TRADING DURING A GLOBAL PANDEMIC

BETTER THAN FEARED, BUT SLOW AND UNEVEN ROAD AHEAD

Queen’s Institute on Trade Policy
November 23, 2020

Stephen Tapp,
Deputy Chief Economist and Trade Research Director
THE PANDEMIC ECONOMY
COVID-19

58 million cases

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

% of GDP

Direct discretionary fiscal support

% of GDP

Sources: Haver Analytics, Federal Reserve Board, IHS Markit, IMF COVID-19 policy tracker
STABILIZED FINANCIAL MARKETS

Stock market
S&P 500 index, % change since Jan 2020

U.S. investment grade corporate bonds
Annualized yields, %

Source: Haver Analytics
**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

Sources: EDC Economics, Census Bureau, Bureau of Economic Analysis
ECONOMIC DYNAMICS

U.S. real gross domestic product
Trillions of 2012 dollars

Sources: Haver Analytics, IHS Markit
GLOBAL TRADE DURING COVID
GLOBAL TRADE SLOWED BEFORE COVID

Global merchandise travel volumes
Year-over-year, % change

World merchandise trade growth
2019 -0.1%

Source: CPB Netherlands Bureau for Economic Policy Analysis
“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

“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

WTO forecast
2020: -9%
2021: +7%

Sources: CPB Netherlands, WTO
SUPPLY CHAINS LARGELY HELD UP

Global merchandise trade
% of GDP

Sources: WTO, World Bank and IMF. 2020 EDC Economics estimate
LED BY ASIA

Goods exports, dynamics by region
% relative to pre-COVID levels

- China
- Emerging markets (excl. China)
- Japan
- Eastern Europe
- Euro Area
- United States

Sources: EDC Economics, Haver Analytics
SERVICES TRADE HIT HARDEST

Global commercial services trade
Year-over-year, % change

Key services components
Year-over-year, % change

Travel, -81%

Transport, -31%

Other, -9%

Source: WTO
CANADIAN TRADE DATA
COVID CREATED A HUGE HOLE

Canadian export forecasts
Goods and services, billions of dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>October 2019</th>
<th>October 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>-$117B (-16%)</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nominal, annual % change</th>
<th>2019</th>
<th>2020*</th>
<th>2021*</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2020 forecast</td>
<td>2</td>
<td>-16</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: EDC Global Export Forecast
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

Sources: Statistics Canada, EDC Economics
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

Sources: EDC Economics, Statistics Canada, Oxford University
CANADA OUTPERFORMING U.S. AND EUROPE

Merchandise trade
% change since Jan 2020

Services trade
% change since Jan 2020

Sources: Haver Analytics, EDC Economics
SURVEYING THE DAMAGE
TRADE CONFIDENCE REBOUND FROM ALL-TIME LOW

EDC Trade Confidence Index

Historical average

Source: EDC Trade Confidence Index
ONLINE CAPABILITIES MITIGATED LARGE DECLINES

Report export sales declines of 50% or more

% of respondents

High online capabilities: 33%
Low online capabilities: 58%

Note: “High online capabilities” can do over 50% of sales online; “low” can do <50% of sales online.
SUPPLY CHAINS ADJUSTING

Have changed suppliers
% of respondents

- Changed suppliers (domestic): 7% (Apr 2020), 14% (Oct 2020)
- Changed suppliers (international): 9% (Apr 2020), 11% (Oct 2020)

Intend to diversify supply chains
% of respondents, “very likely” or “likely”

- May-Jul 2020: 18%
- Sep-Oct 2020: 21%

Sources: EDC COVID-19 Research Panel, Canadian Chamber of Commerce, Statistics Canada
RECORD NUMBER OF EXPORTERS PLAN TO DIVERSIFY

Planning to export to new countries
% of respondents

Planning to invest outside Canada
% of respondents

Source: EDC Trade Confidence Index
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
Lots of free reports here
https://irpp.org/research/trade/
Stephen Tapp
Deputy Chief Economist, Export Development Canada

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Stephen Tapp

@Stephen_Tapp
## CANADIAN EXPORT FORECAST, BY SECTOR

<table>
<thead>
<tr>
<th></th>
<th>$Billions, CAD</th>
<th>Share of Canadian Exports (% of total)</th>
<th>Export Growth (nominal annual % change)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2019</td>
<td>2019</td>
</tr>
<tr>
<td><strong>TOTAL EXPORTS</strong></td>
<td>679</td>
<td>100%</td>
<td>2%</td>
</tr>
<tr>
<td>Total services</td>
<td>134</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>Total goods</td>
<td>545</td>
<td>80%</td>
<td>1%</td>
</tr>
<tr>
<td>Advanced technology</td>
<td>21</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Aerospace</td>
<td>19</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Agri-food</td>
<td>75</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Automotive</td>
<td>86</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>Chemicals and plastics</td>
<td>47</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>22</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Energy</td>
<td>124</td>
<td>18%</td>
<td>1%</td>
</tr>
<tr>
<td>Forestry products</td>
<td>31</td>
<td>5%</td>
<td>-15%</td>
</tr>
<tr>
<td>Industrial machinery and equipment</td>
<td>32</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Ores and metals</td>
<td>81</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total goods (excluding energy)</strong></td>
<td>400</td>
<td>59%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total goods (excluding energy and autos)</strong></td>
<td>314</td>
<td>46%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: EDC Global Export Forecast, October 2020
CONNECTING THE SHORT-RUN AND THE LONG-RUN
COVID ACCELERATING LONGER-RUN TRENDS

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

- Services: 20%
- Energy: 18%
- Automotive: 13%
- Ores and metals: 12%
- Agri-food: 11%
- Chemicals and plastics: 7%
- Industrial machinery and equipment: 5%
- Forestry products: 5%
- Consumer goods: 3%
- Aerospace: 3%
- Advanced technology: 3%
## CANADA’S EXPORT PERFORMANCE, KEY INDUSTRIES

### Losing

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share of Canadian exports*</th>
<th>Δ export share ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Autos</td>
<td>19.5%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>2. Forestry &amp; products</td>
<td>11.5%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>3. Tech hardware</td>
<td>7.3%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>4. Clothes, textiles</td>
<td>1.2%</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

### Winning

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share of Canadian exports*</th>
<th>Δ export share ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Energy</td>
<td>10.3%</td>
<td>6.4%</td>
</tr>
<tr>
<td>2. Mining, minerals, metals</td>
<td>6.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>3. Agriculture</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>4. High-skill services</td>
<td>4.6%</td>
<td>3.1%</td>
</tr>
<tr>
<td>5. Pharma, medical equip</td>
<td>0.5%</td>
<td>1.3%</td>
</tr>
<tr>
<td>6. Tourism</td>
<td>2.8%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
CANADIAN TRADE LAGGING OECD

Goods and service export volumes, percent of global total

OECD
(Left)

Canada
(Right)

$150B
CANADA-OECD GAP IN GOODS, NOT SERVICE EXPORTS

Cumulative percent growth

Goods

Services

Non-OECD

World

OECD

Canada 3.4%

Canada 11.8%
# CANADA’S EXPORT DESTINATIONS

## Losing

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2018</th>
<th>Δ export share (ppts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>84.6%</td>
<td>73.9%</td>
<td>-10.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>2.3%</td>
<td>2.1%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

## Winning?

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2018</th>
<th>Δ export share (ppts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1.0%</td>
<td>4.2%</td>
<td>3.3%</td>
</tr>
<tr>
<td>U.K.</td>
<td>2.0%</td>
<td>3.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.5%</td>
<td>1.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>India</td>
<td>0.2%</td>
<td>0.8%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.2%</td>
<td>0.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.6%</td>
<td>1.0%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>
EXTRA MATERIAL
Canada's merchandise exports fell by 1.7% compared to January 2019.

67% of Canadian exporters report experiencing some supply chain disruptions. 90% report decrease in demand for products and services.

EDC’s Trade Confidence Index dropped by 19%, plummeting to its lowest level in 21 years.

Canada’s exports rebounded quickly – growing by over 33% from April 2020.

83% of Canadian exporters report having sufficient cash and liquid assets required to operate.

18% of exporters reported that they intend to diversify their supply chains, in response to COVID-19.

30% of exporters report revenue declines of over 50% compared to April 2019.

Only 4% of exporters report revenue declines of over 50% compared to August 2019.

EDC’s Trade Confidence Index rebounds 11.5 points from its all-time low in May 2020 (56.0).

OVERVIEW OF THE IMPACTS ON CANADIAN EXPORTERS

Sources: EDC; Statistics Canada; Canadian Chamber of Commerce; Haver Analytics
RESTRICTIONS TIGHTENING AGAIN

Government restrictions stringency index

100=Most Strict

Source: Oxford University
THIRD COVID WAVE IN THE U.S.

U.S. COVID-19 cases and hospitalizations
Thousands per week, average

Source: The Atlantic
THREE PHASES OF CANADA’S RECOVERY SO FAR

Canadian Economic Recovery Tracker
Percent change from pre-COVID baseline

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

Annual Canadian export growth to various key destinations

Source: EDC Economics
SIGNIFICANT NEGATIVE EXPORT SALES IMPACTS REMAIN, BUT POSITIVES ARE GROWING

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

Oct 2020
- 53% Negative impact
- 26% No impact
- 21% Positive impact

May 2020
- 68% Negative impact
- 15% No impact
- 16% Positive impact

Apr 2020
- 73% Negative impact
- 15% No impact
- 12% Positive impact

Note: “Don’t knows” excluded.
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)

*226 firms noted “negative” export sales impacts, 95 firms don’t export.
2020 GROWTH OUTLOOK
Real GDP growth, %

-5.8
-3.4
-10.0
-6.5
-9.6
-5.6
-11.7
+1.7
-5.6

-4.3%
World

Source: EDC Global Economic Outlook, October 2020
CANADIAN TRADE WITH U.S. AND NON-U.S. COUNTRIES

Canada’s merchandise trade
Billions of Canadian dollars

Source: Haver Analytics, Statistics Canada
HISTORICAL CONTEXT

Canada’s goods and services exports
Year-over-year % change

Sources: Haver Analytics, EDC Economics
LONGER IMPACTS EXPECTED

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

% of respondents

- < 3 months: 20%
- 4 – 6 months: 36%
- 7 - 12 months: 27%
- > 12 months: 17%

Duration of impact on export sales

Source: EDC COVID-19 research panel
VARIATION BY FIRM SIZE

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

Number of exporters

Value of exports

Sources: Statistics Canada, EDC Economics
EXPORTERS MORE RESILIENT

Impact of COVID-19 on business operations

% of respondents

- Business remained fully operational
  - Exporters: 52%
  - Overall: 41%

- Business remained partially operational
  - Exporters: 35%
  - Overall: 31%

Sources: Canadian Chamber of Commerce and Statistics Canada
TOP INTERNATIONAL BUSINESS CHALLENGES

Biggest challenge to maintain/grow your business outside Canada?
% of respondents

- Travel restrictions: 41%
- Transportation/shipping: 41%
- Cancelled/delayed business: 24%

Source: EDC COVID-19 research panel