



What Kind of Light At the End of the Tunnel?

Revisiting the Economic Implications of COVID-19

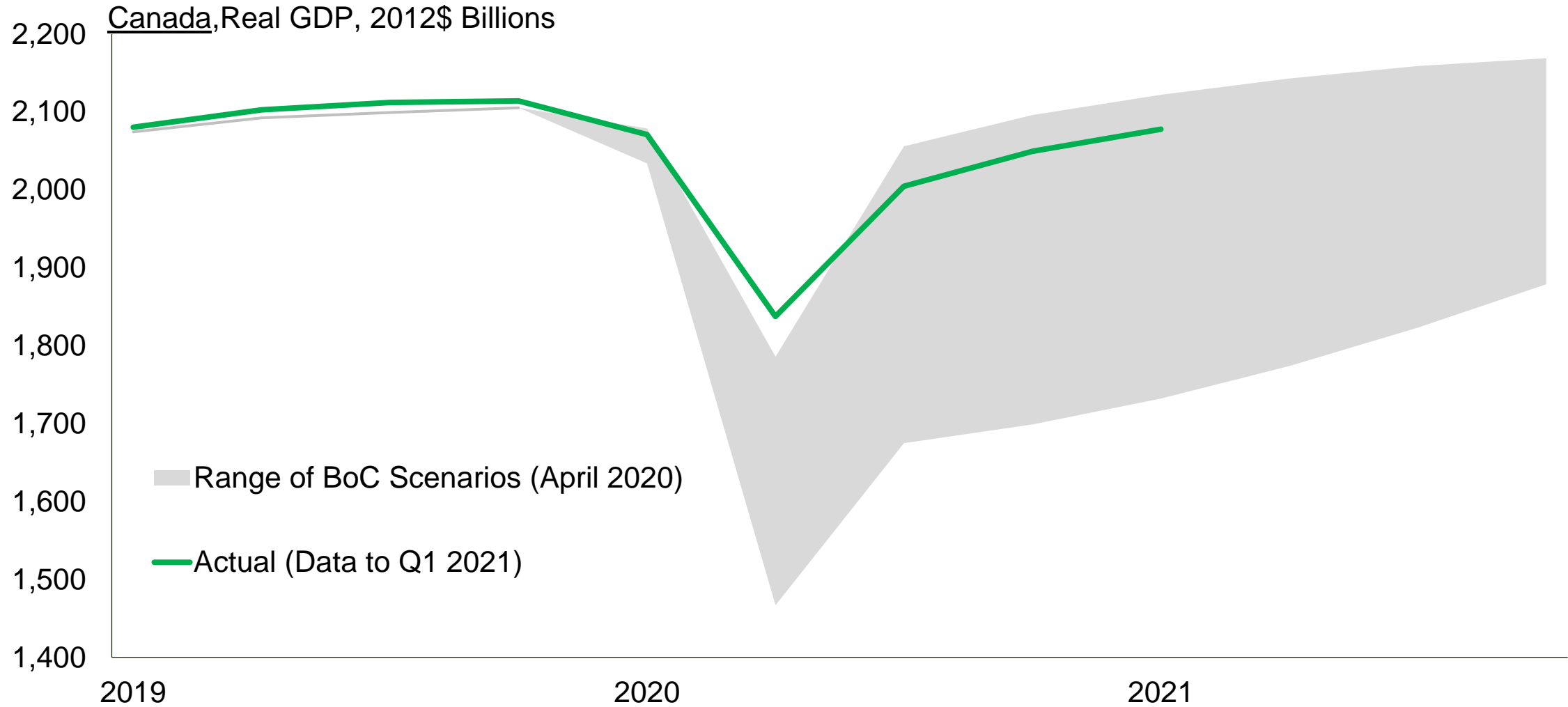
James Marple

Managing Director & Senior Economist

June 18, 2021

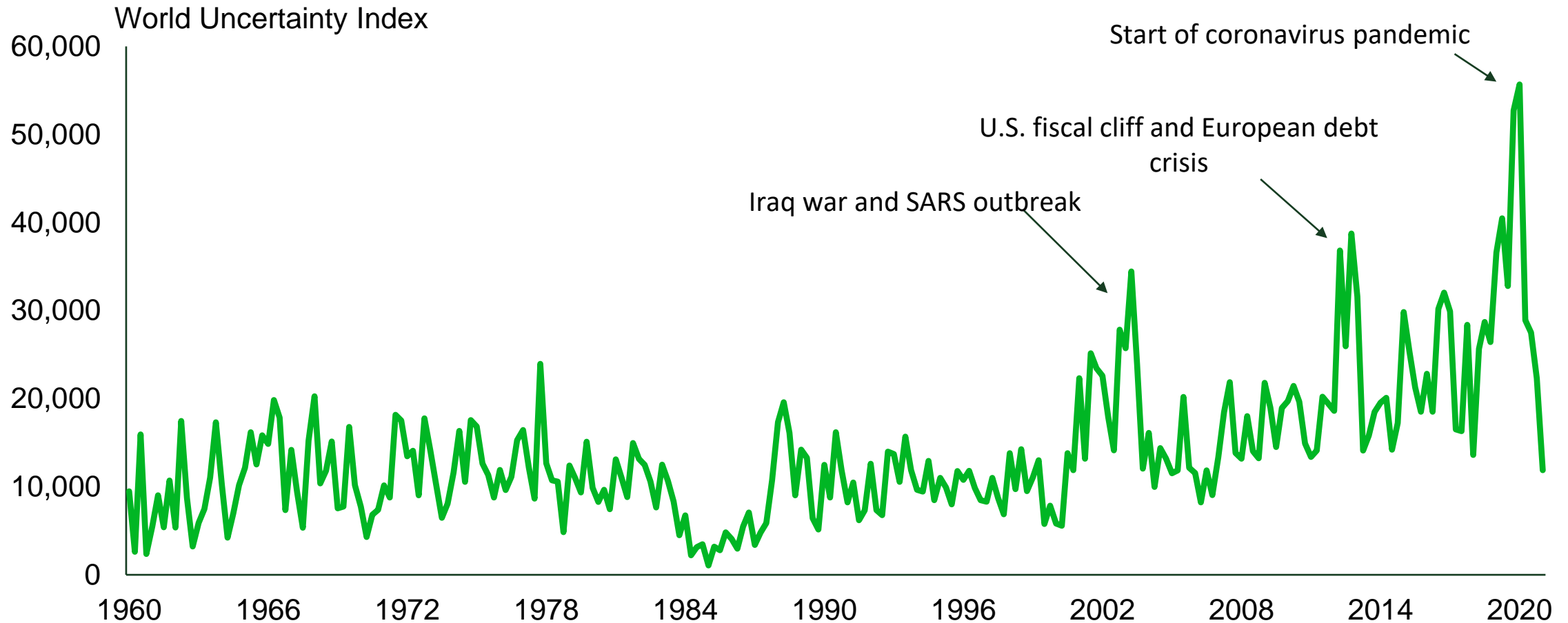


The Fog of Pandemic



Source: Bank of Canada, April 2020 Monetary Policy Report, Statistics Canada

Uncertainty Diminished Quickly



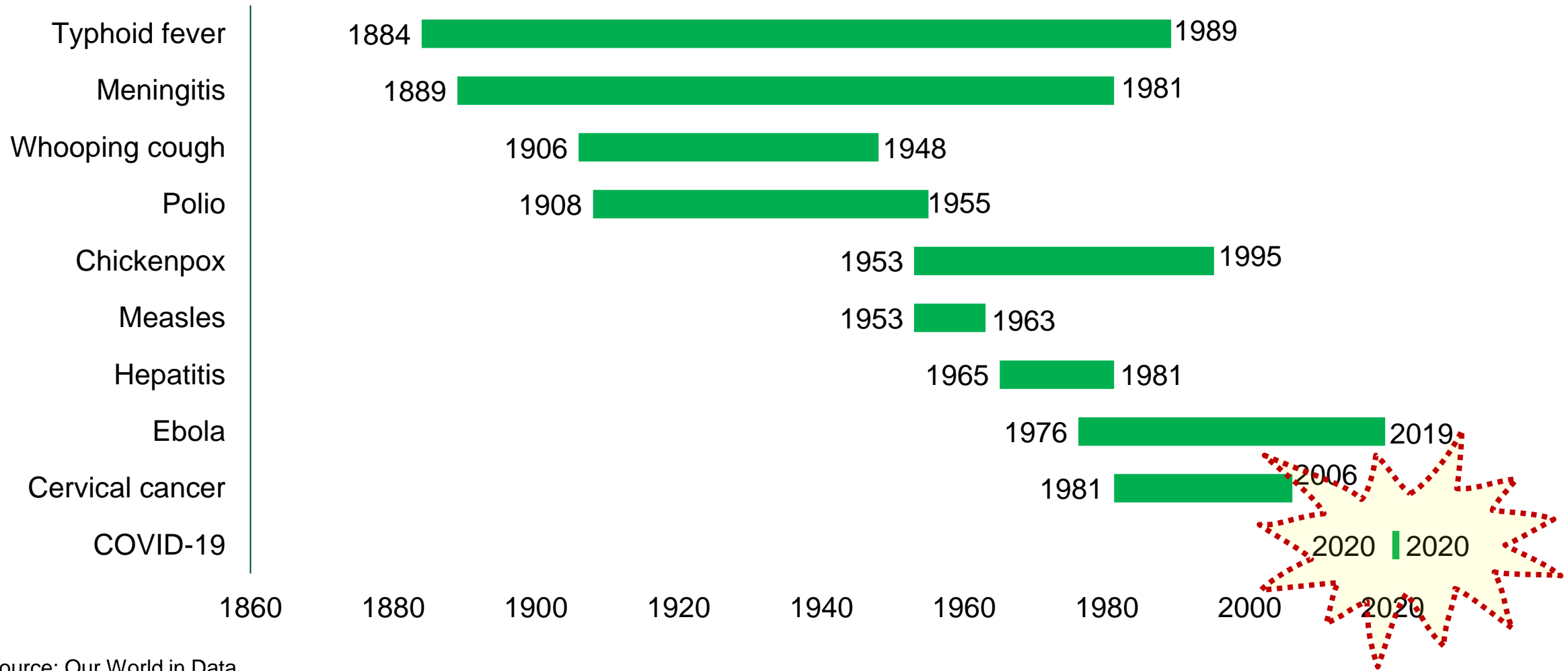
Source: Ahir, H, N Bloom, and D Furceri (2018), TD Economics.

Note: A higher number means higher uncertainty and vice versa. The Index is constructed by counting the frequency of the word "uncertain" (or its variant) in Economist Intelligence Unit country reports. The Index is then normalized by total number of words and rescaled by multiplying by 1,000.

Vaccine Innovation Is A Game Changer in the Fight Against Disease



Year in which the agent was linked to the disease to when a vaccine was approved in the U.S.

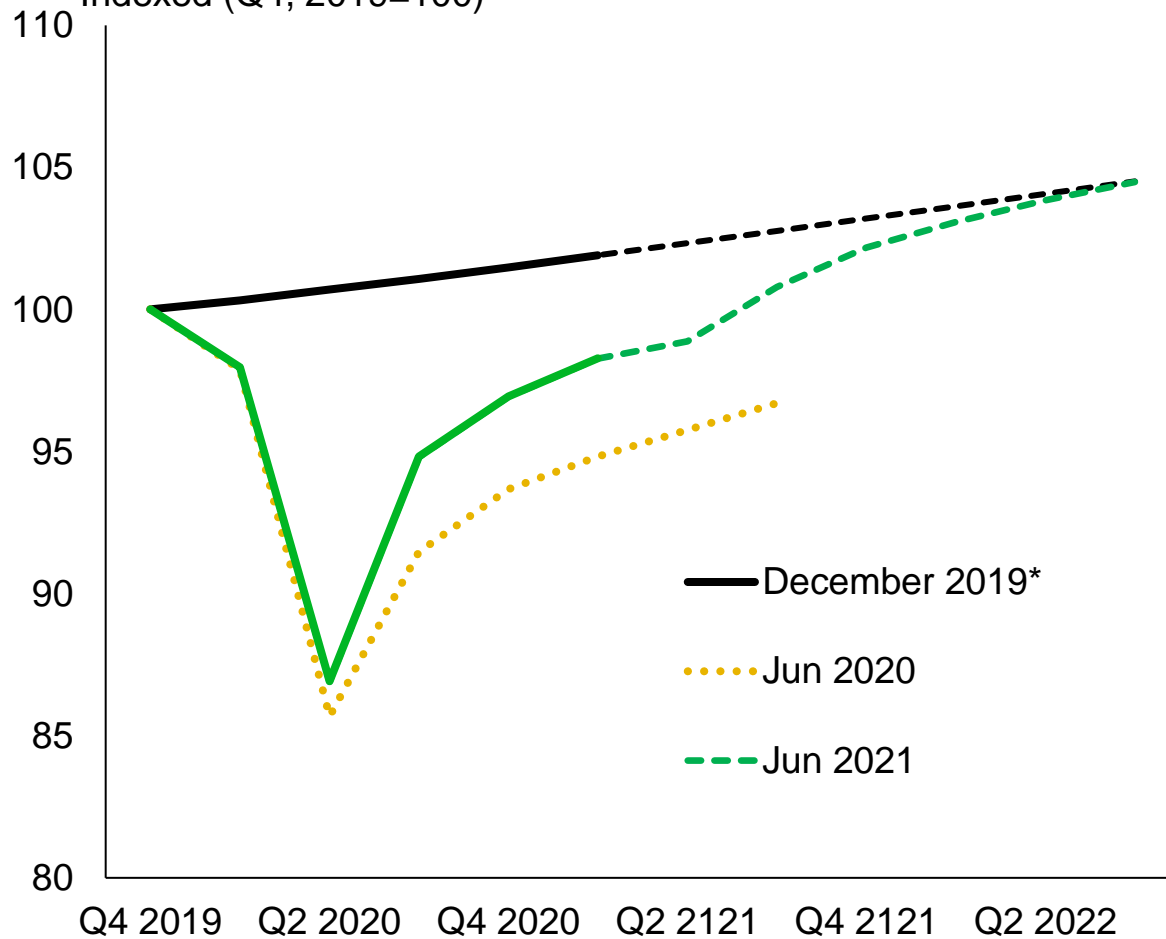


Source: Our World in Data

Economic Activity Has Been More Resilient Than Expected...

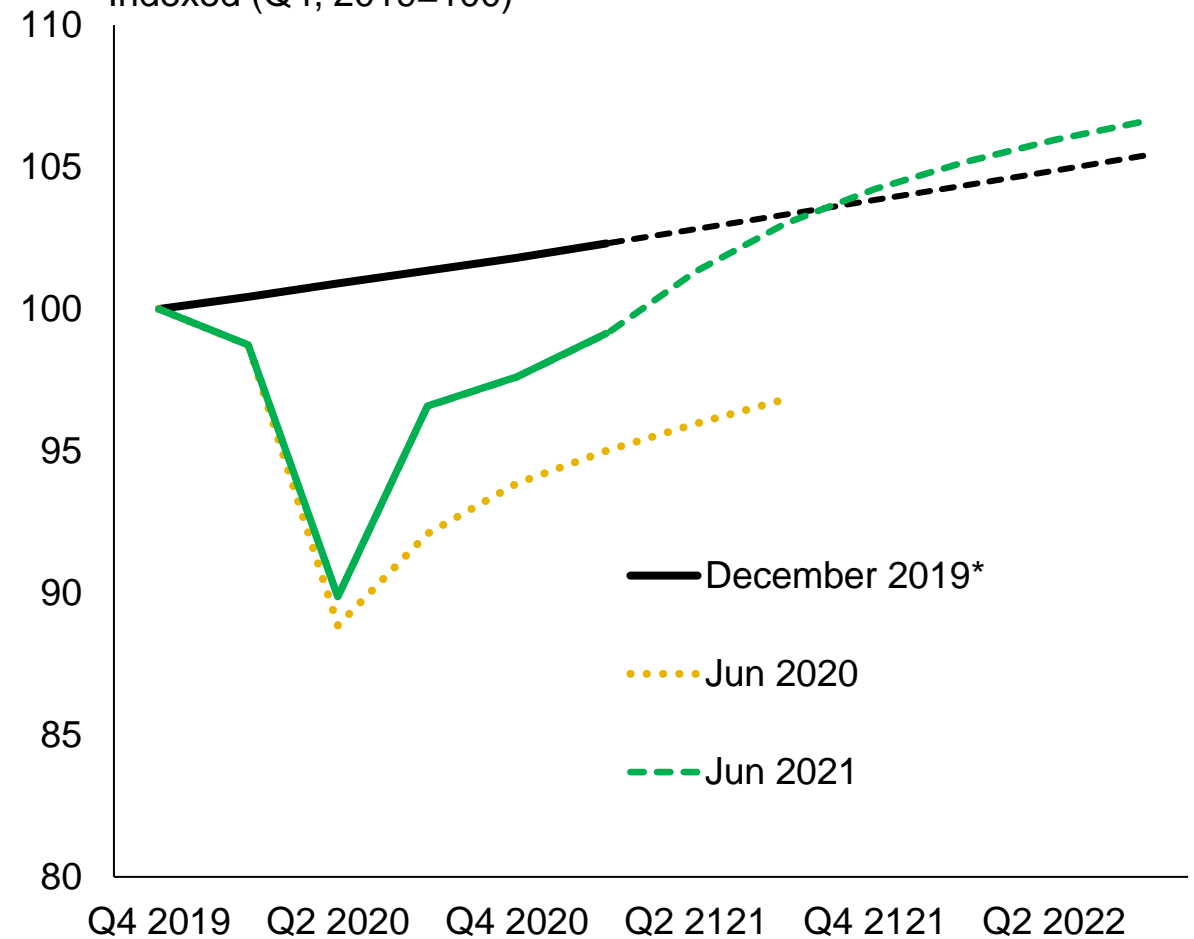


Canada Real GDP Average Consensus Forecast; Indexed (Q4, 2019=100)



*End point extrapolated for illustration purposes. Source: Statistics Canada, Bloomberg LLC, TD Economics

U.S. Real GDP Average Consensus Forecast; Indexed (Q4, 2019=100)

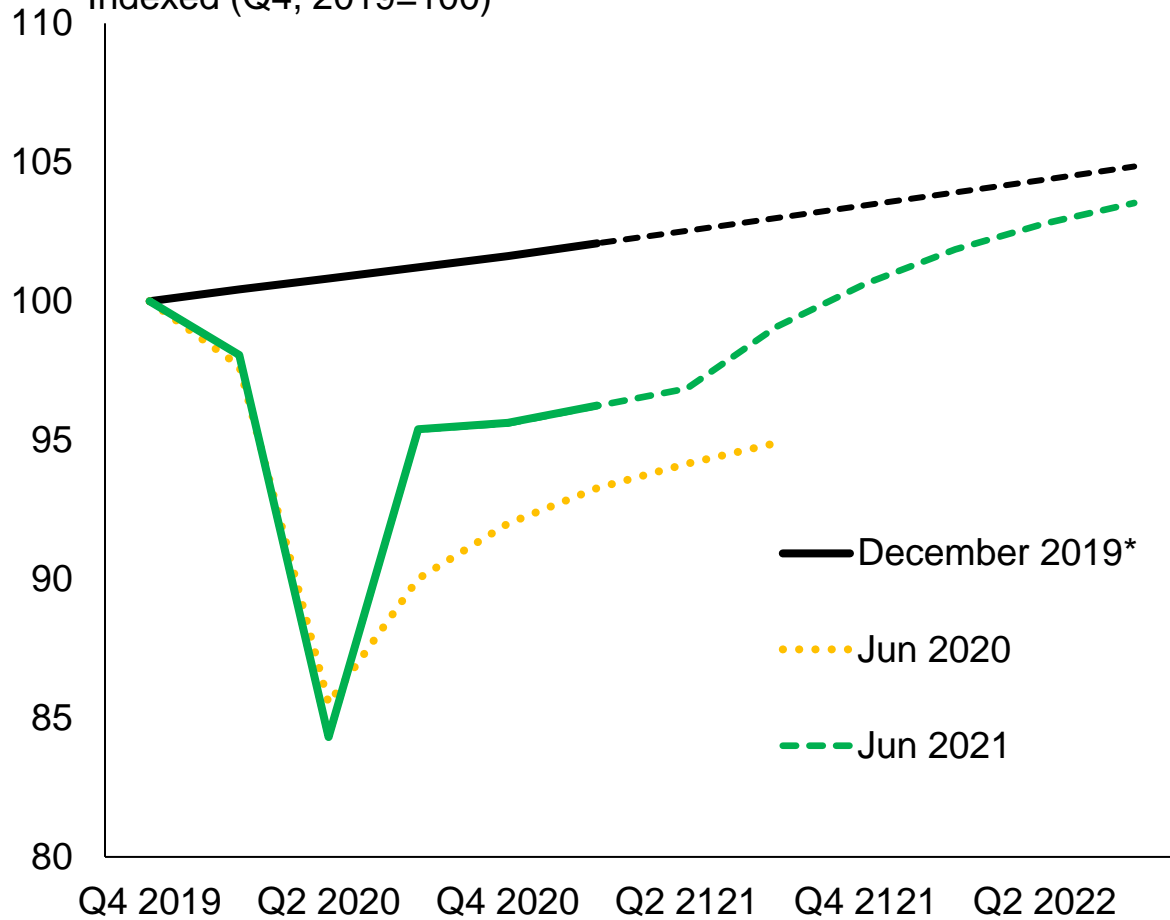


*End point extrapolated for illustration purposes. Source: Bureau of Economic Analysis, Bloomberg LLC, TD Economics

...Consumer Spending Too

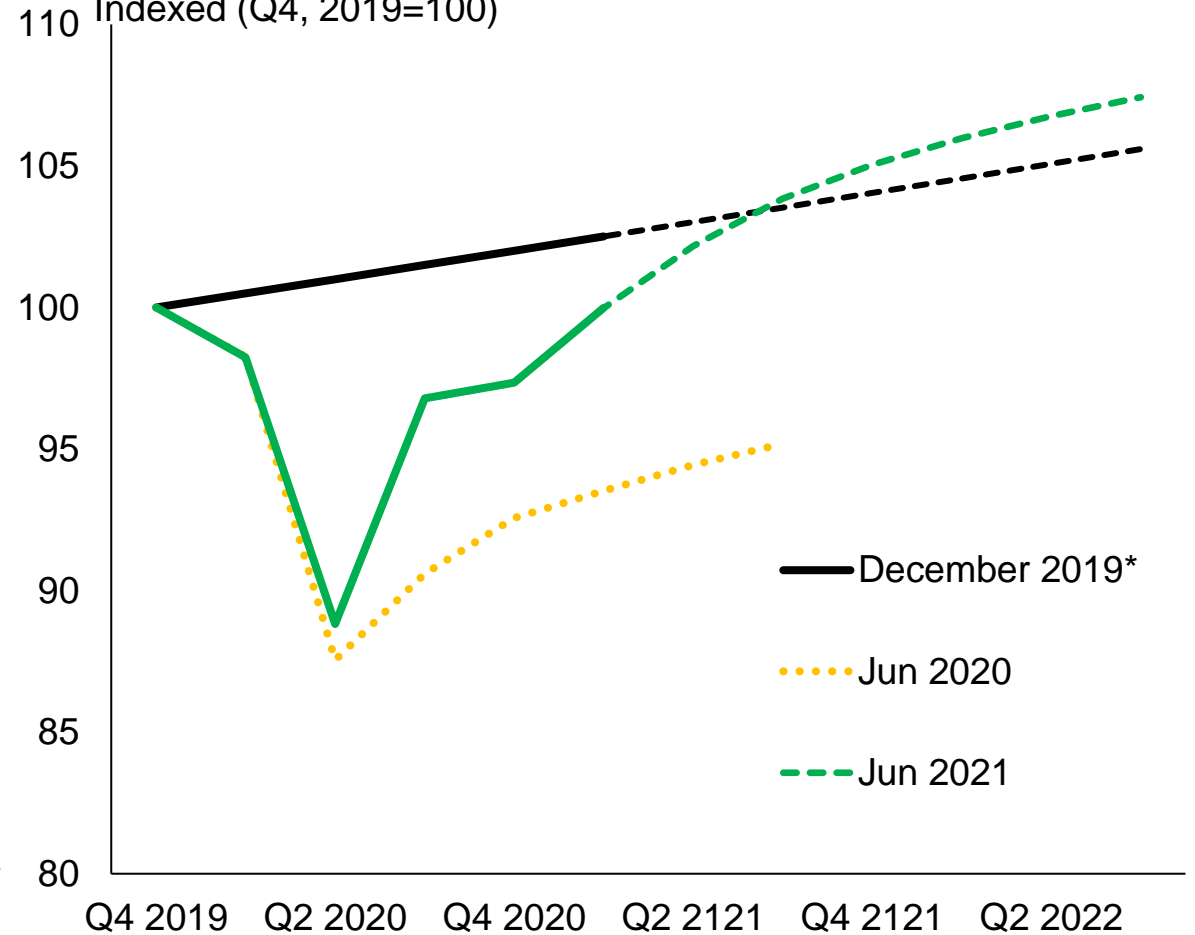


Canada Real Consumer Spending Average Consensus Forecast; Indexed (Q4, 2019=100)



*End point extrapolated for illustration purposes. Source: Statistics Canada, Bloomberg, TD Economics

U.S. Real Consumer Spending Average Consensus Forecast; Indexed (Q4, 2019=100)

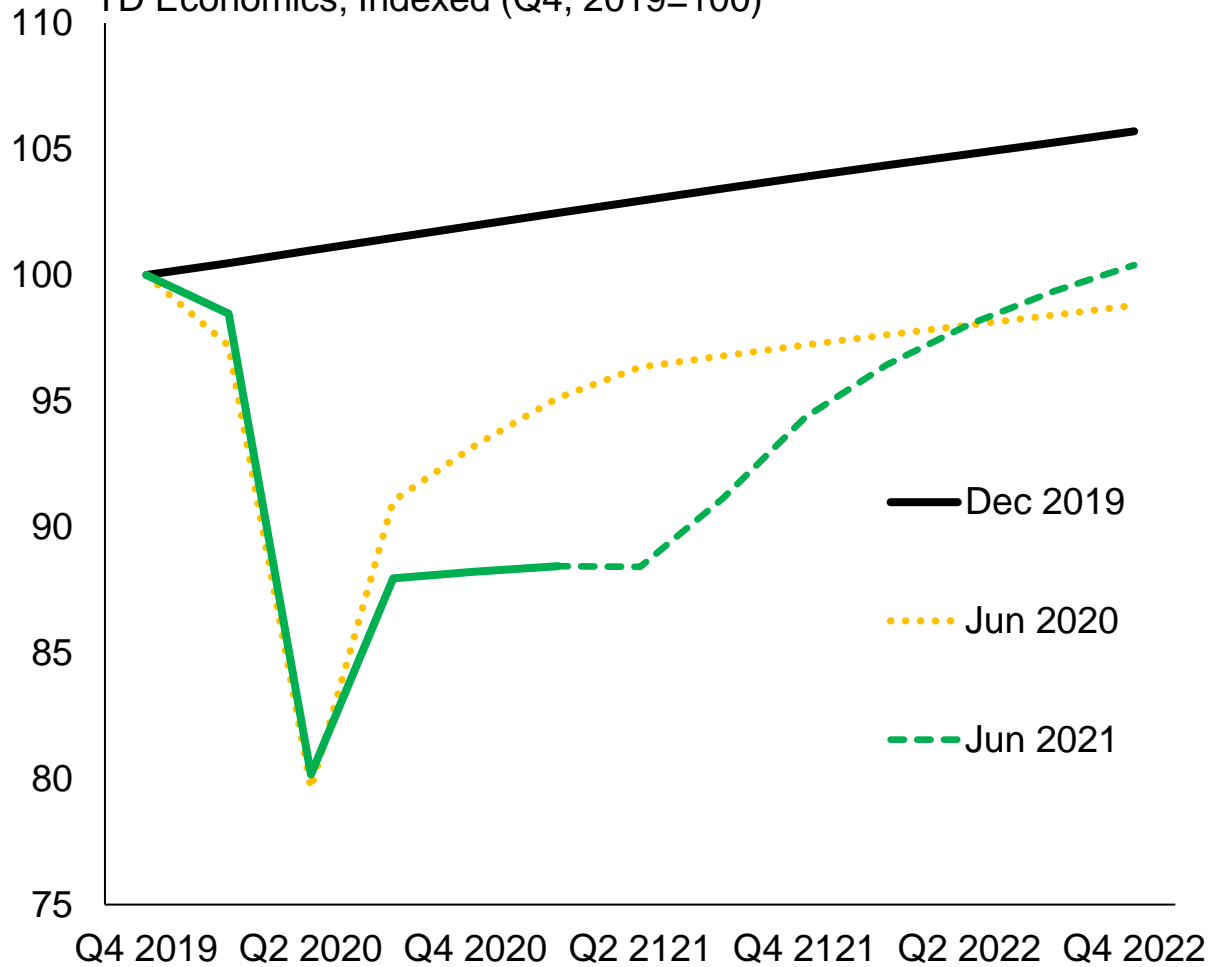


*End point extrapolated for illustration purposes. Source: Bureau of Economic Analysis, Bloomberg, TD Economics

Services Spending Hit by Second and Third Waves and Slower To Recover...

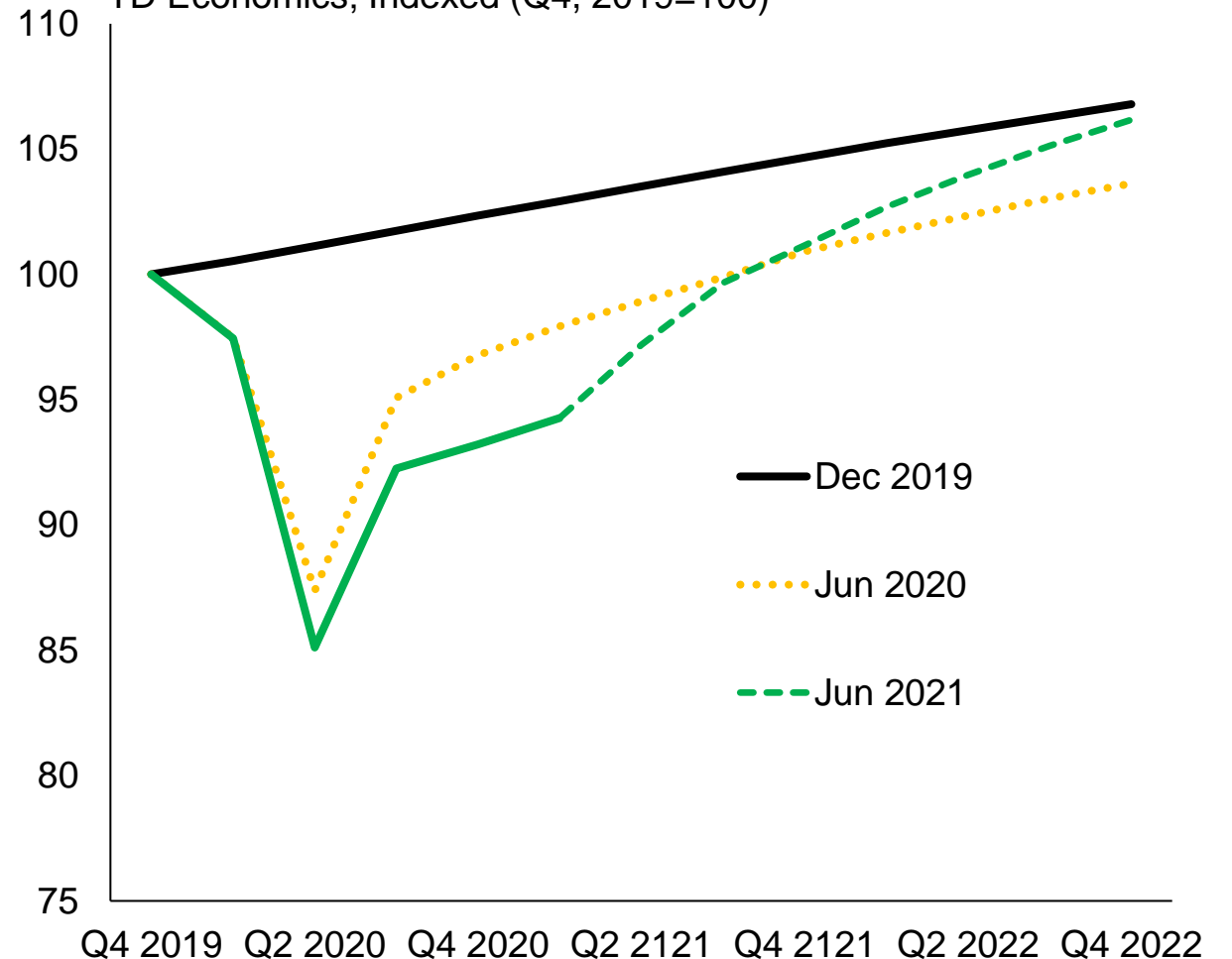


Canada Real Services Spending Forecasts by TD Economics; Indexed (Q4, 2019=100)



Source: Statistics Canada, TD Economics

U.S. Real Services Spending Forecasts by TD Economics; Indexed (Q4, 2019=100)

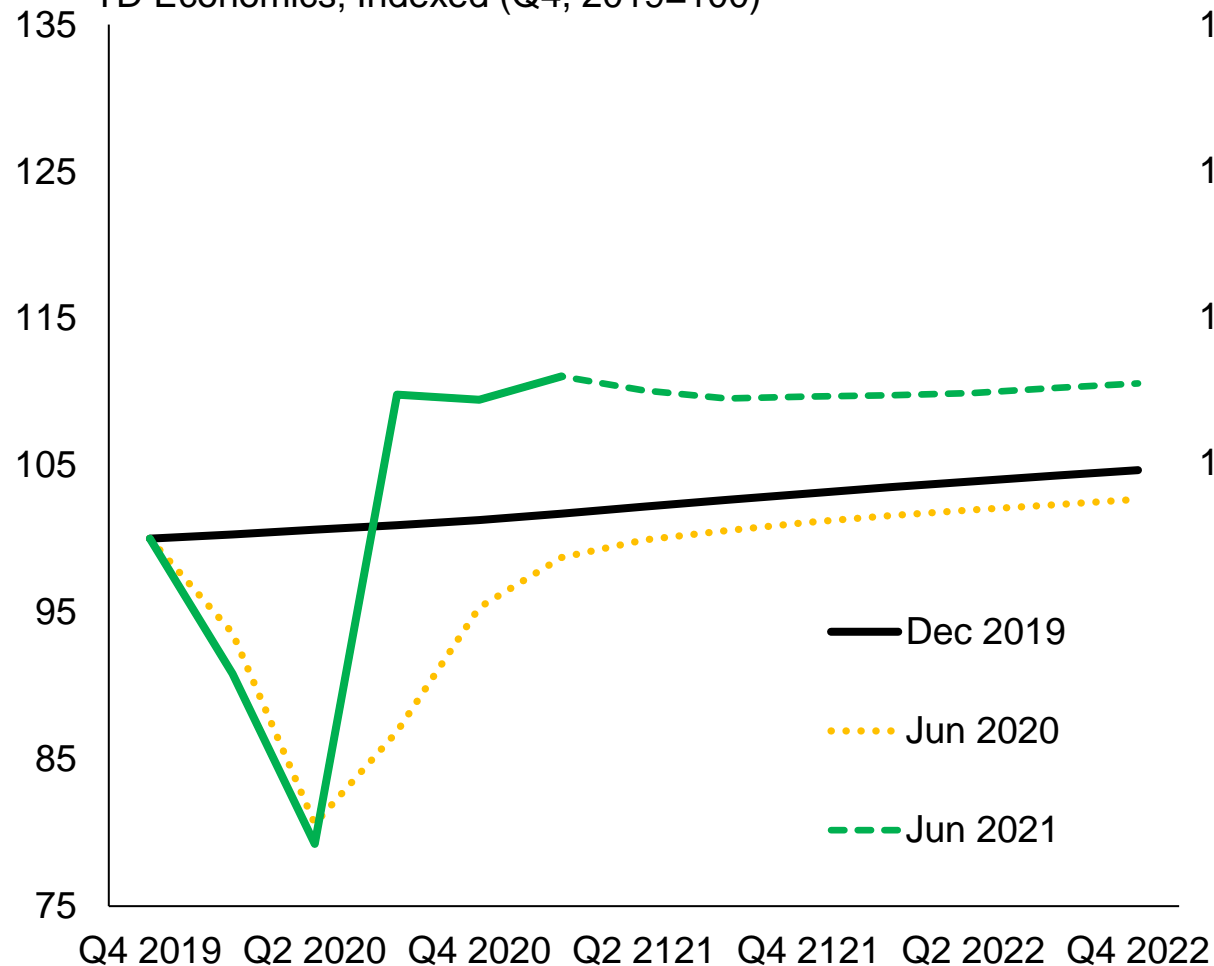


Source: Bureau of Economic Analysis, TD Economics

...But Spending on Physical Items (You Can Use At Home or to Get Around) Has Blown The Roof Off

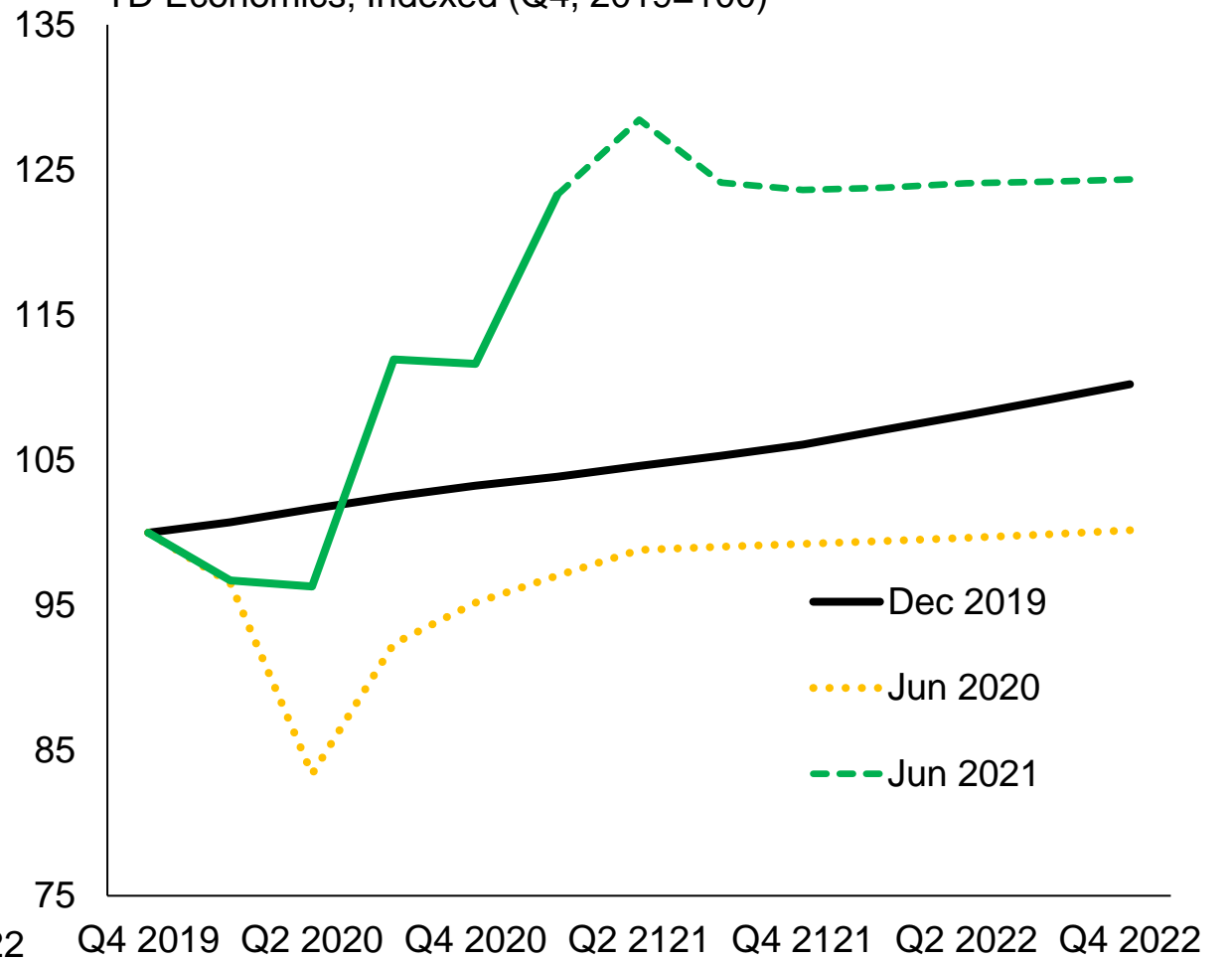


Canada Real Durable Goods Spending Forecasts by TD Economics; Indexed (Q4, 2019=100)



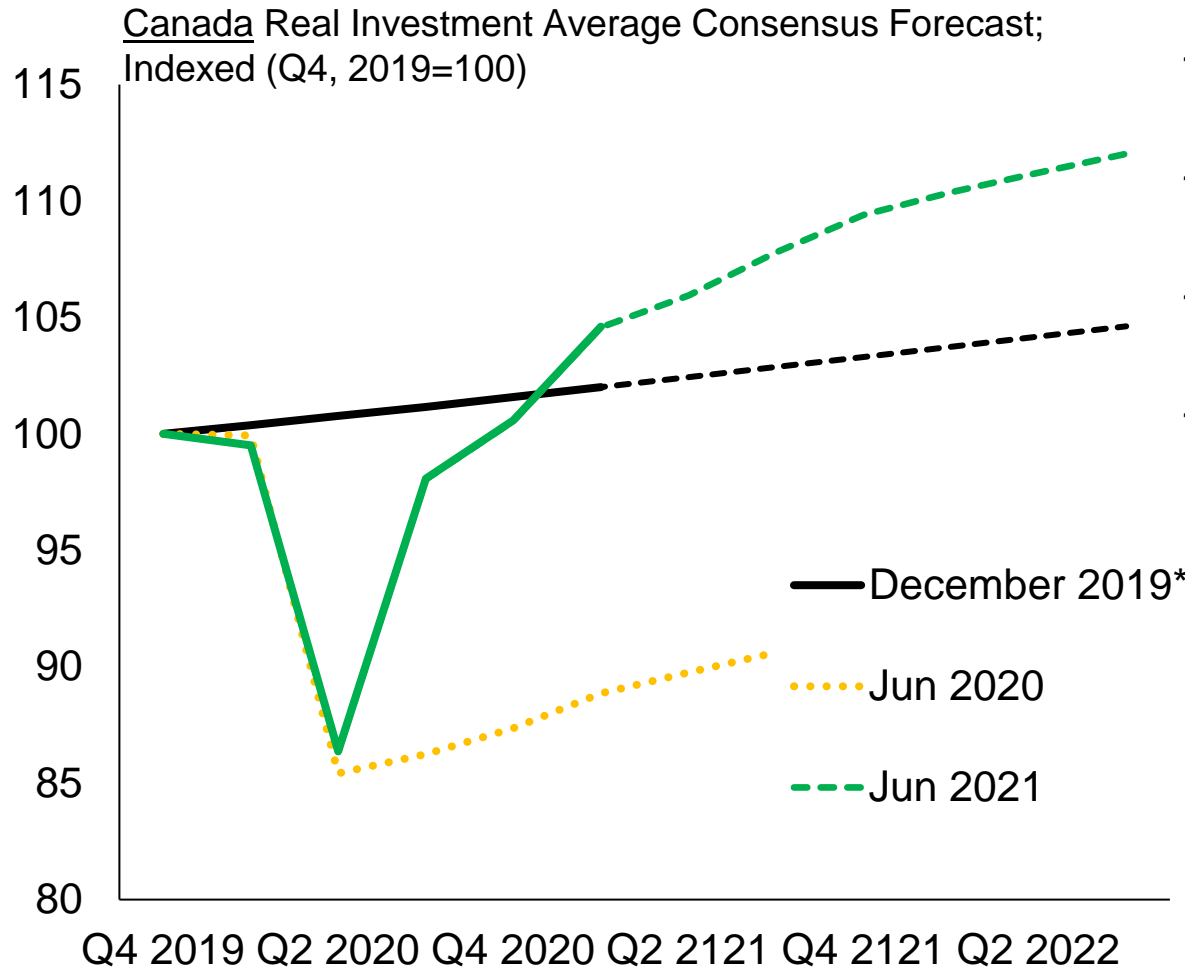
Source: Statistics Canada, TD Economics

U.S. Real Durables Goods Spending Forecasts by TD Economics; Indexed (Q4, 2019=100)

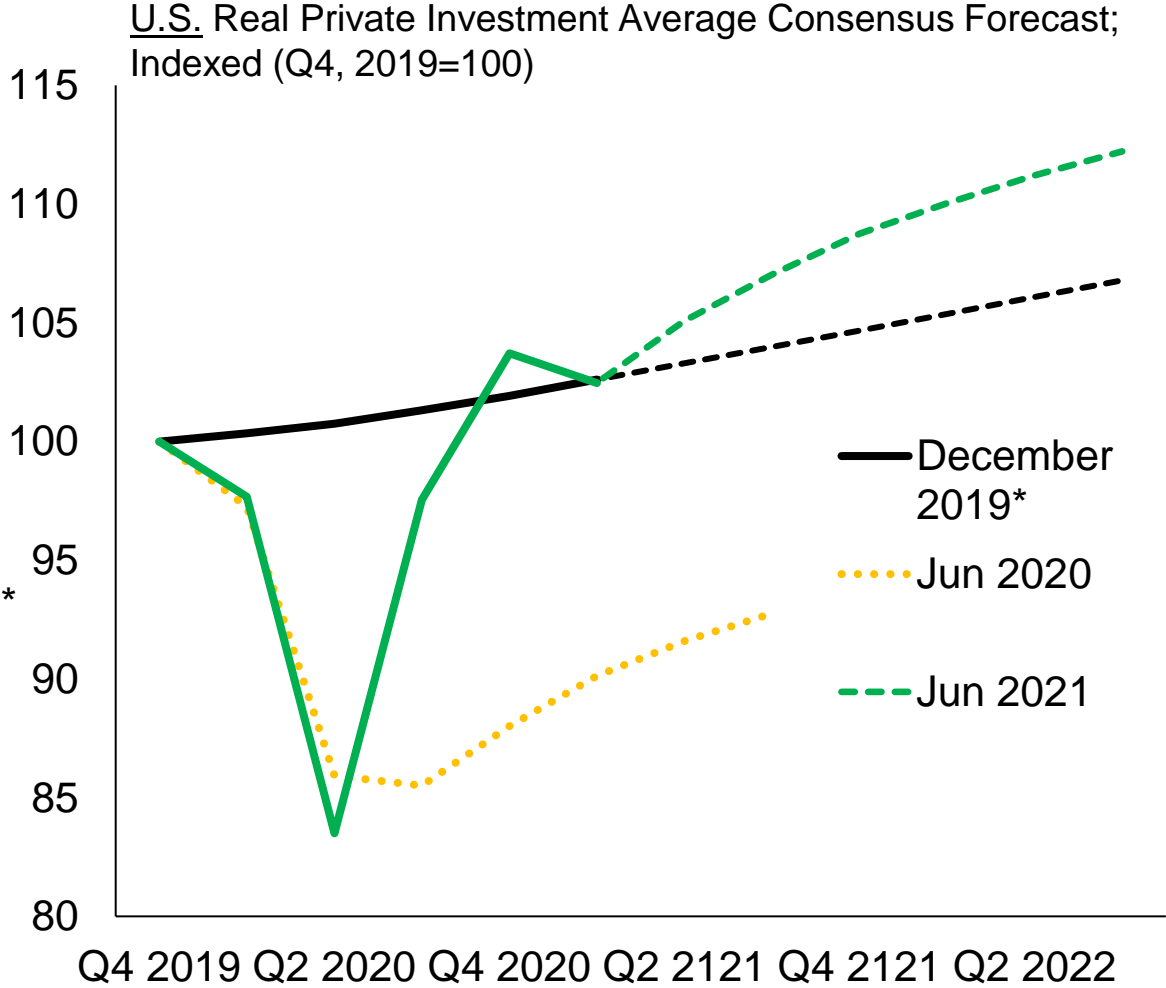


Source: Bureau of Economic Analysis, TD Economics

A Positive Investment Shock...



*End point extrapolated for illustration purposes. Source: Statistics Canada, Bloomberg, TD Economics

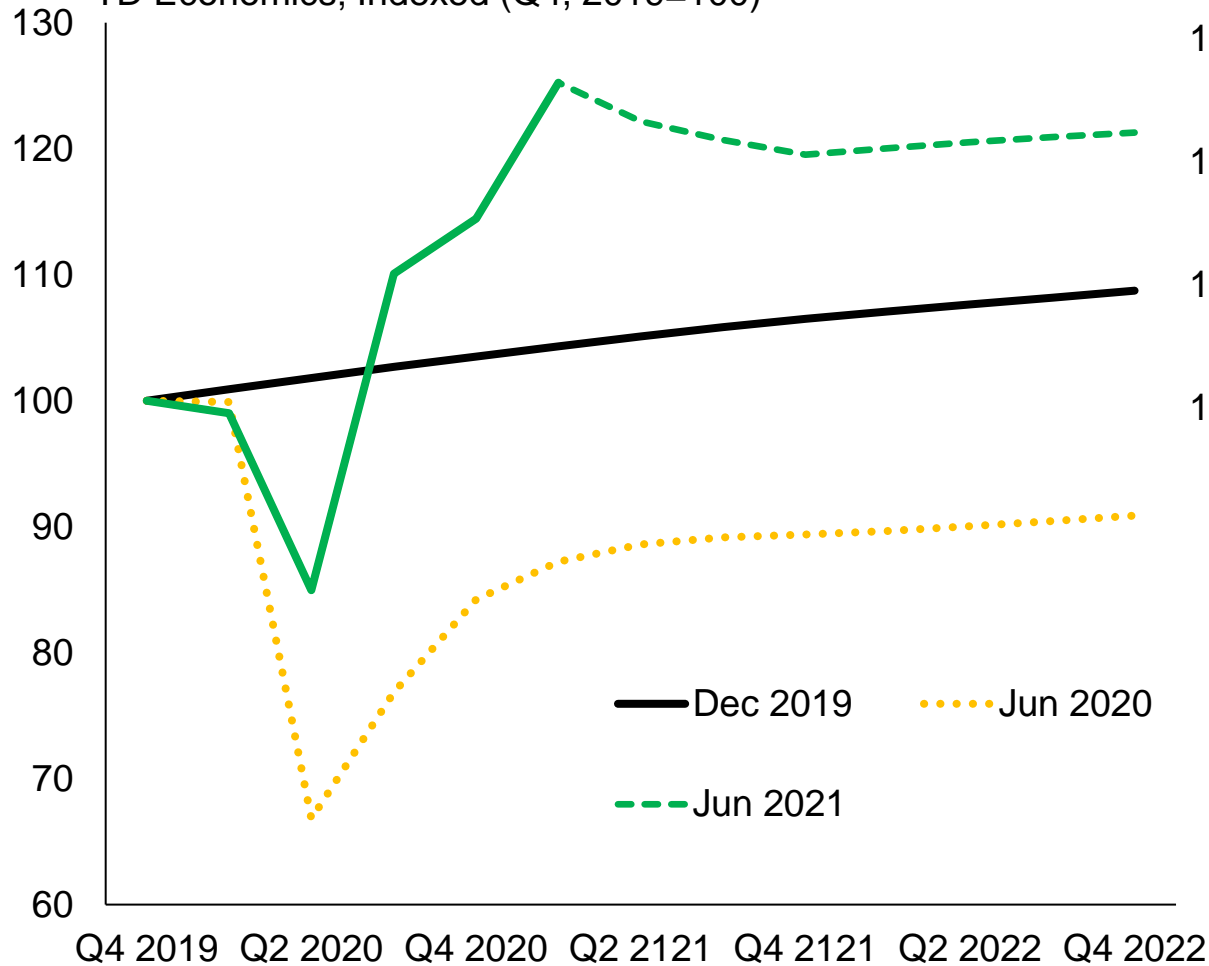


*End point extrapolated for illustration purposes. Source: Bureau of Economic Analysis, Bloomberg, TD Economics

...Too Much of a Good Thing?

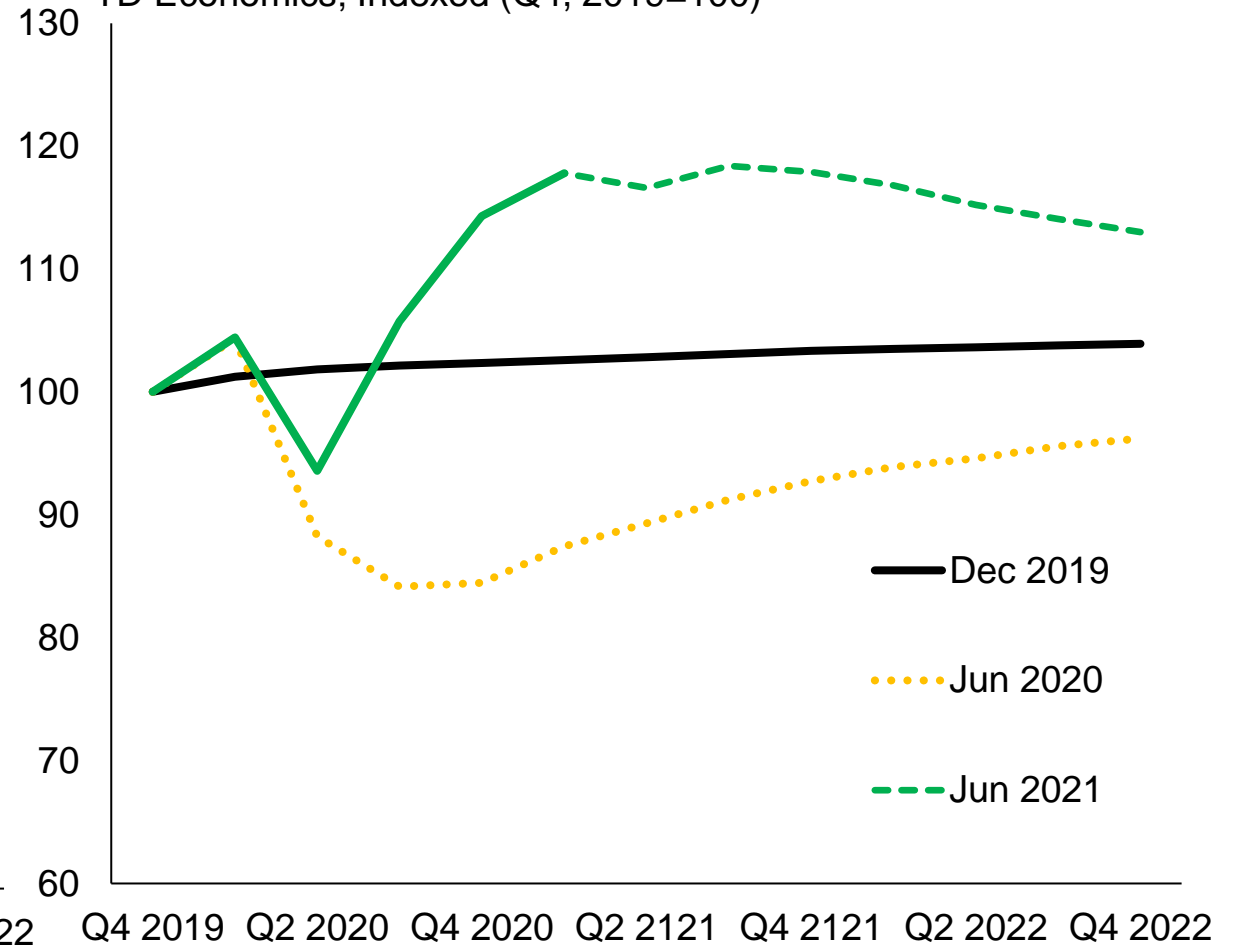


Canada Real Residential Investment Forecasts by TD Economics; Indexed (Q4, 2019=100)



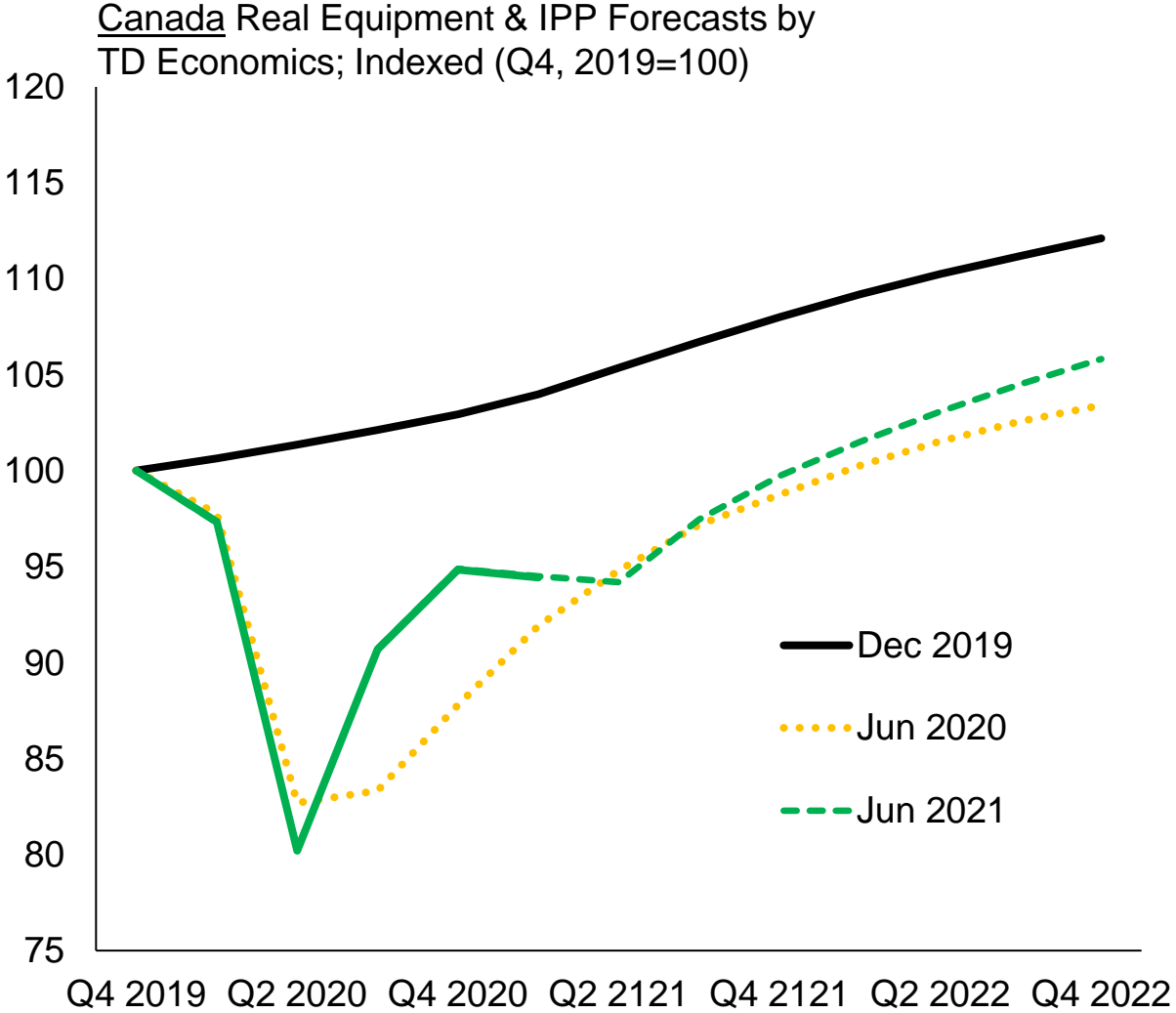
Source: Statistics Canada, TD Economics

U.S. Real Residential Investment Forecasts by TD Economics; Indexed (Q4, 2019=100)

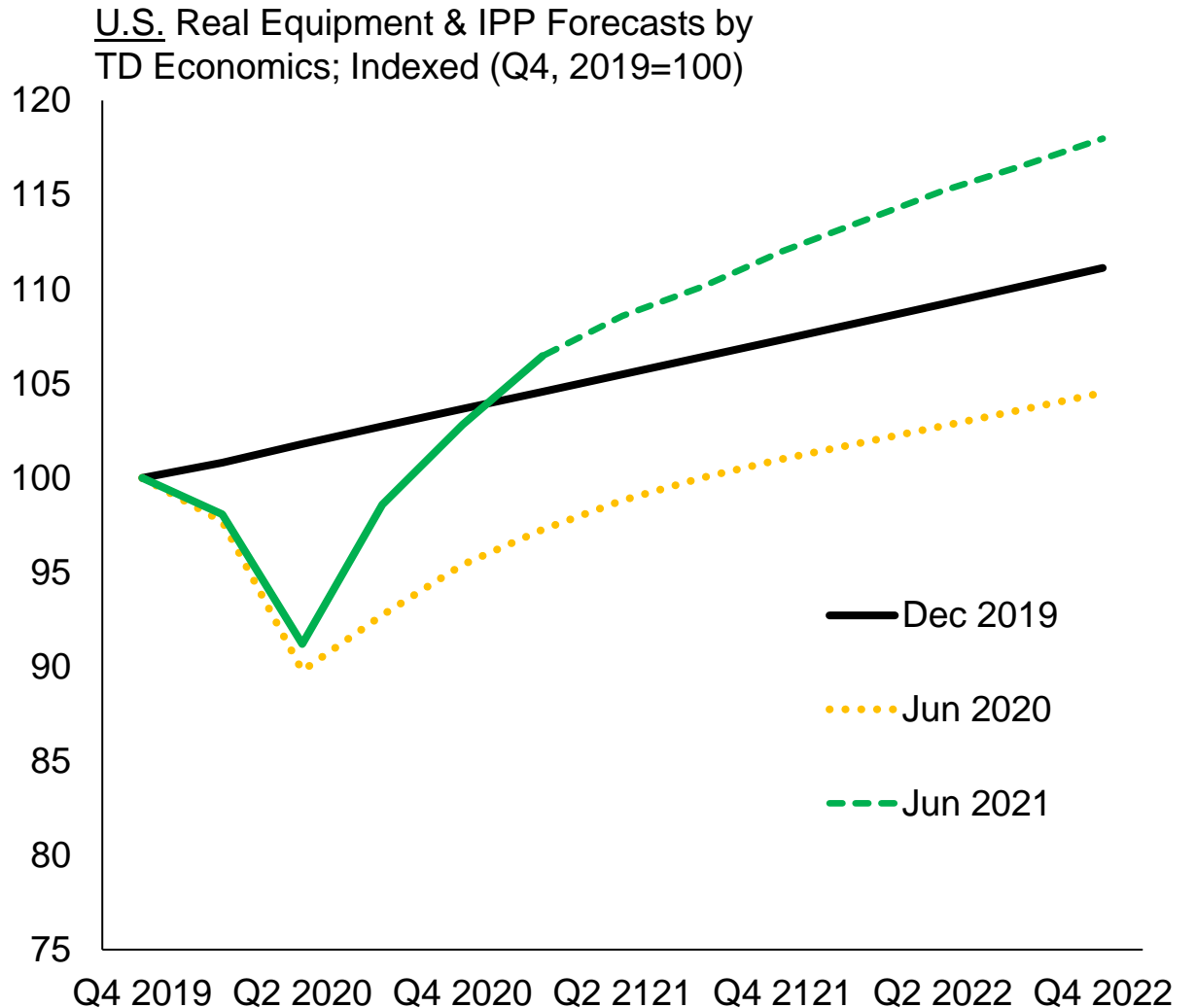


Source: Bureau of Economic Analysis, TD Economics

Investment in Equipment & Intellectual Property Has Exceeded Expectations in America, Not in Canada

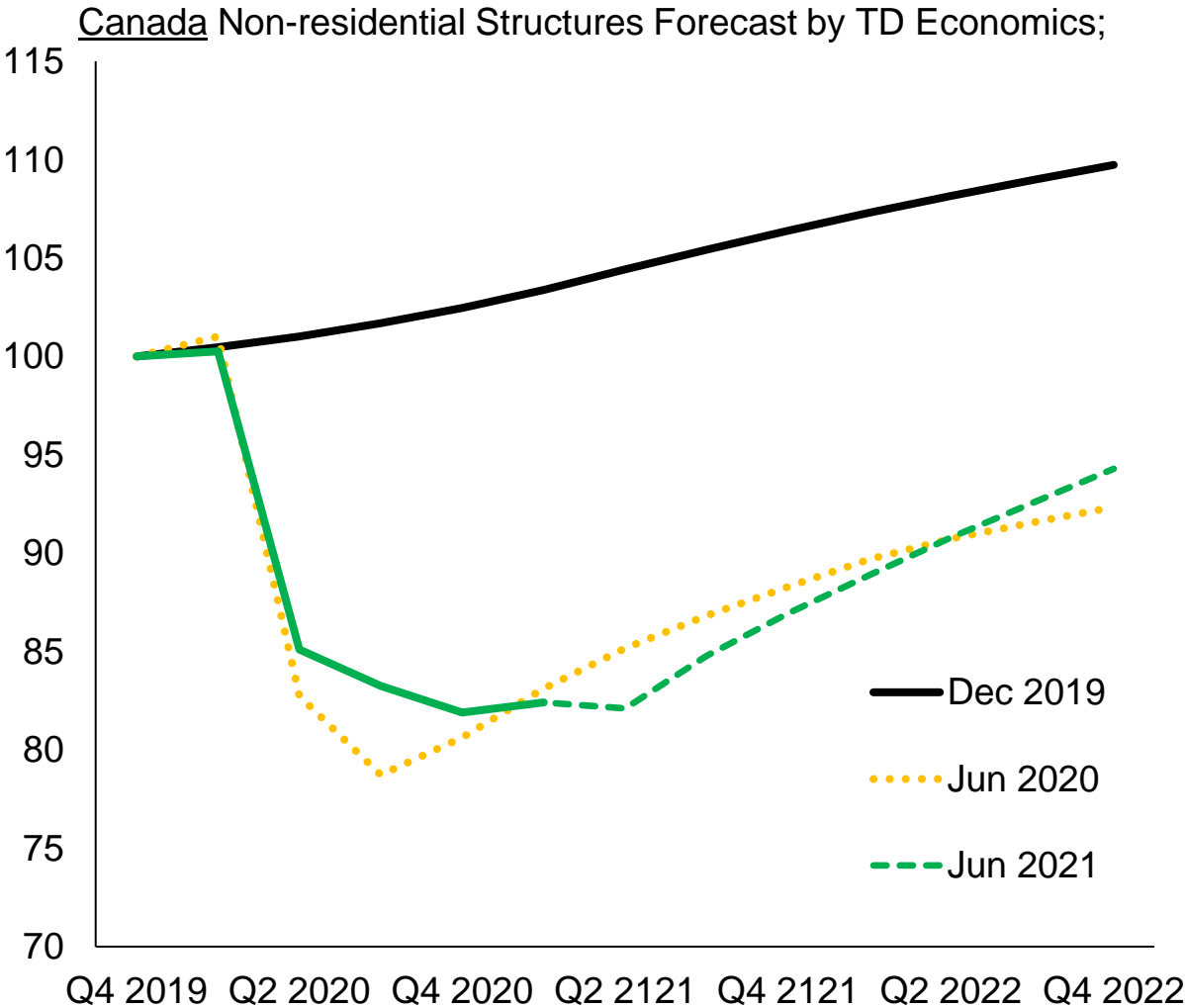


Source: Statistics Canada, TD Economics

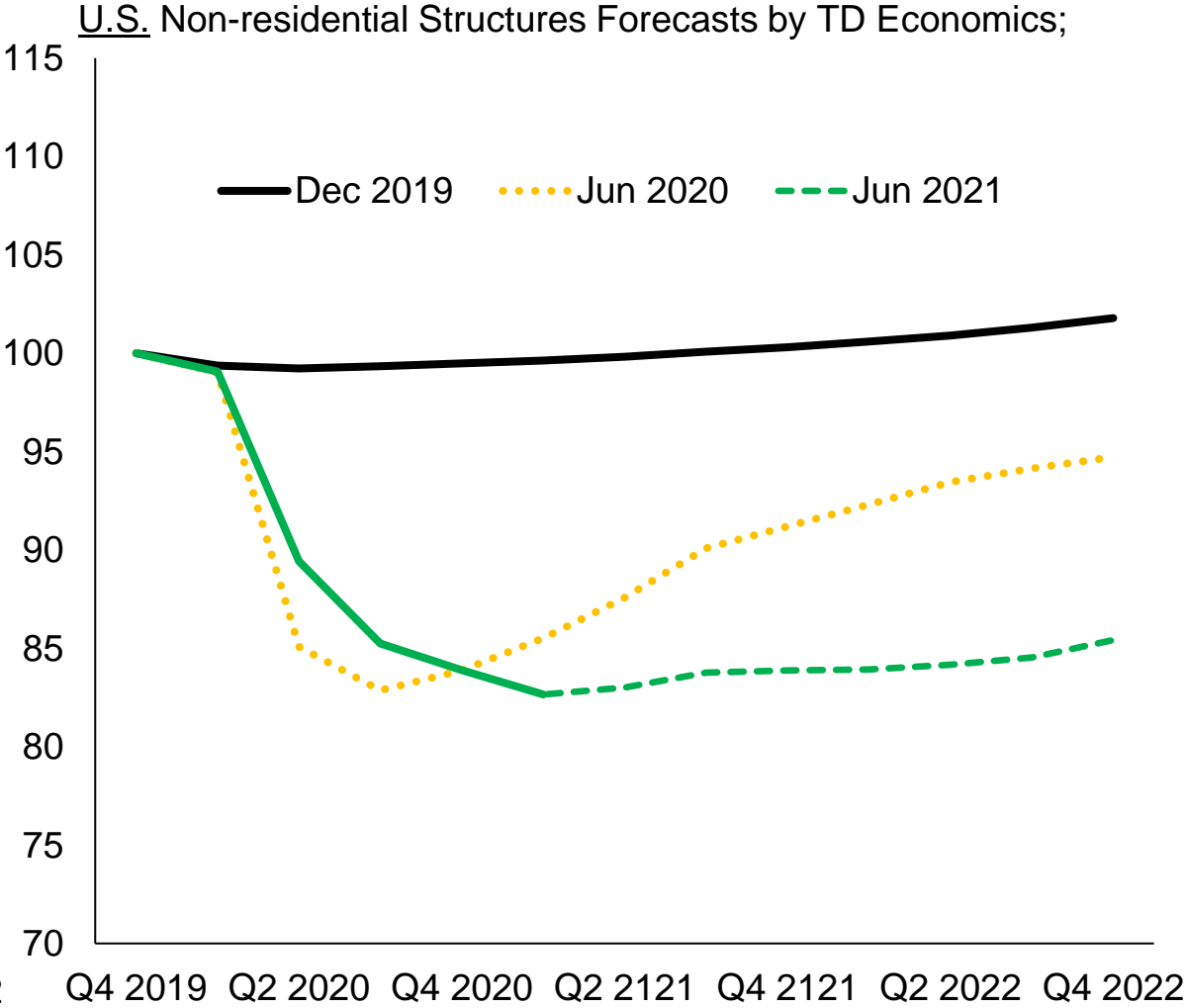


Source: Bureau of Economic Analysis, TD Economics

Non-Residential Structures Investment Has Underperformed, Largely As Expected

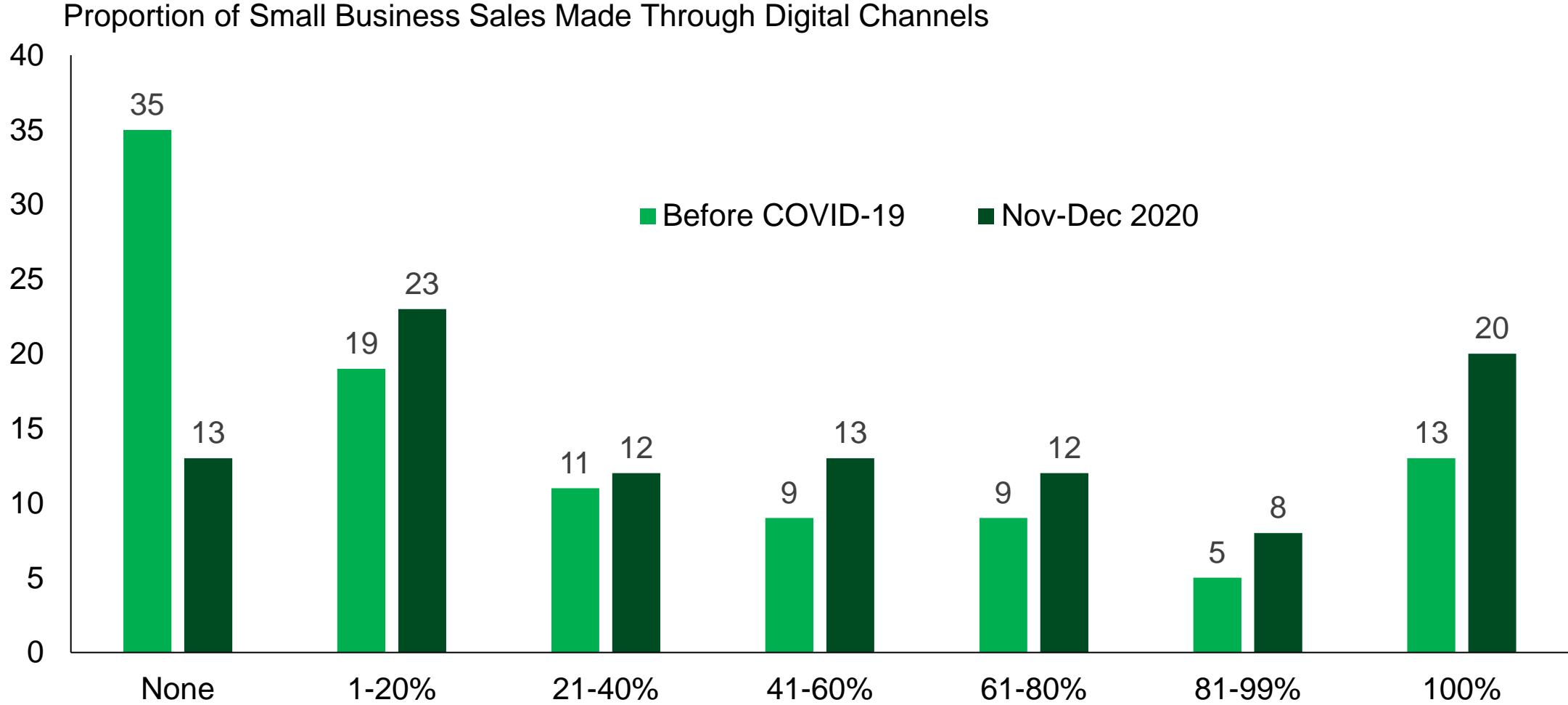


Source: Statistics Canada, TD Economics



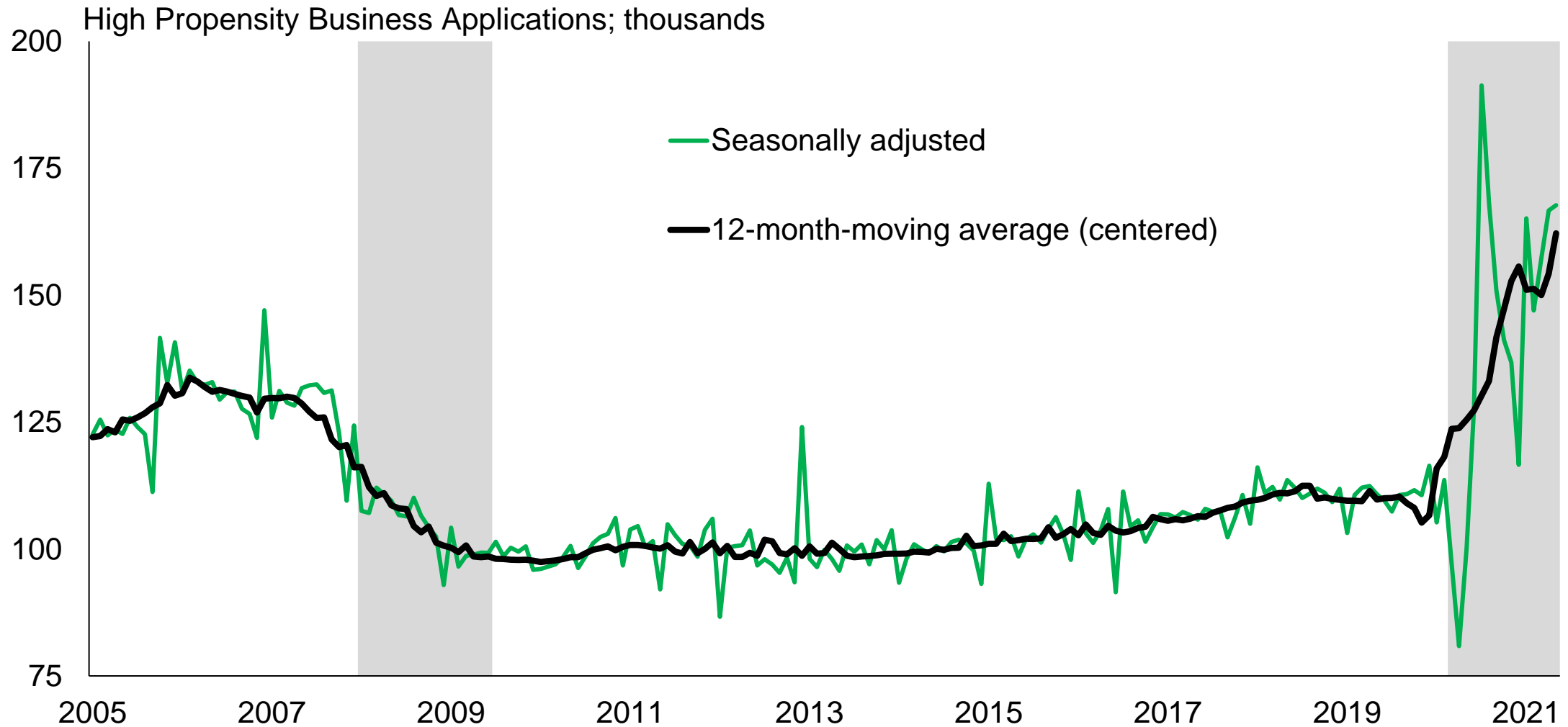
Source: Bureau of Economic Analysis, TD Economics

Dylan Goes Electric – Small Business Goes Digital



Source: Small Business Roundtable

U.S. Startups Got A Shot in the Arm

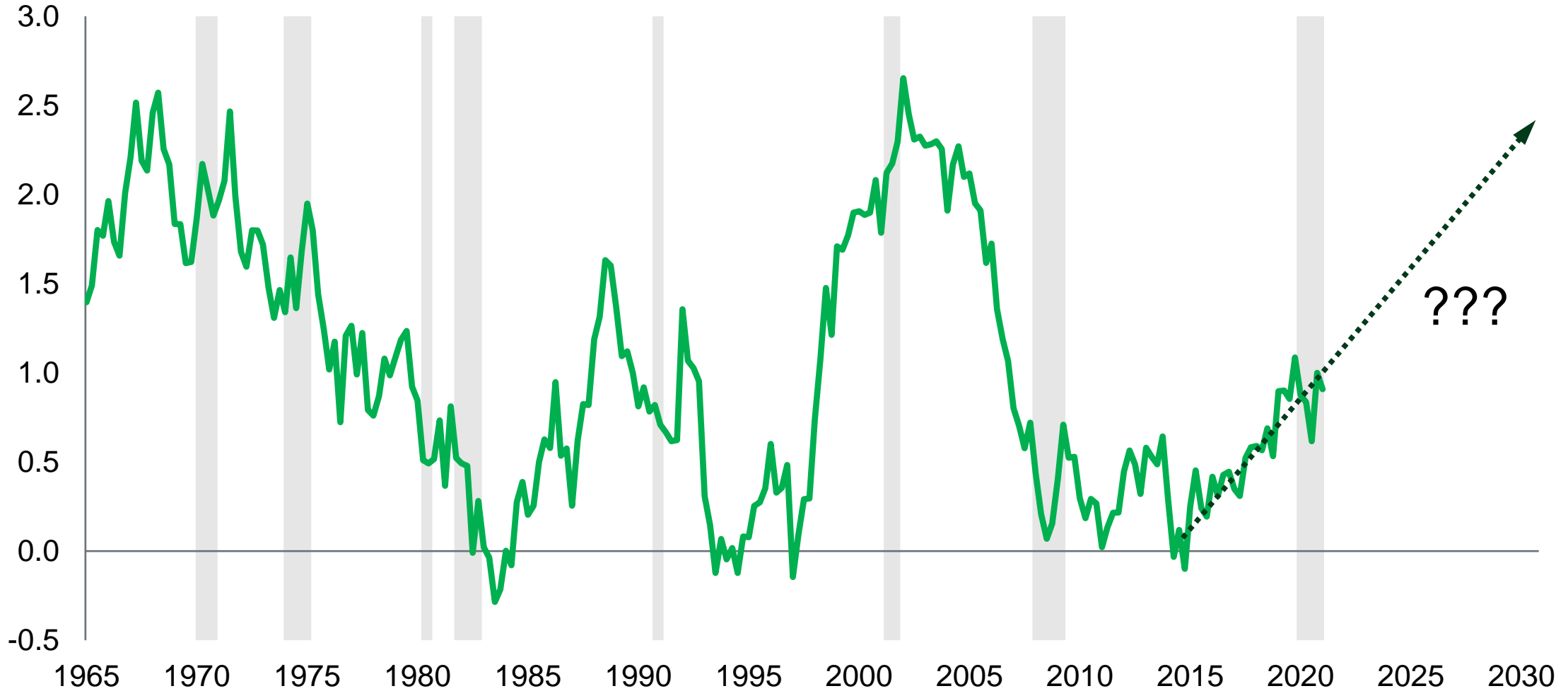


Source: U.S. Census Bureau

On the Cusp of a Productivity Revolution?



U.S. Total Factor Productivity; Percent Change; Five-year Moving Average

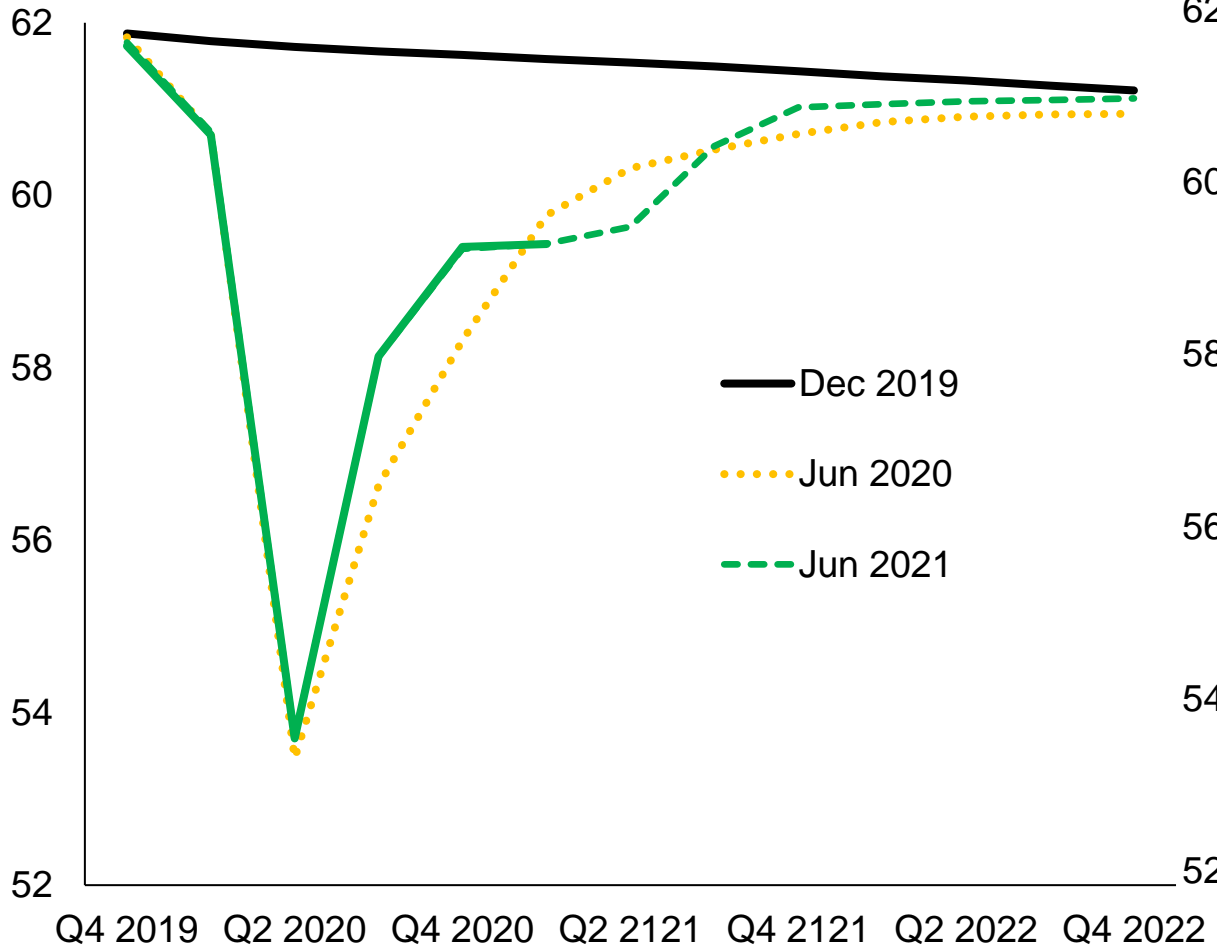


*Utilization adjusted. Source: FRB San Francisco, Bureau of Labor Statistics, TD Economics

Labor Market (Still) Expected to Take Longer than Economy to Recover

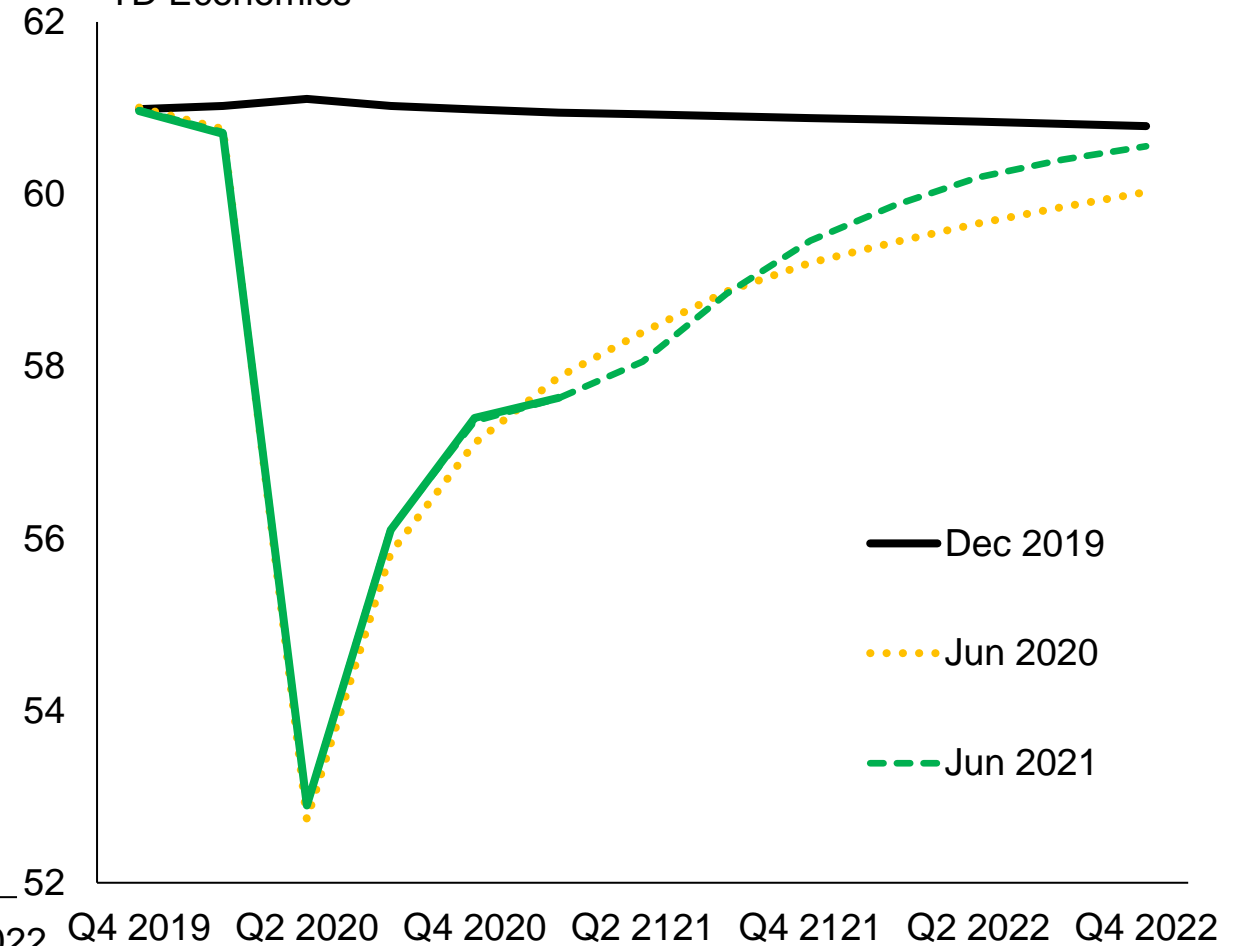


Canada Employment-to-Population Ratio Forecast by TD Economics



Source: Statistics Canada, TD Economics

U.S. Employment-to-Population Ratio Forecasts by TD Economics

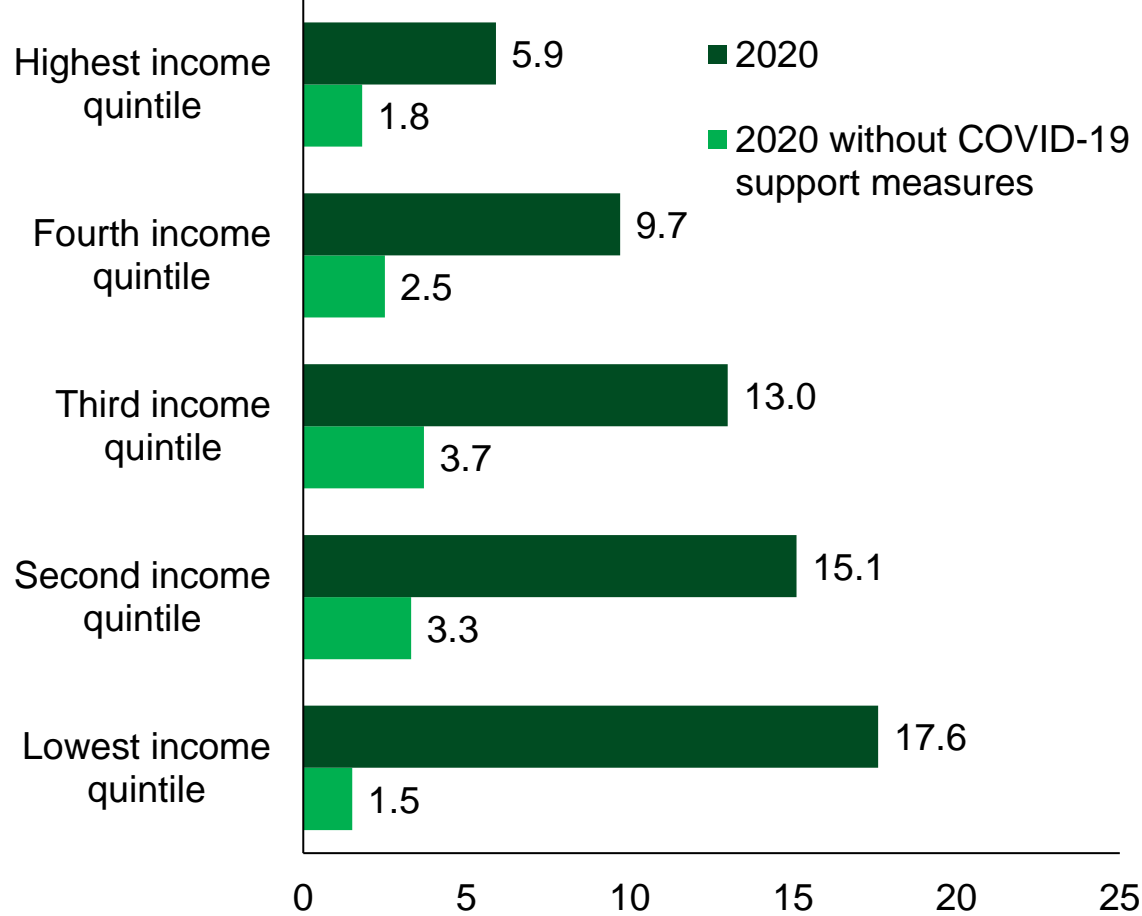


Source: Bureau of Labor Statistics, TD Economics

Government Supports Reduced Income Inequality, But What Happens When they End?

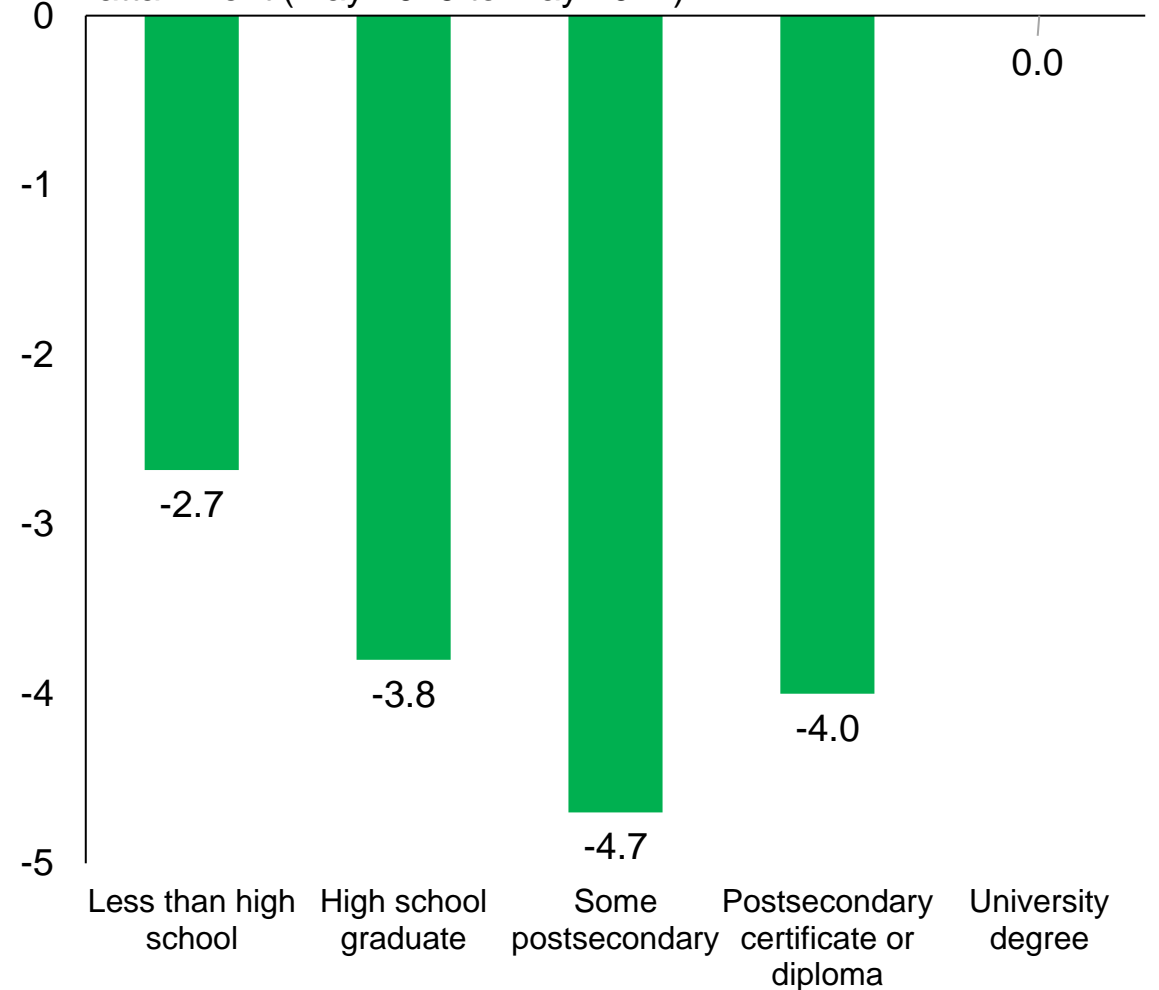


Percent change in Canadian household disposable income by quintile, 2020



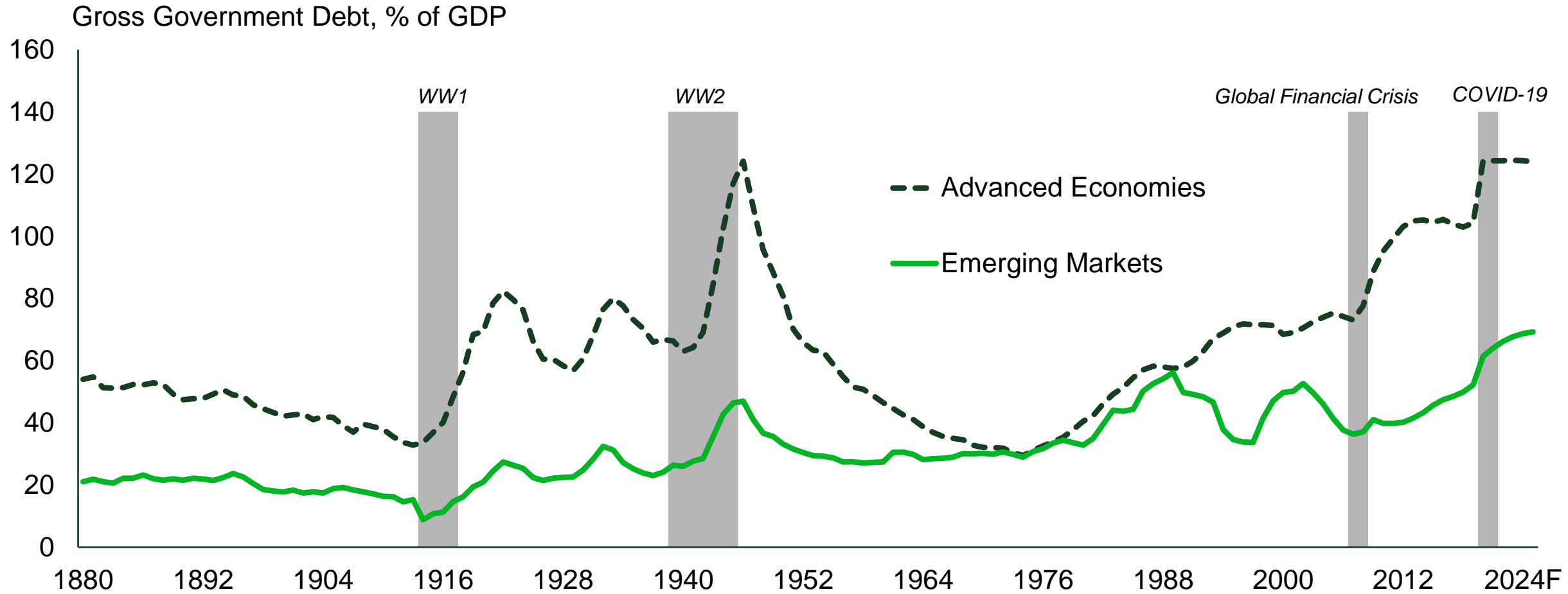
Source: Statistics Canada, distributions of household economic accounts, sub-annual experimental estimates

Change in employment rate of 25 to 54 year olds by educational attainment (May 2019 to May 2021)*



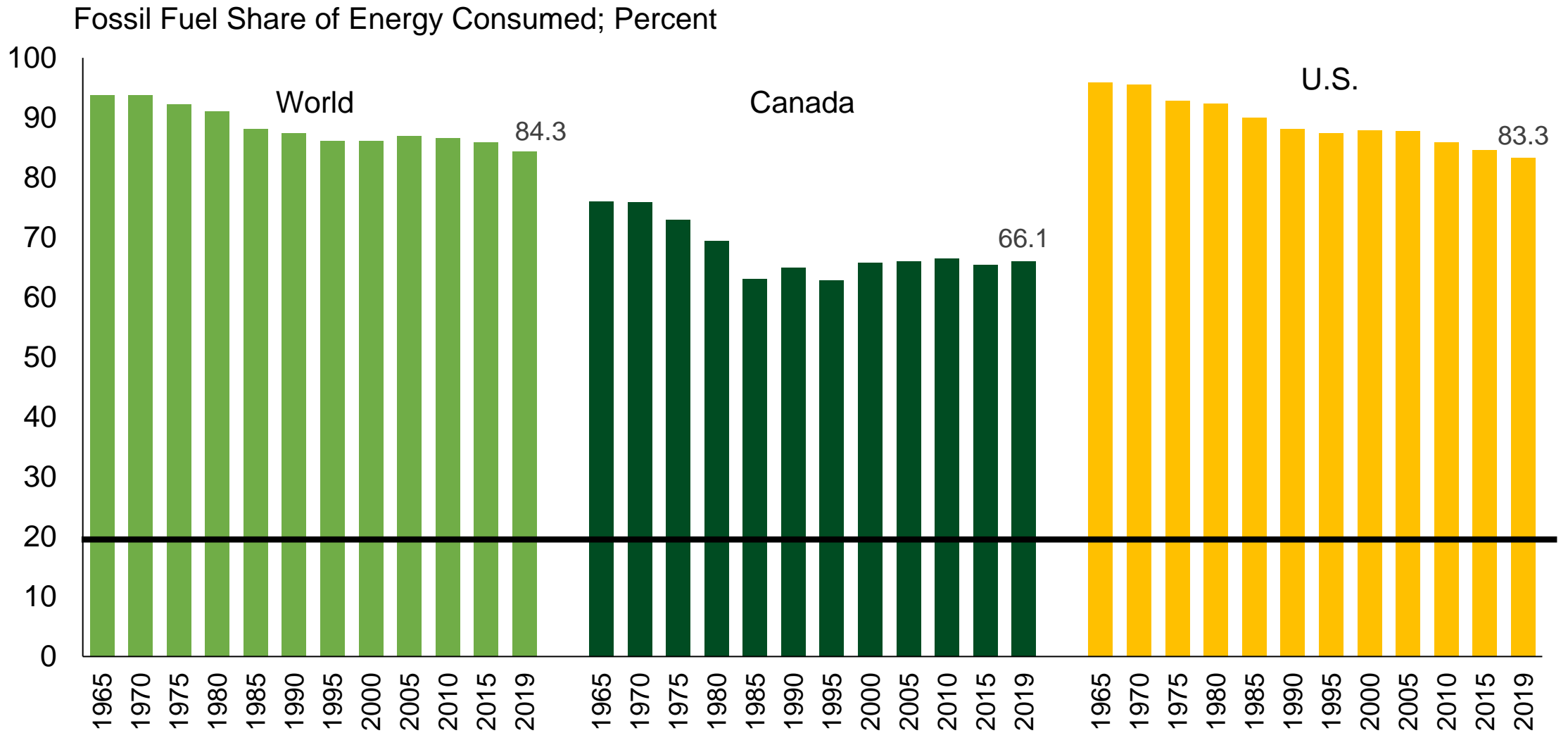
*Not seasonally adjusted. Source: Statistics Canada

More Persistent Deficits & Permanently Higher Debt Increases Vulnerability to the Next Shock



Note: Data from 2021 to 2024 are based on the IMF forecast.
Source: IMF, TD Economics.

The Energy Transition Looms Large



Source: Our World in Data, BP Statistical Review of World Energy

Closing Thoughts

- Pandemic recession is not at all like a financial crisis or even a "run of the mill" economic downturn
- Policy interventions worked well in limiting contagion
- Implications for potential growth still uncertain:
 - On the one hand: economy more resilient, investment has performed better than expected, automation/digitization may jumpstart productivity growth
 - On the other: much of the investment surprise has been in housing, some labor market scarring likely due to nature of reallocation shock
- Accumulation of debt increases vulnerabilities and risks

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