Wolfe



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[@Stephen Tapp](#)





**TAKE ON  
THE WORLD**



**UN MONDE  
À CONQUÉRIR**



# CANADIAN EXPORT FORECAST, BY SECTOR

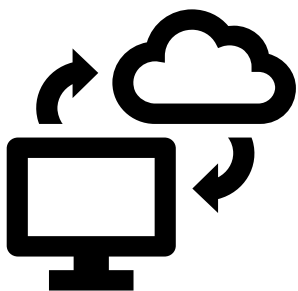
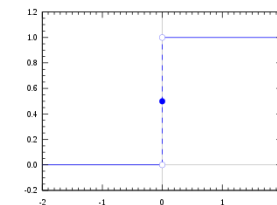
	\$Billions, CAD	Share of Canadian Exports (% of total)	Export Growth (nominal annual % change)		
	2019	2019	2019	2020*	2021*
<b>TOTAL EXPORTS</b>	<b>679</b>	<b>100%</b>	<b>2%</b>	<b>-16%</b>	<b>9%</b>
<b>Total services</b>	<b>134</b>	<b>20%</b>	<b>4%</b>	<b>-17%</b>	<b>7%</b>
<b>Total goods</b>	<b>545</b>	<b>80%</b>	<b>1%</b>	<b>-15%</b>	<b>9%</b>
Advanced technology	21	3%	6%	-16%	13%
Aerospace	19	3%	4%	-30%	-3%
Agri-food	75	11%	1%	8%	5%
Automotive	86	13%	4%	-28%	25%
Chemicals and plastics	47	7%	0%	-6%	7%
Consumer goods	22	3%	2%	-4%	6%
Energy	124	18%	1%	-34%	16%
Forestry products	31	5%	-15%	5%	-4%
Industrial machinery and equipment	32	5%	6%	-10%	6%
Ores and metals	81	12%	3%	-8%	4%
<b>Total goods (excluding energy)</b>	<b>400</b>	<b>59%</b>	<b>1%</b>	<b>-10%</b>	<b>8%</b>
<b>Total goods (excluding energy and autos)</b>	<b>314</b>	<b>46%</b>	<b>1%</b>	<b>-5%</b>	<b>4%</b>

# CONNECTING THE SHORT-RUN AND THE LONG-RUN

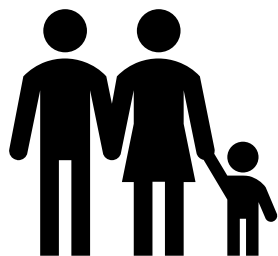


# COVID ACCELERATING LONGER-RUN TRENDS

Step function



1. Digitization



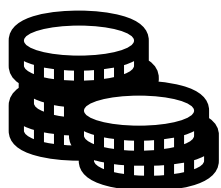
2. Inequality and inclusion



3. Protectionism(?)



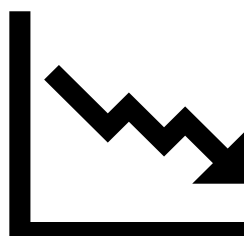
4. US-China rivalry



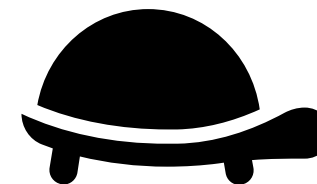
5. Rising debt



6. Industry concentration



7. Low interest rates



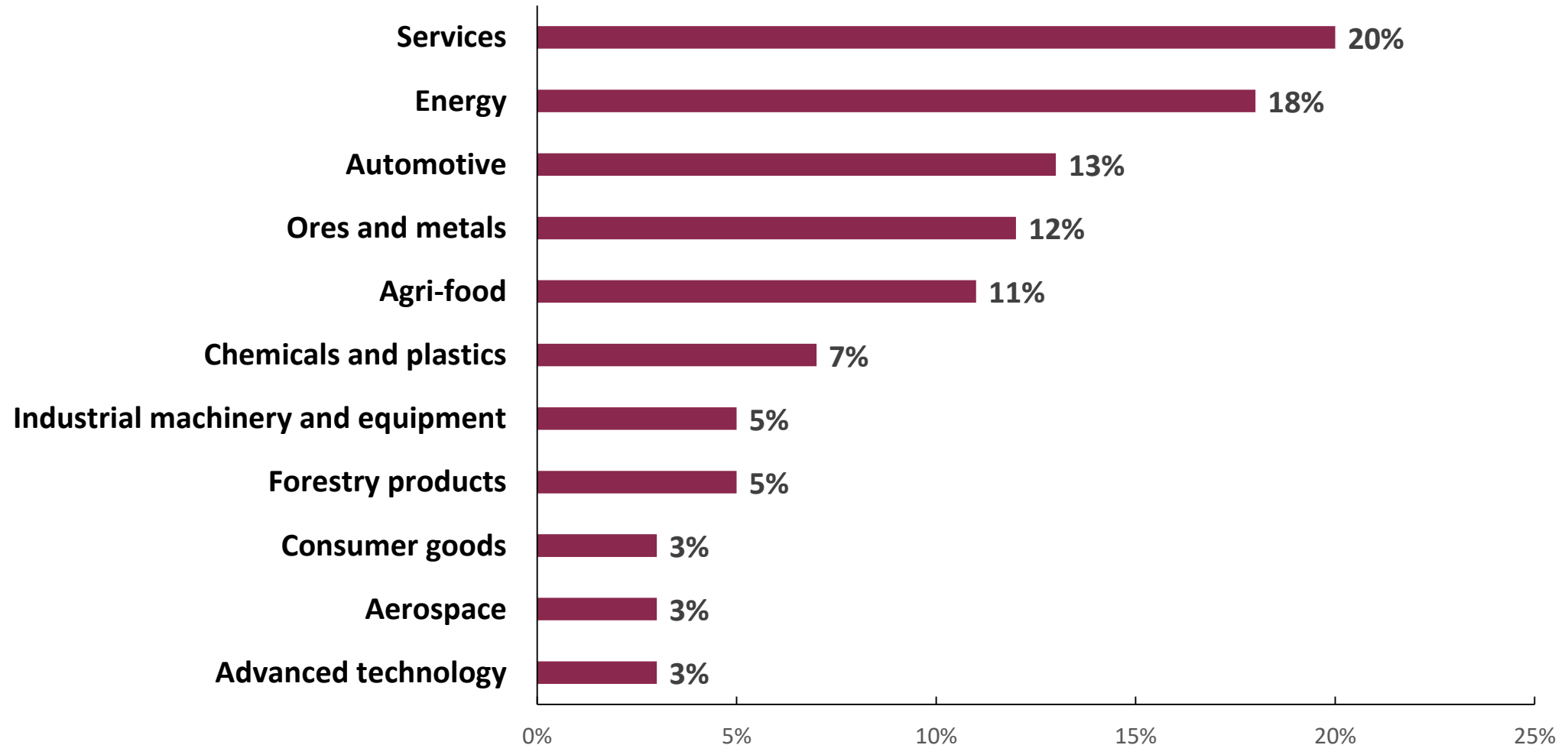
8. Slow economic growth



9. Sectoral disruptions

# COVID IMPLICATIONS FOR FUTURE EXPORTS?

## Share of Canadian Exports, 2019



# CANADA'S EXPORT PERFORMANCE, KEY INDUSTRIES

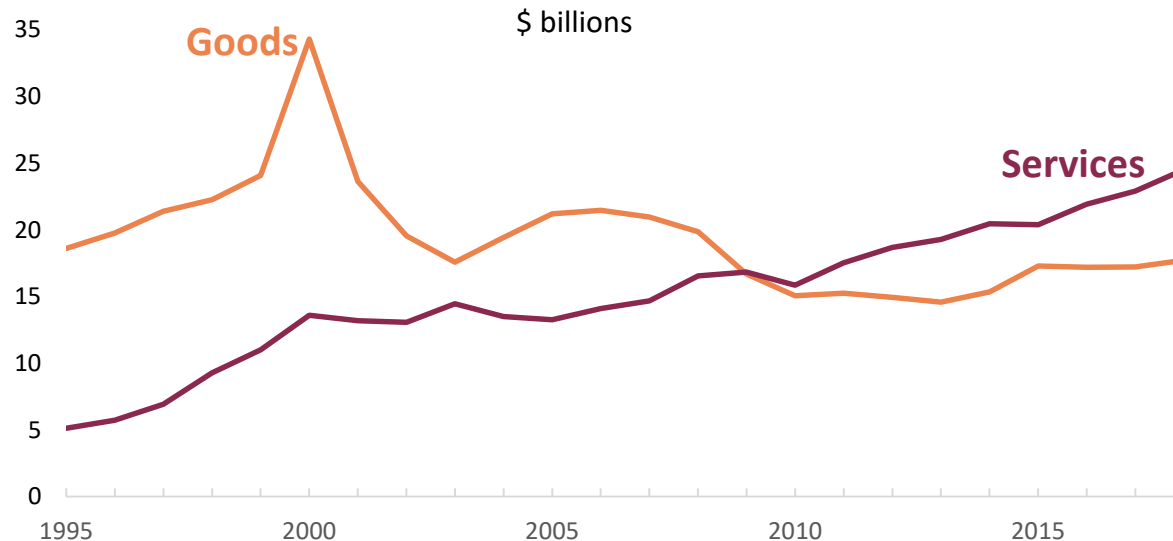
## Losing

	Share of Canadian exports*		Δ export share ppts
	2000	2018	
1. Autos	19.5%	11.5%	-8.0%
2. Forestry & products	11.5%	6.2%	-5.3%
3. Tech hardware	7.3%	2.5%	-4.7%
4. Clothes, textiles	1.2%	0.6%	-0.6%

## Winning

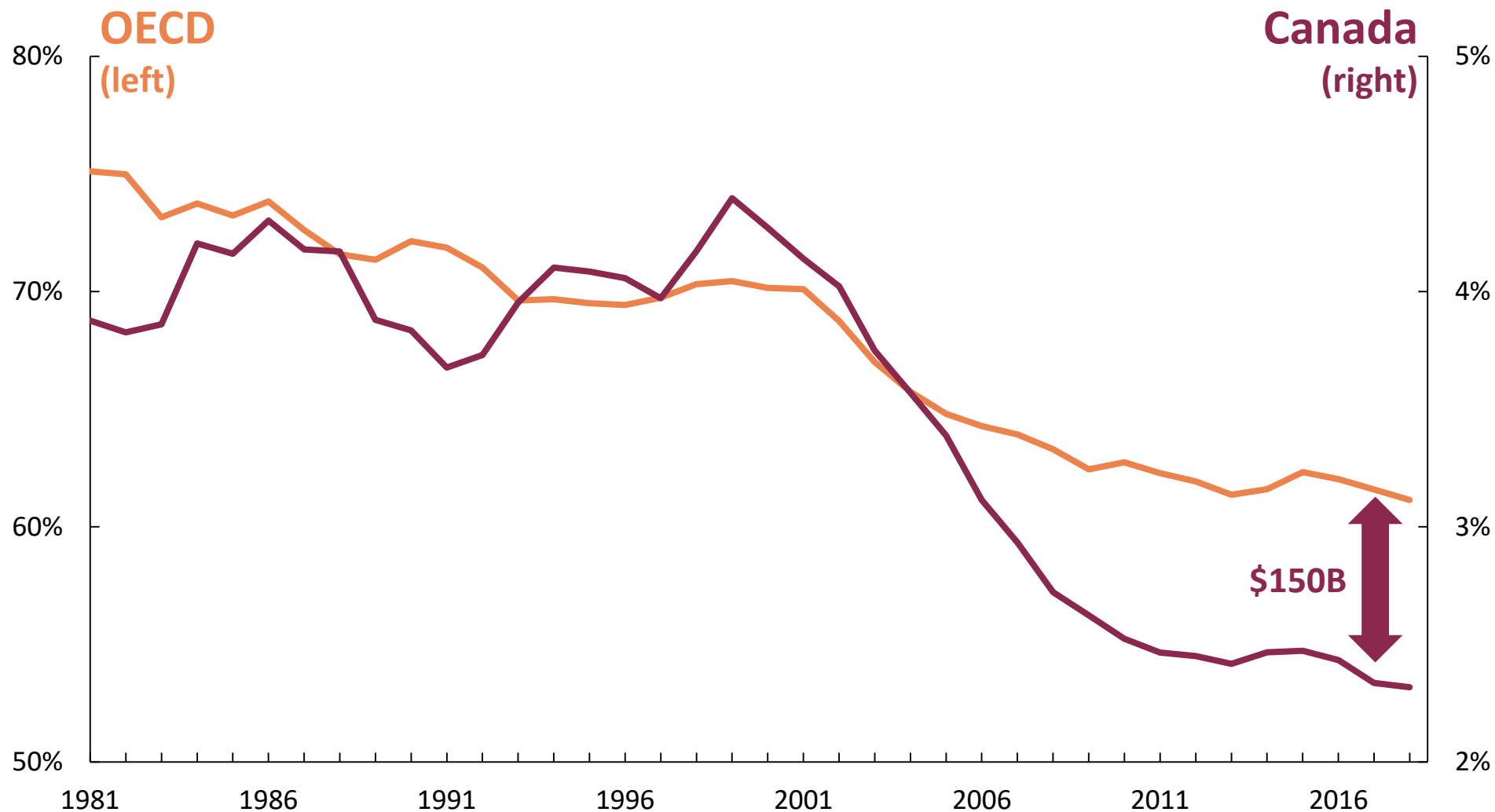
	Share of Canadian exports*		Δ export share ppts
	2000	2018	
1. Energy	10.3%	16.7%	6.4%
2. Mining, minerals, metals	6.4%	11.2%	4.8%
3. Agriculture	4.8%	8.7%	3.9%
4. High-skill services	4.6%	7.7%	3.1%
5. Pharma, medical equip	0.5%	1.8%	1.3%
6. Tourism	2.8%	3.6%	0.8%

## Canadian tech exports



# CANADIAN TRADE LAGGING OECD

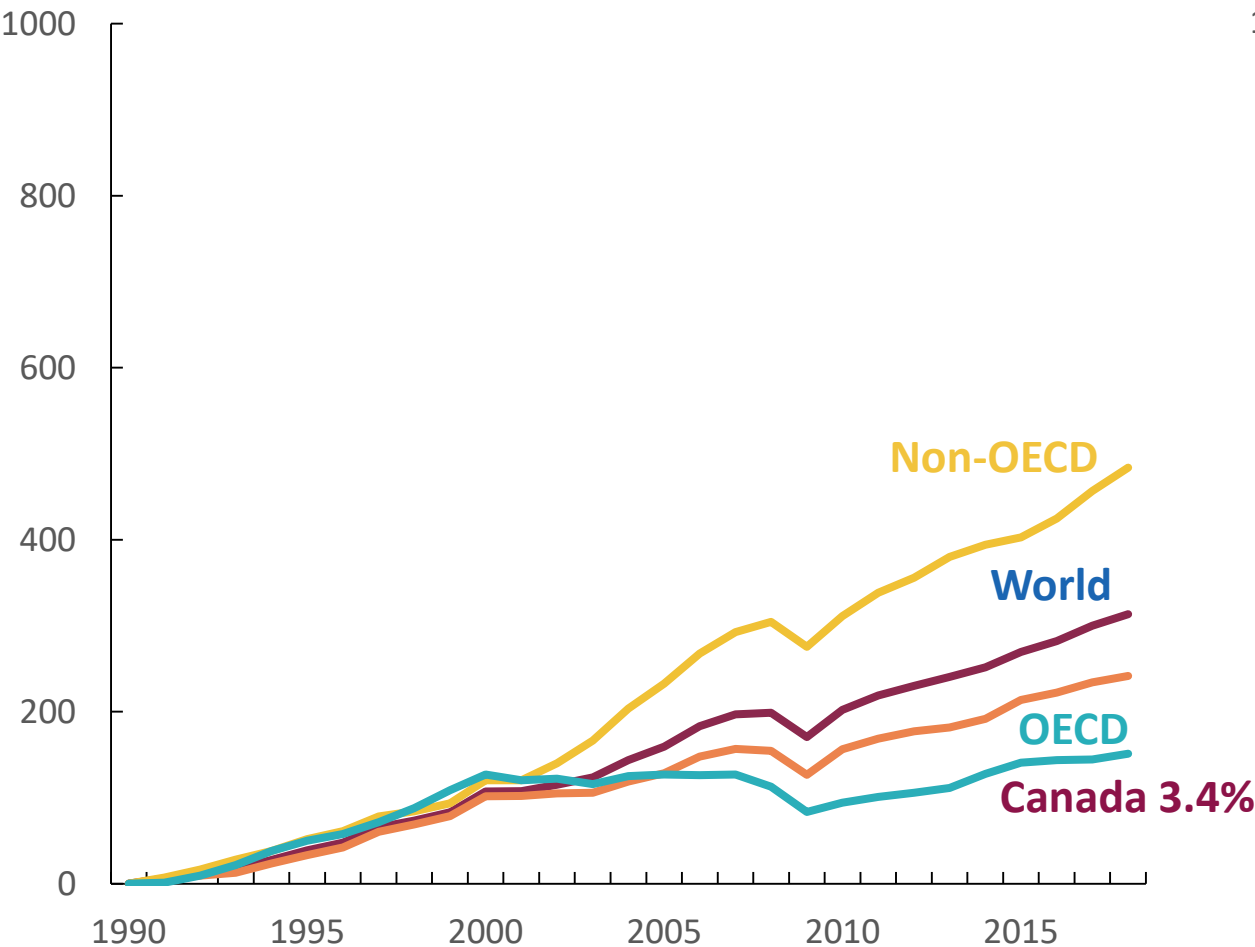
Goods and service export volumes, percent of global total



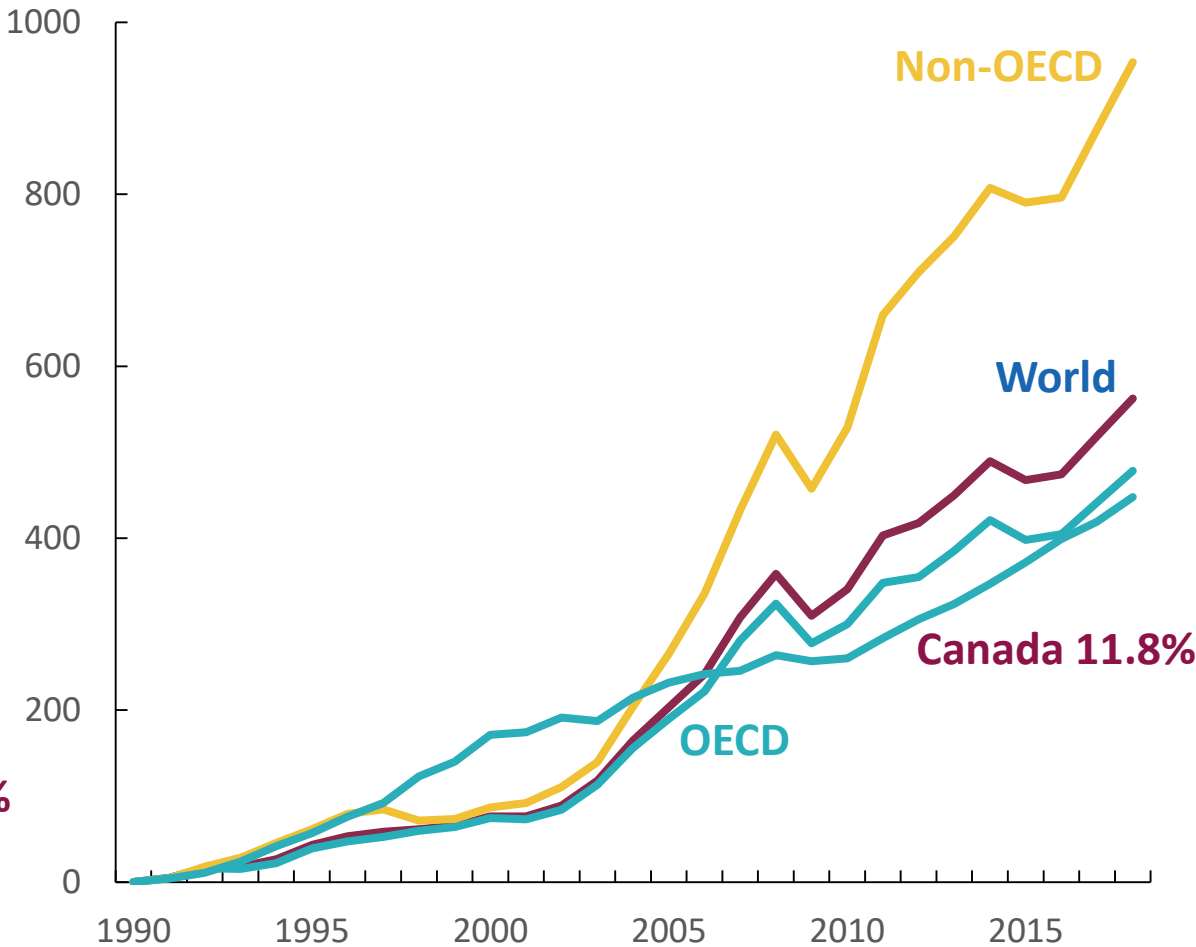
# CANADA-OECD GAP IN GOODS, NOT SERVICE EXPORTS

Cumulative percent growth

Goods



Services



# CANADA'S EXPORT DESTINATIONS

## Losing

	Share of Canadian exports		Δ export share
	2000	2018	ppts
1. U.S.	84.6%	73.9%	-10.7%
2. Japan	2.3%	2.1%	-0.3%

## Winning?

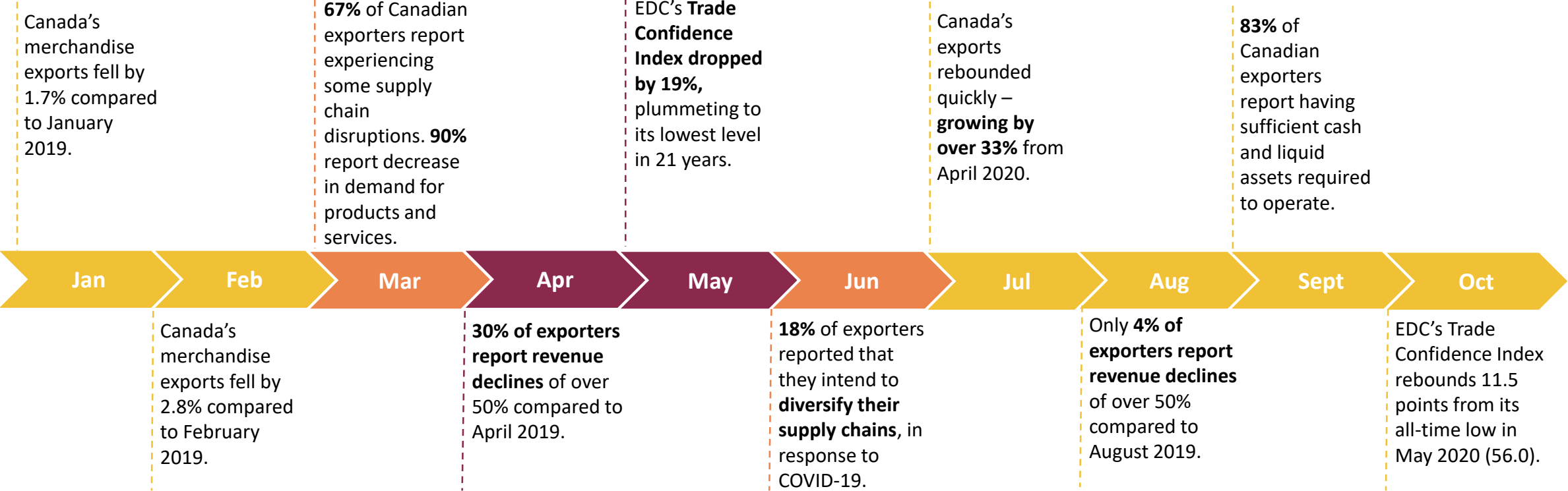
	Share of Canadian exports		Δ export share
	2000	2018	ppts
1. China	1.0%	4.2%	3.3%
2. U.K.	2.0%	3.7%	1.7%
3. Mexico	0.5%	1.2%	0.7%
4. India	0.2%	0.8%	0.7%
5. Switzerland	0.2%	0.6%	0.4%
6. South Korea	0.6%	1.0%	0.4%



# EXTRA MATERIAL



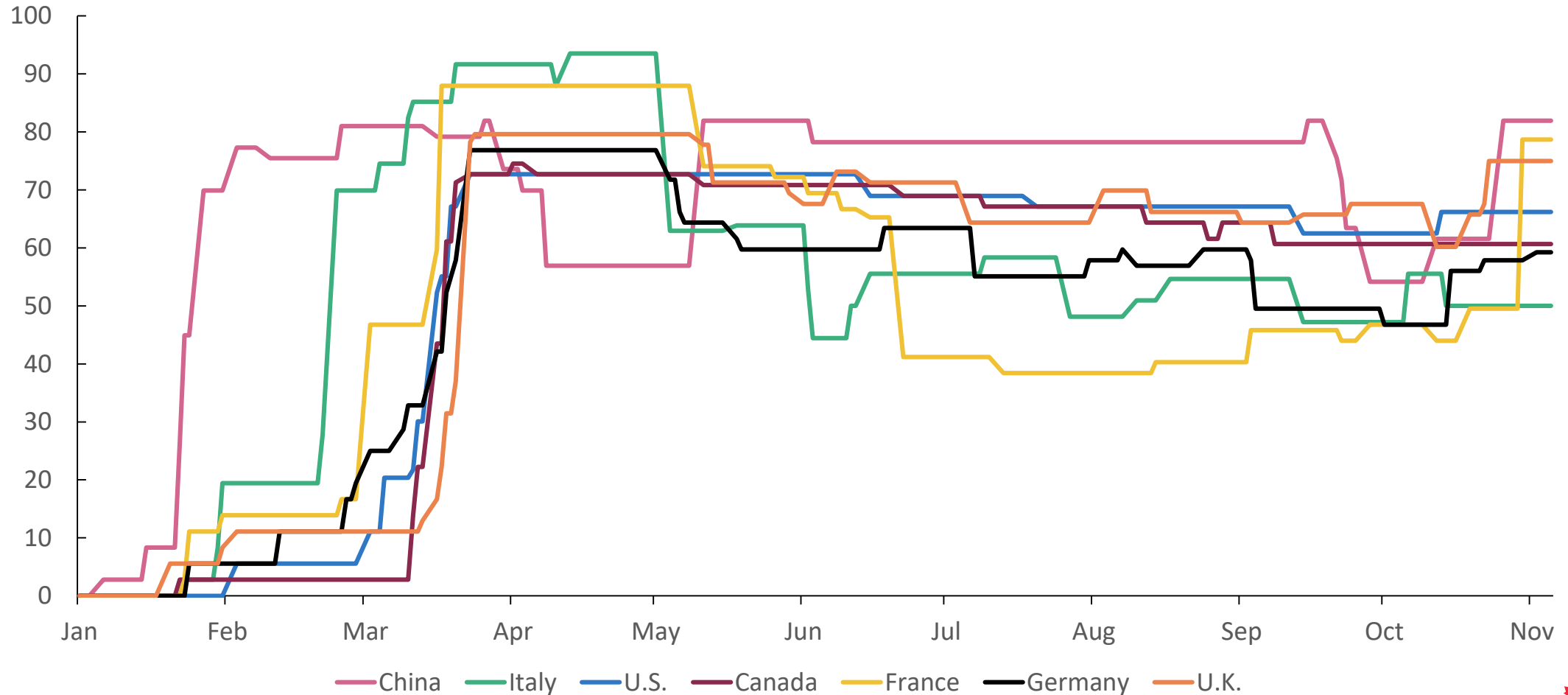
# OVERVIEW OF THE IMPACTS ON CANADIAN EXPORTERS



# RESTRICTIONS TIGHTENING AGAIN

Government restrictions stringency index

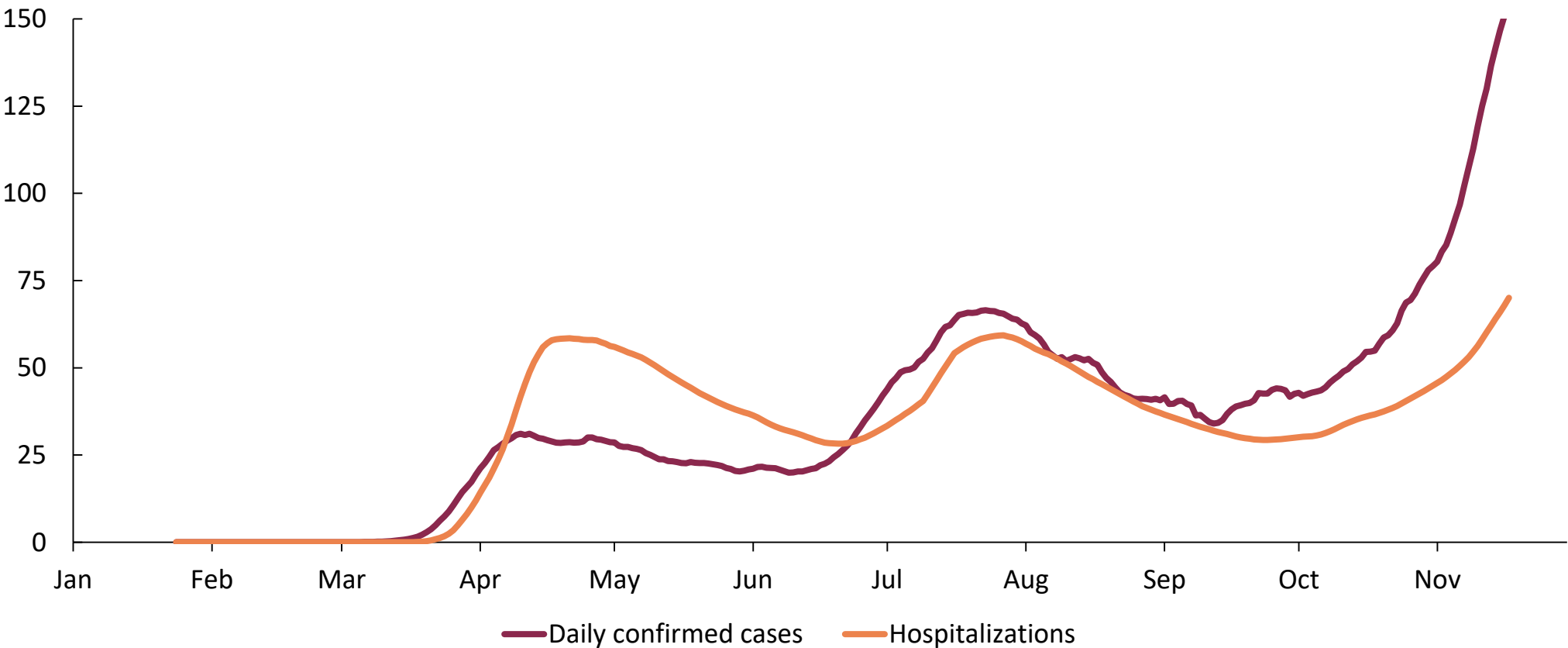
100=Most Strict



# THIRD COVID WAVE IN THE U.S.

## U.S. COVID-19 cases and hospitalizations

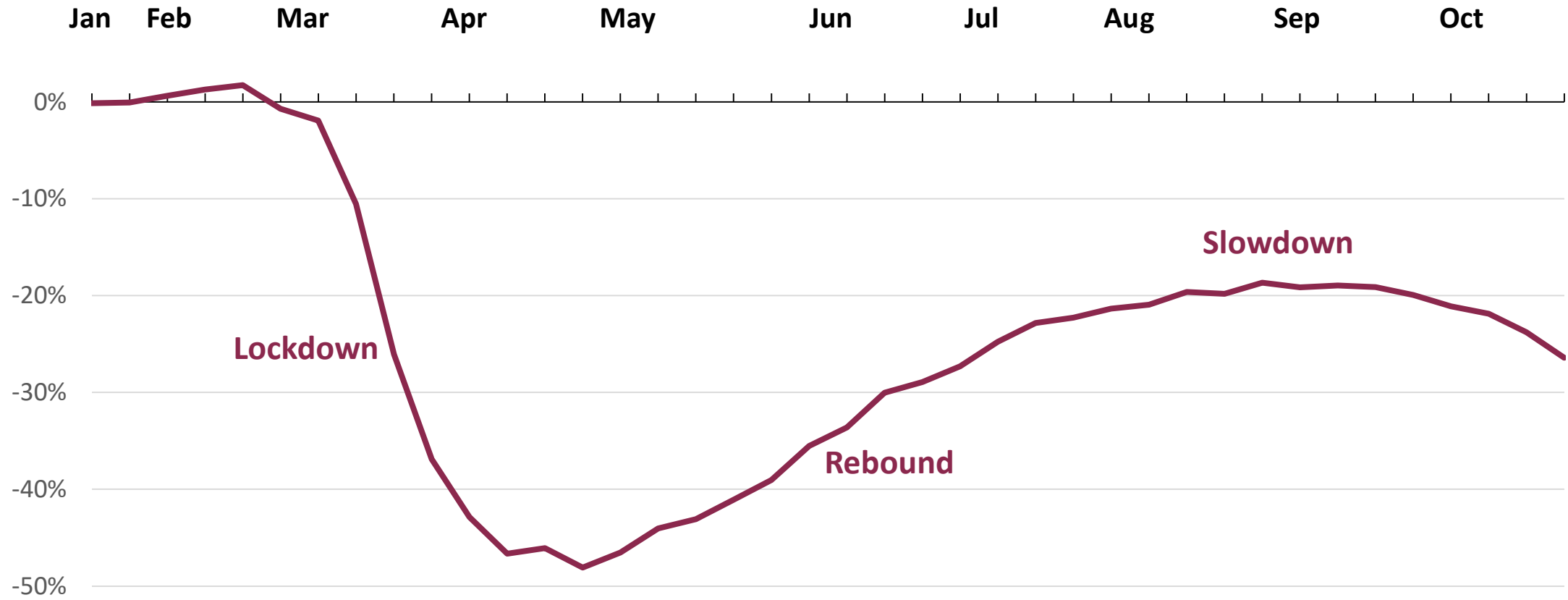
Thousands per week, average



# THREE PHASES OF CANADA'S RECOVERY SO FAR

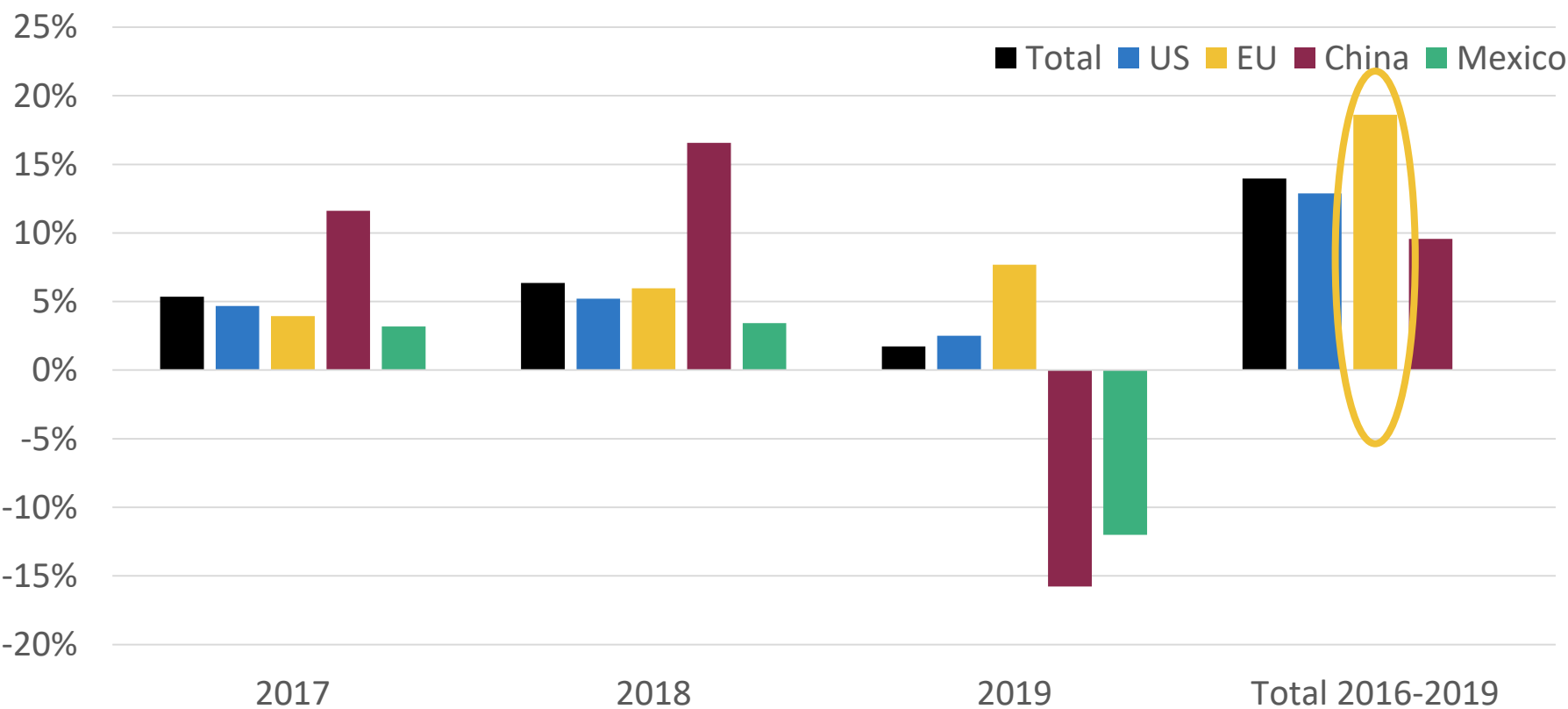
## Canadian Economic Recovery Tracker

Percent change from pre-COVID baseline



# CETA SUCCESS: THE EU HAS BEEN A HIGHER-GROWTH, STABLE, PREDICTABLE EXPORT MARKET FOR CANADA

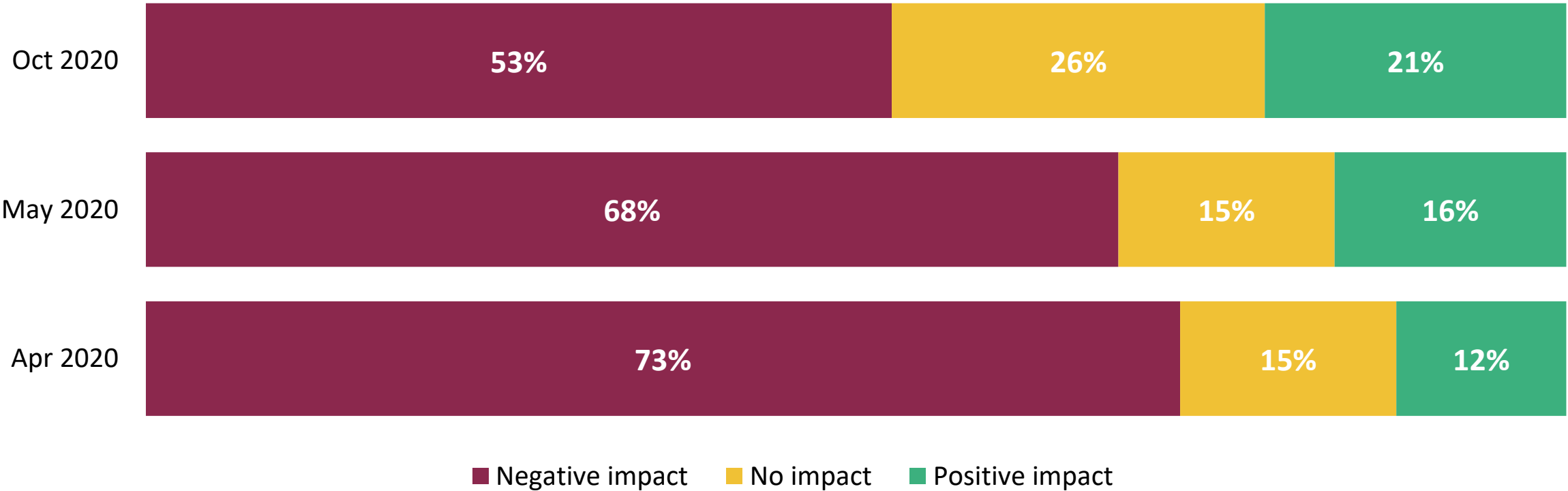
Annual Canadian export growth to various key destinations



# SIGNIFICANT NEGATIVE EXPORT SALES IMPACTS REMAIN, BUT POSITIVES ARE GROWING

What impact is COVID-19 having on your export sales?

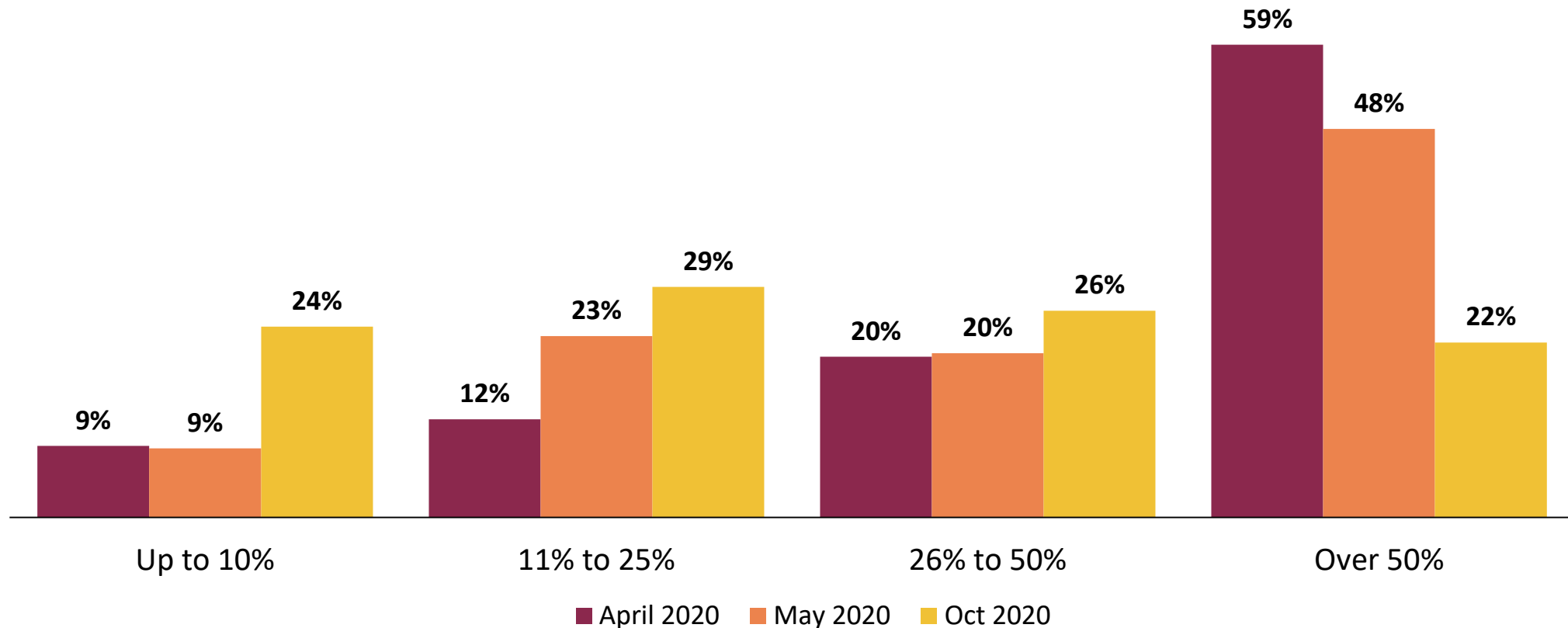
% of respondents



■ Negative impact   ■ No impact   ■ Positive impact

# OF THOSE NEGATIVELY IMPACTED, MOST REPORT EXPORT HITS OF 25% OR LESS, MUCH IMPROVED FROM APRIL

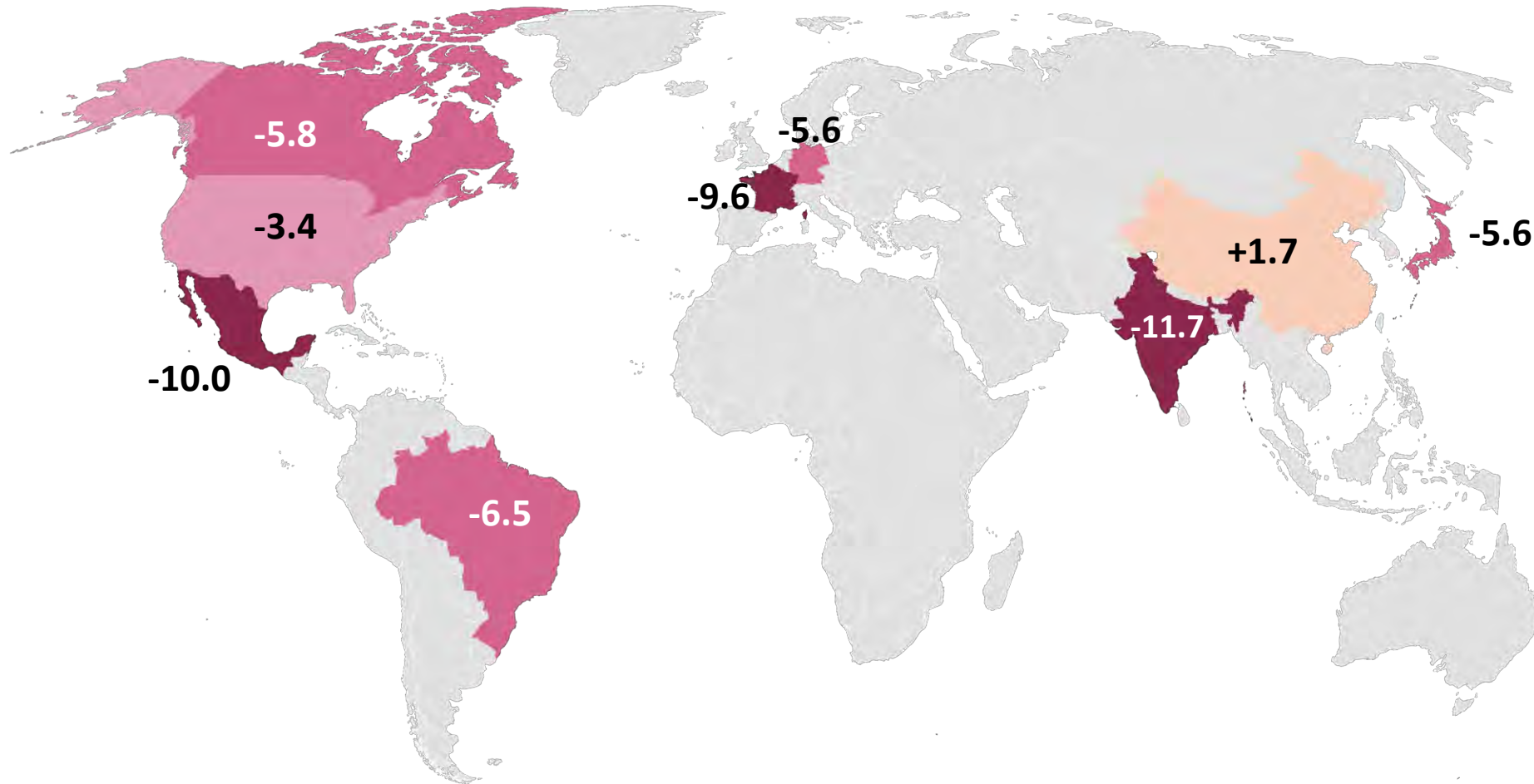
Percent of businesses reporting a decline in export sales\*  
(Grouped by extent of sales decline)





# 2020 GROWTH OUTLOOK

Real GDP growth, %

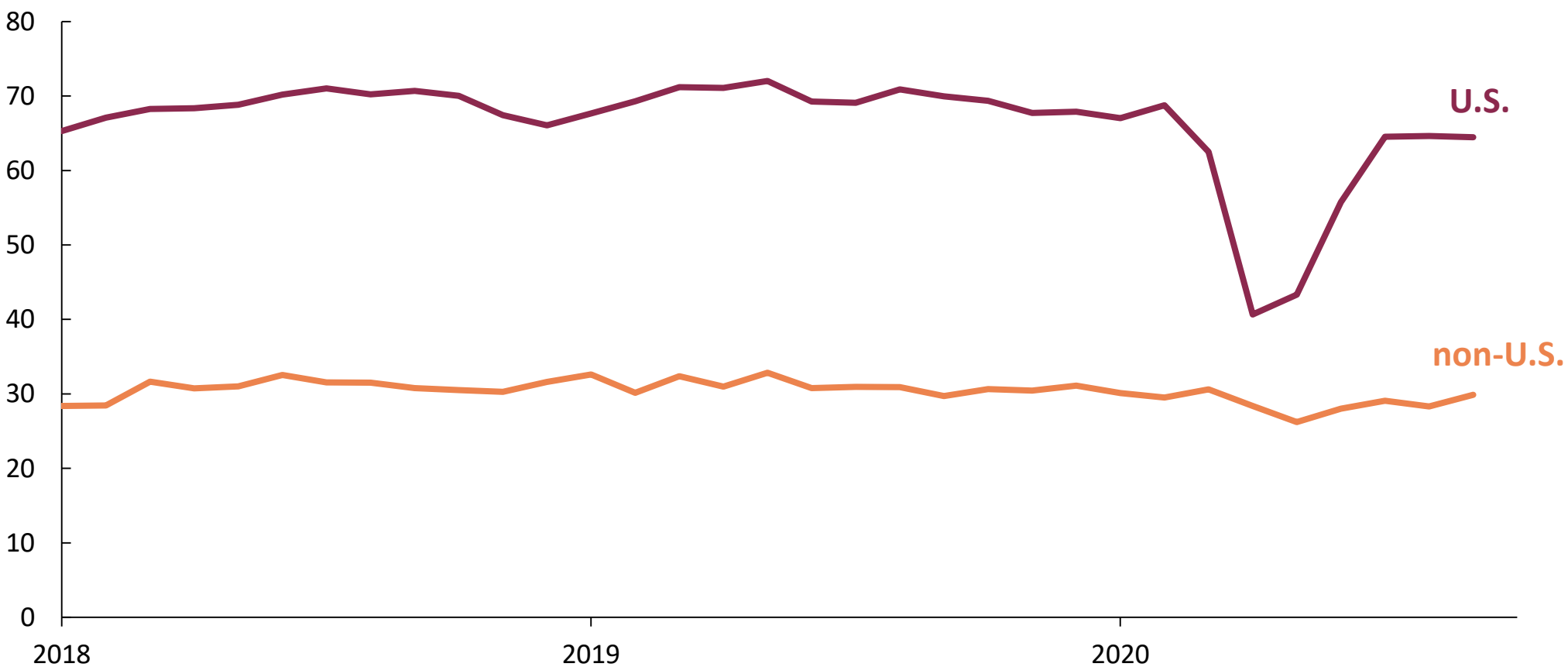


**-4.3%**  
World

# CANADIAN TRADE WITH U.S. AND NON-U.S. COUNTRIES

## Canada's merchandise trade

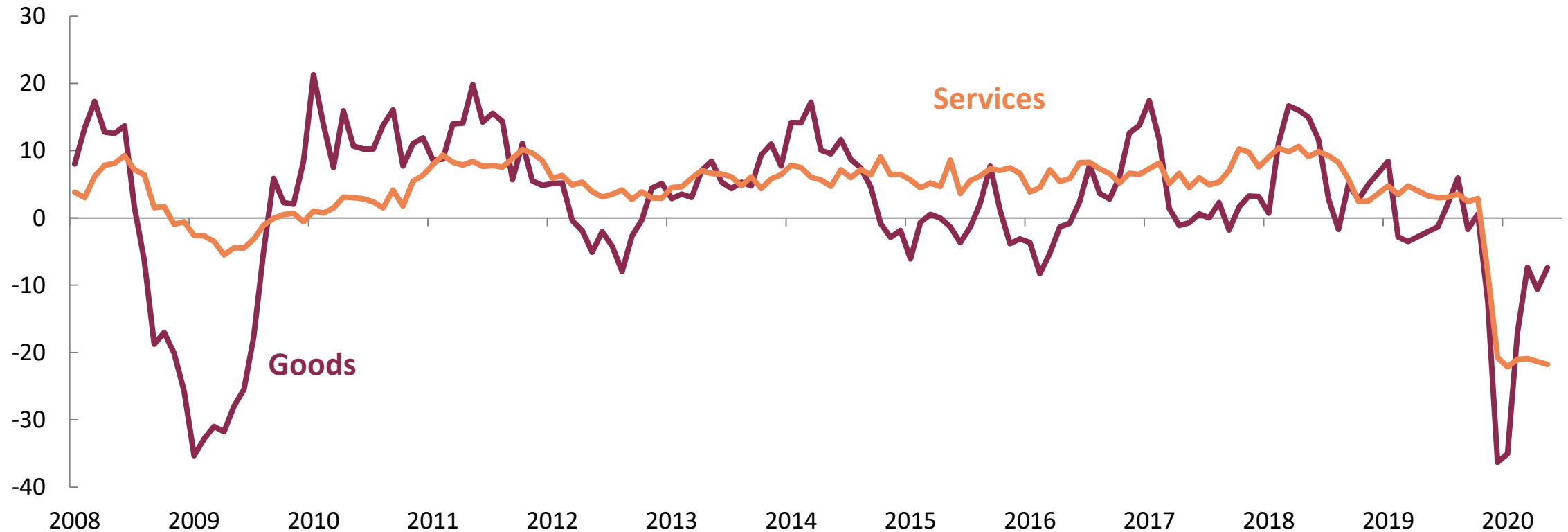
Billions of Canadian dollars



# HISTORICAL CONTEXT

## Canada's goods and services exports

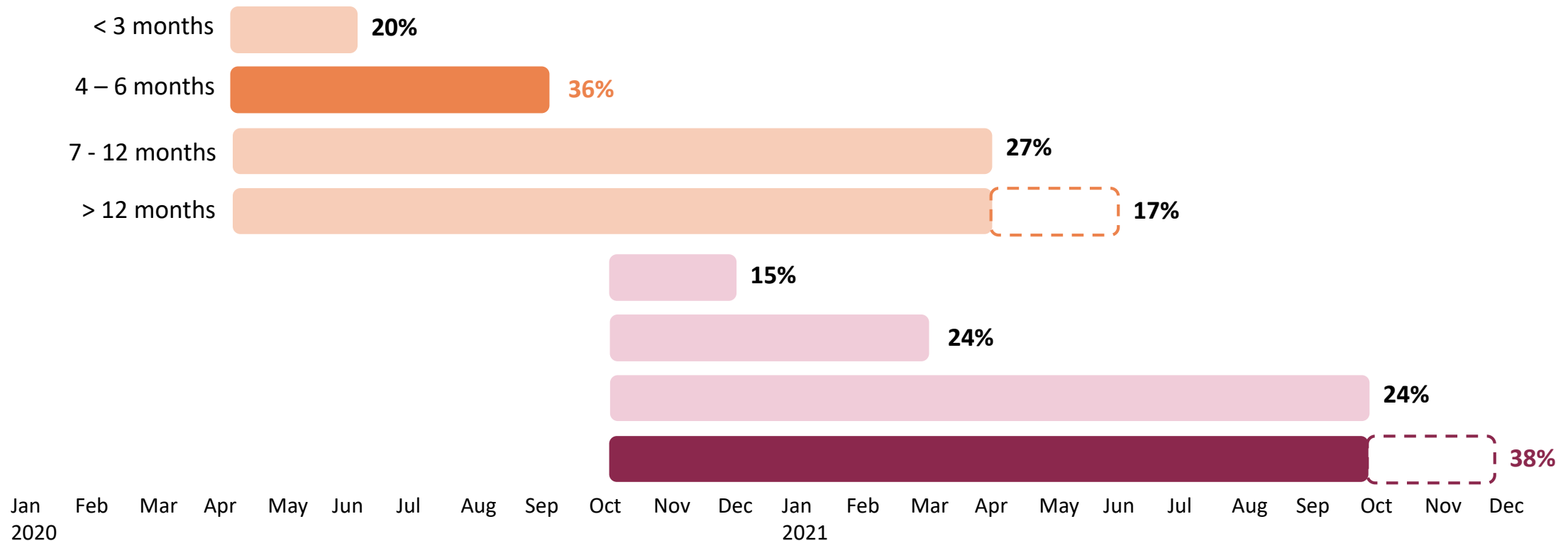
Year-over-year % change



# LONGER IMPACTS EXPECTED

How long do you think COVID-19 will impact your export sales?

% of respondents



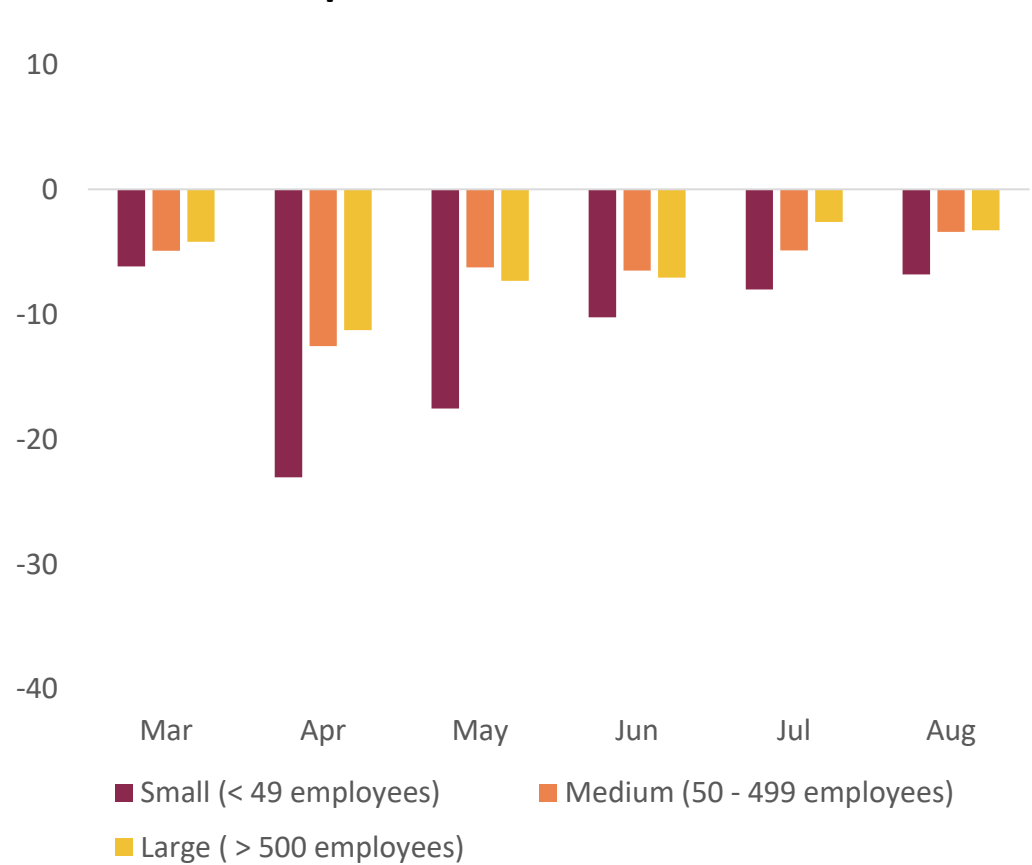
Duration of impact on export sales



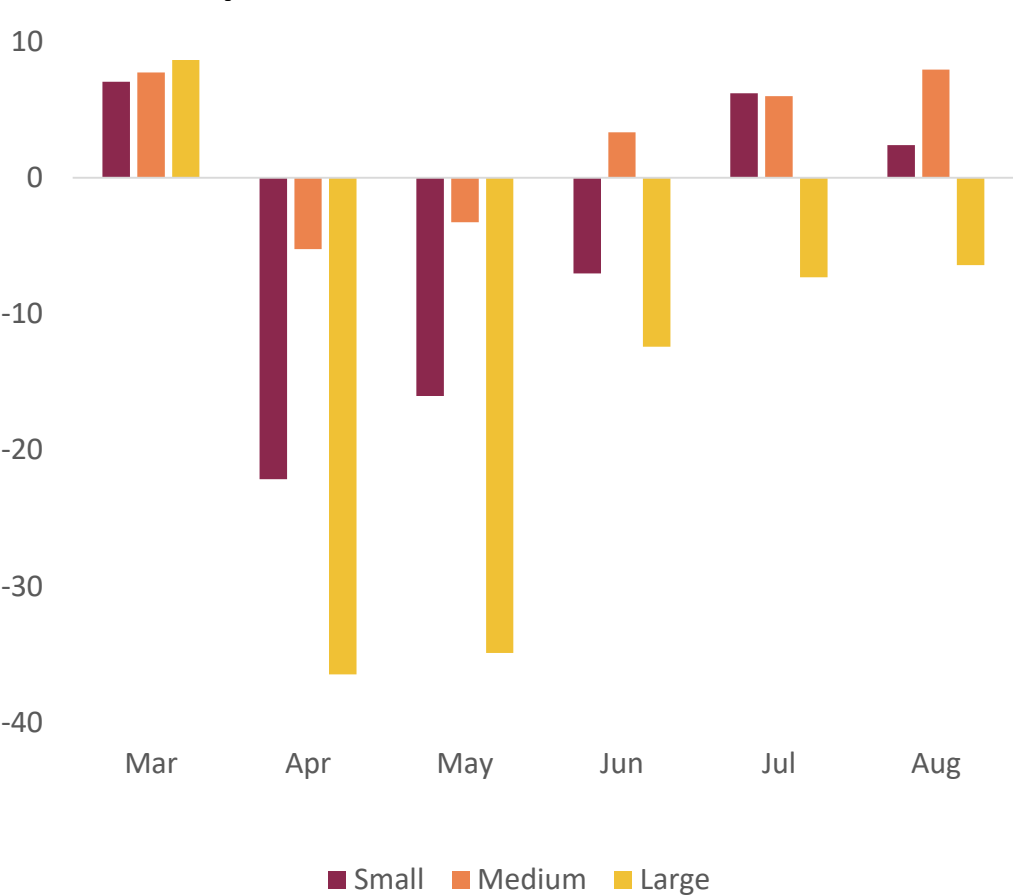
# VARIATION BY FIRM SIZE

% change in Canadian goods exports since Feb 2020, by firm size

Number of exporters

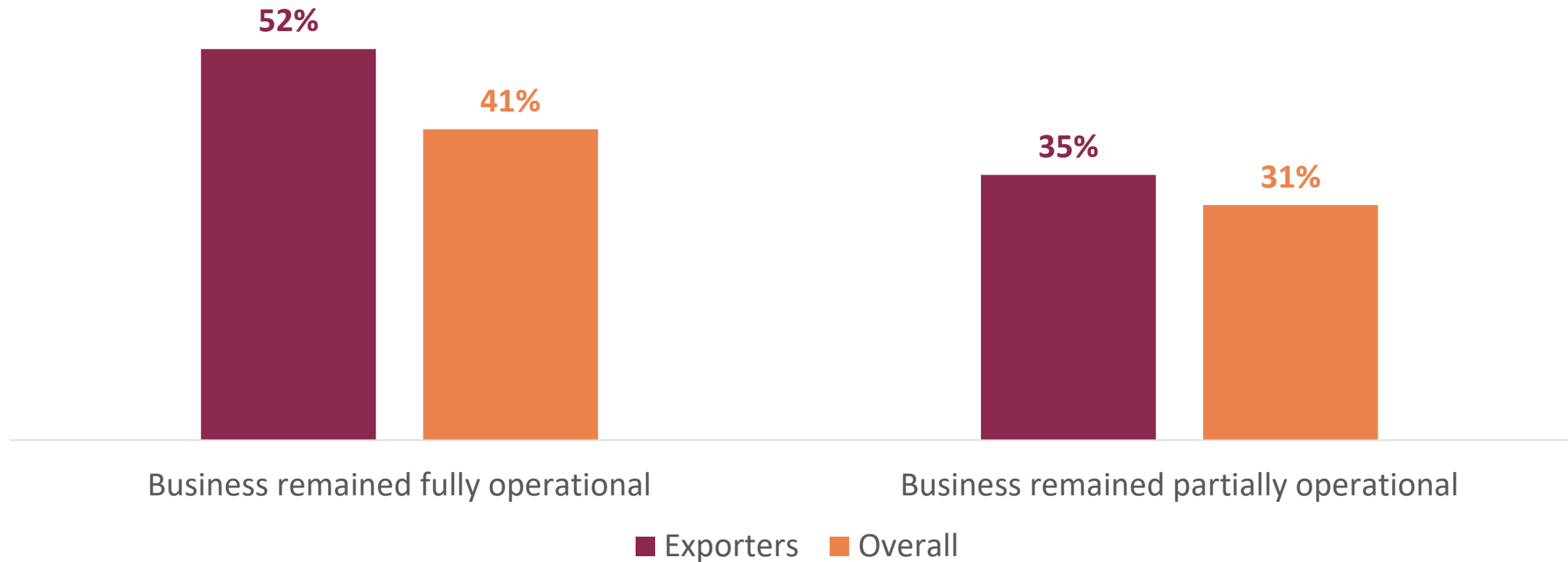


Value of exports



# EXPORTERS MORE RESILIENT

Impact of COVID-19 on business operations  
% of respondents



# TOP INTERNATIONAL BUSINESS CHALLENGES

**Biggest challenge to maintain/grow your business outside Canada?**

% of respondents



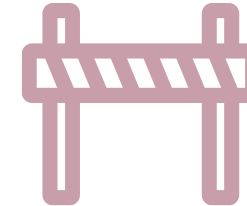
**41%**

**Travel restrictions**



**41%**

**Transportation/shipping**



**24%**

**Cancelled/delayed business**