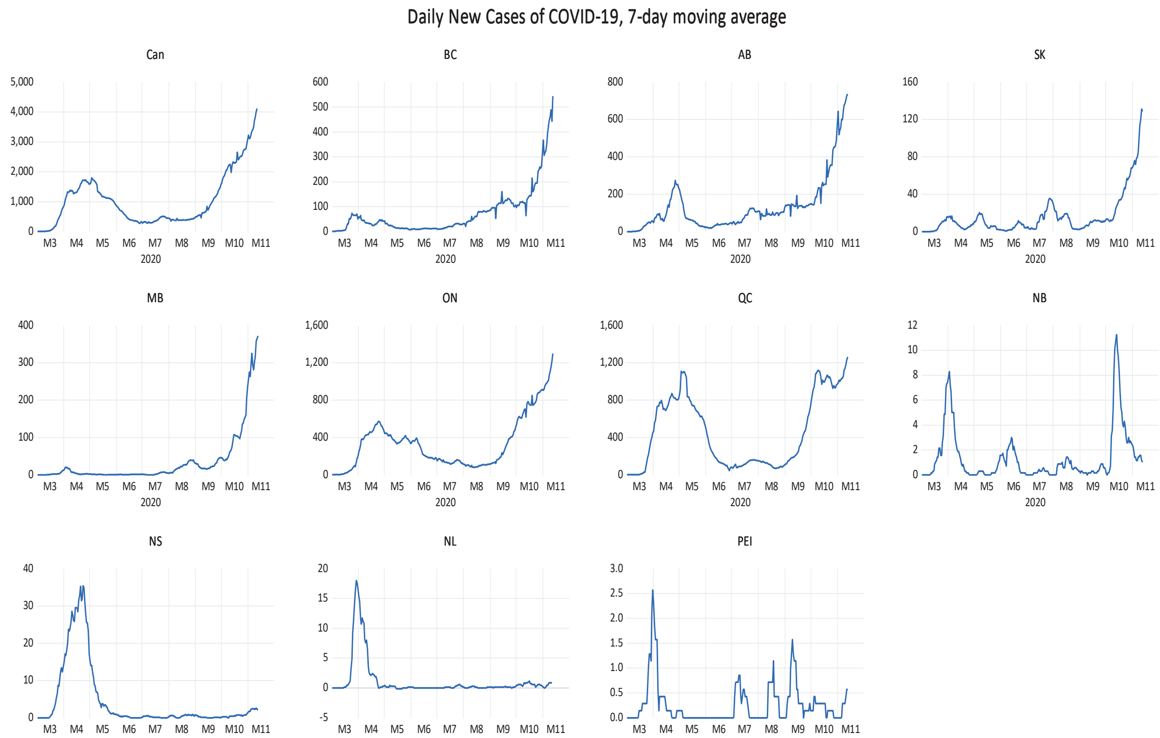
Economic Commentary

November 2020

Winter of Discontent: COVID-19 Second Wave to Stall Economic Recovery

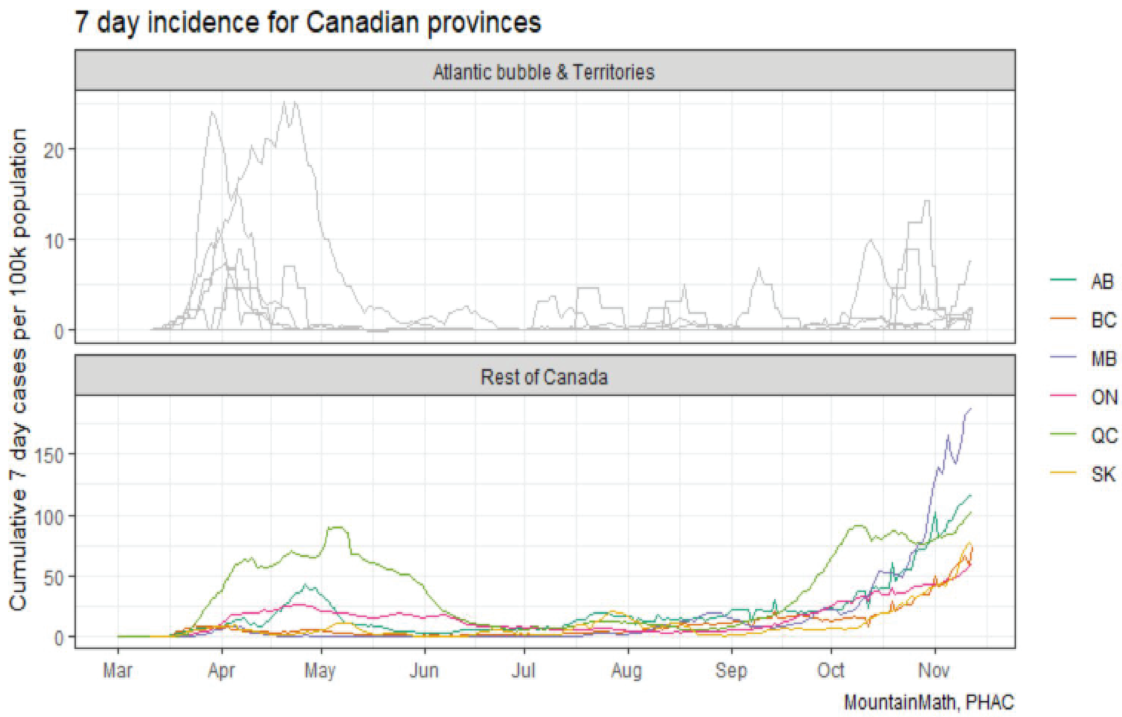
Over the past week, we have seen a bit of a rollercoaster of emotion in the ongoing COVID-19 pandemic. Markets were filled with jubilation with news that the Pfizer and BioNtech vaccine outperformed expectations with Stage 3 trials, achieving 90 per cent effectiveness in keeping people from falling ill from the virus. There remain plenty of questions that need to be answered, including long-term effectiveness and effects, storage and transportation issues, and others. That said, it triggered a risk on shift for markets with equities and commodities surging amidst hopes for a normalization of the economy, global travel, and end to rolling lockdowns.
If the vaccine proves effective, outlook for 2021 and beyond has indeed brightened. At the same time, the here and now of the current reality we are embarking on a winter of discontent as the second wave of COVID-19 sweeps across the country and cuts short the economic recovery phase that has emerged since economies re-opened following the initial wave.

The incoming data is sobering. Canada has followed in the footsteps of other countries such as France and the UK. After successfully wrestling the first wave down through the summer months, the fall has led to rapid emergence of cases as colder weather forces individuals inside and social gatherings are occurring in closer quarters, while COVID- fatigue may also be factoring into rapidly rising case counts.
The seven-day average of daily new cases reached 4,120 on November 12 as cases accelerated from September onwards. Canadian cases are more than double levels observed during the first wave in May as illnesses mount. Rising testing capacity has likely contributed to the rise in case counts, but positivity rates are climbing and look to get worse. Outside of Atlantic Canada, the bubble in which virus spread has been kept in check, levels are surging across the country. B.C. is averaging 500 cases per day, 10 times those observed in the Spring. Ontario case counts doubled since May to 1,100, while Manitoba is up to 372 compared to numbers in the teens earlier this year.



Source: CBC, https://newsinteractives.cbc.ca/coronavirustracker/

Data compiled compiled by MountainMath based on public health data and adjusted for population counts show the same story. Per capital cumulative 7-day case counts are rising sharply across provinces and outside the Atlantic are well above those observed in the Spring.



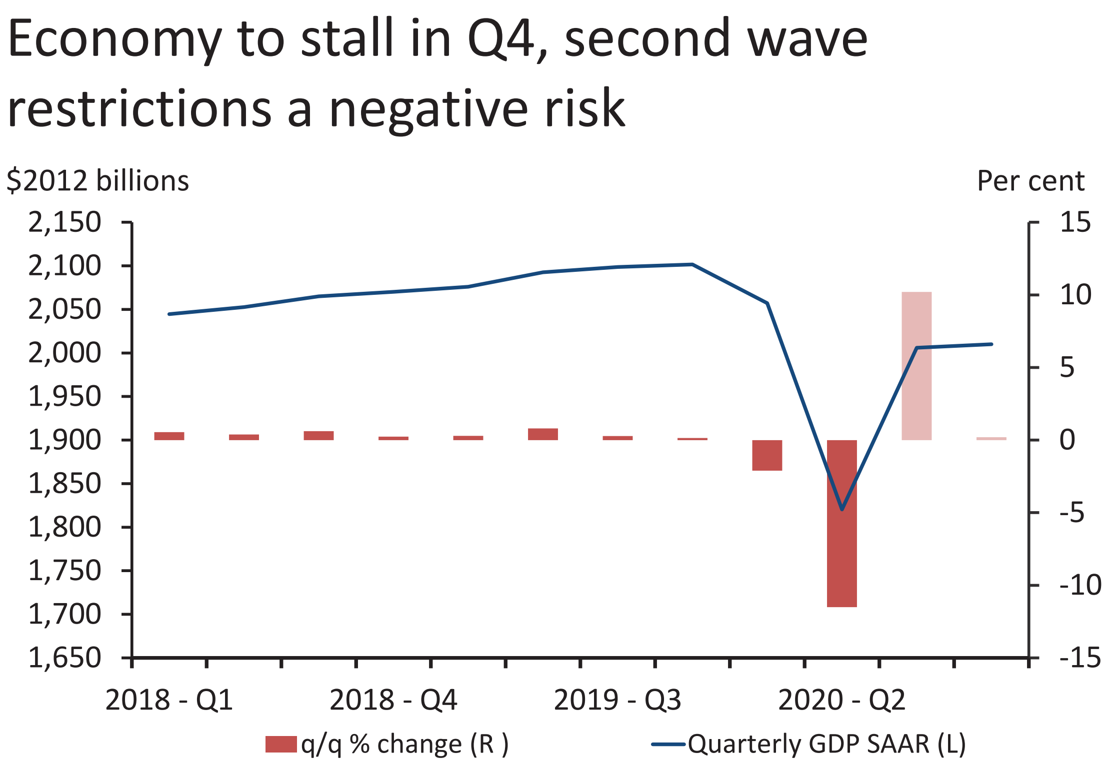
The impacts of rising case counts and threats to the health system have crystallized into policy measures to try again to hammer the curve back to a more manageable pace. Measures have differed amongst provinces. Manitoba has moved to a code red in the province, limiting size of gatherings to 5 people, closures of non-essential retail, gyms and various private services, and restricted dine in at restaurants. B.C. has also enacted stricter measures for a two week period for the higher incidence Lower Mainland, focused on gathering size (household only) and limiting group events. Region specific measures are also in place in Ontario.

At this point, the economic effects are manageable. Government's have learned from the Spring and are working to balance protection of the health system through increased capacity and the economy by mitigating negative impacts where possible. Federal income support measures are in place for businesses and household alike. Additionally, businesses have remained flexible, pivoting online where possible and investing in personal protective equipment to keep customers safe.

That said, the sharp rise in case load is problematic and could lead to further and deeper restrictions if current measures do not arrest the increase. At best economic growth stalls out in the fourth quarter following a strong growth rebound in Q3 as some of the hardest hit economic sectors such as accommodation/food services, and private services, retrace recent gains. Near recoveries in other economic sectors means further growth will be more difficult achieve. The Bank of Canada's October Monetary Policy Report forecasted a 0.2 per cent expansion in Q4 after a 10 per cent rebound in Q3, and further suppression methods are a negative risk to the short- term outlook. We do not see a return to the economic carnage of the spring, but a partial retracement of the recovery would not surprise. A pullback in growth would mean a delayed and potentially shallower economic recovery and lower for longer interest rate environment.

The second wave will be damaging to many small businesses but will depend on the severity of government measures and by extension fiscal supports. The closure and re-opening phase has been difficult, requiring government wage support, emergency loans, and upcoming rent support. About 12 per cent of businesses had closed during the early phase of the pandemic, and through July, about 50 per cent had re-opened. More have since re-opened. That said, business conditions remained weak. Canadian Federation of Independent Business surveys suggest 66 per cent of businesses are fully opened, and 28 per cent were at normal revenue levels in November. Another round of closures could derail financial recovery plans, negatively impacting investment and possibly trigger permanent closures.

With a vaccine in sight for 2021, it remains important to keep these businesses afloat. Business closures lead to a permanent loss of economic capacity and employment opportunities. This scarring could delay a return to normal and have lasting repercussions for long- term economic activity.



Source: Statistics Canada, Bank of Canada, Central 1
Latest: 2020Q2, Bank of Canada Forecast Q3 and Q4

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