



THE PANDEMIC RECOVERY AND OUTLOOK: PROGRESS, BUT MANY COMPLICATIONS

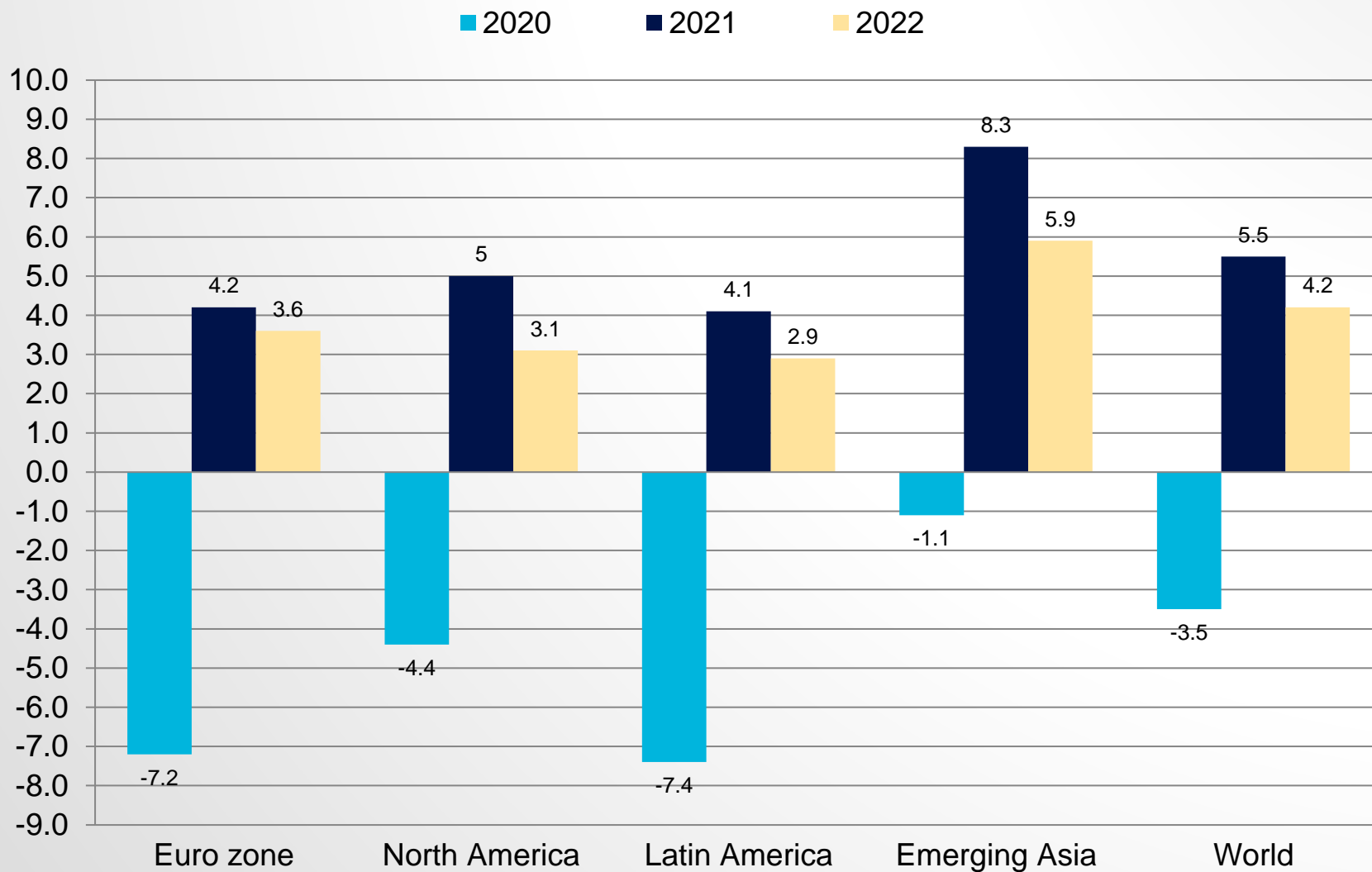
Glen Hodgson
February 2022

A COMPLICATED OUTLOOK

- Global and Canadian output recovering from the pandemic shutdown
- Expect robust Cdn growth until output is back to full potential
- However, many complications and risks:
 - protests / pandemic waves
 - disrupted supply chains
 - inflation
 - hot housing markets
 - aging demographics
 - climate change and energy transformation

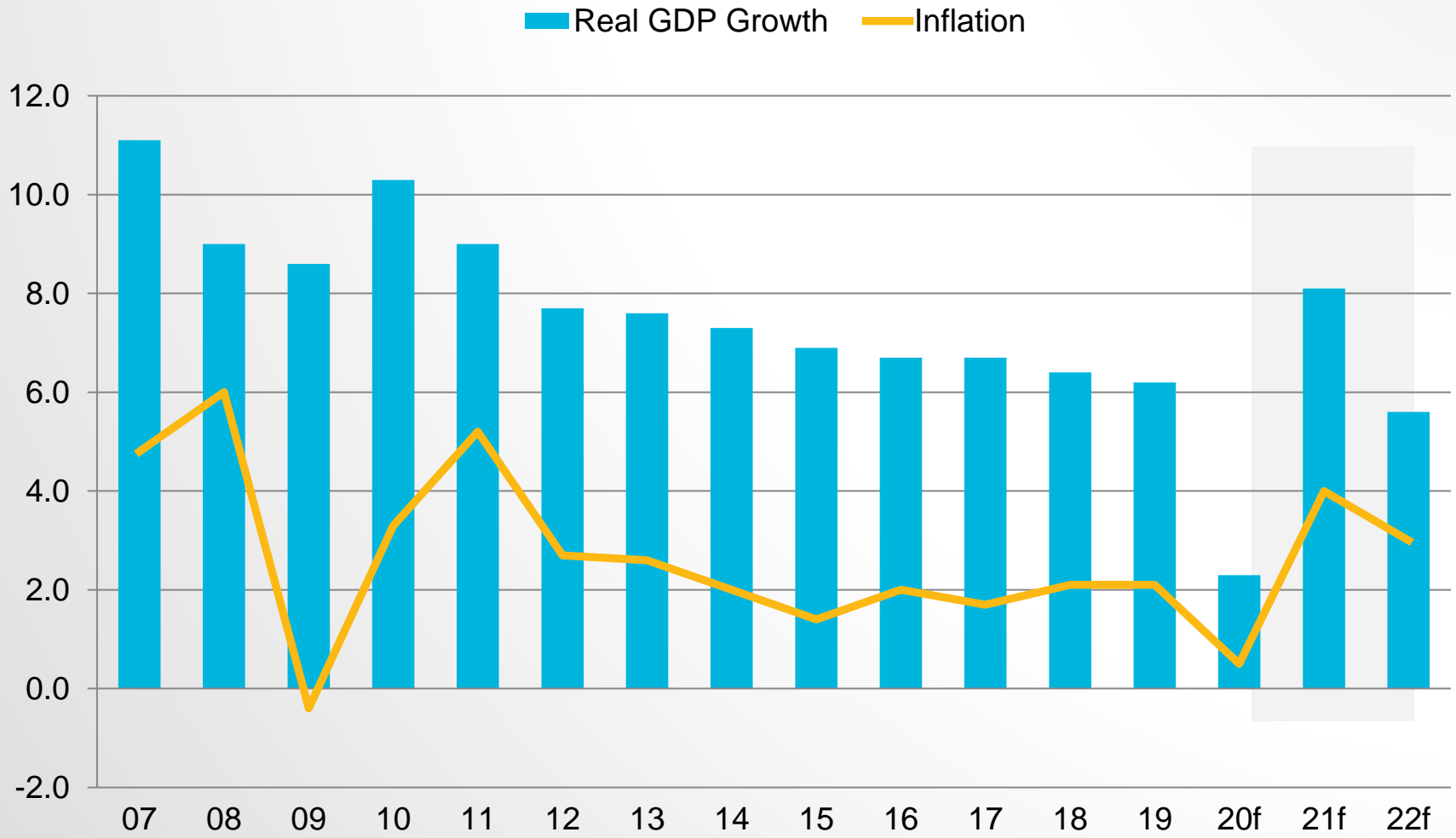
PANDEMIC SHUTDOWN AND GLOBAL OUTPUT

PER CENT CHANGE, REAL GDP



CHINA OUTLOOK

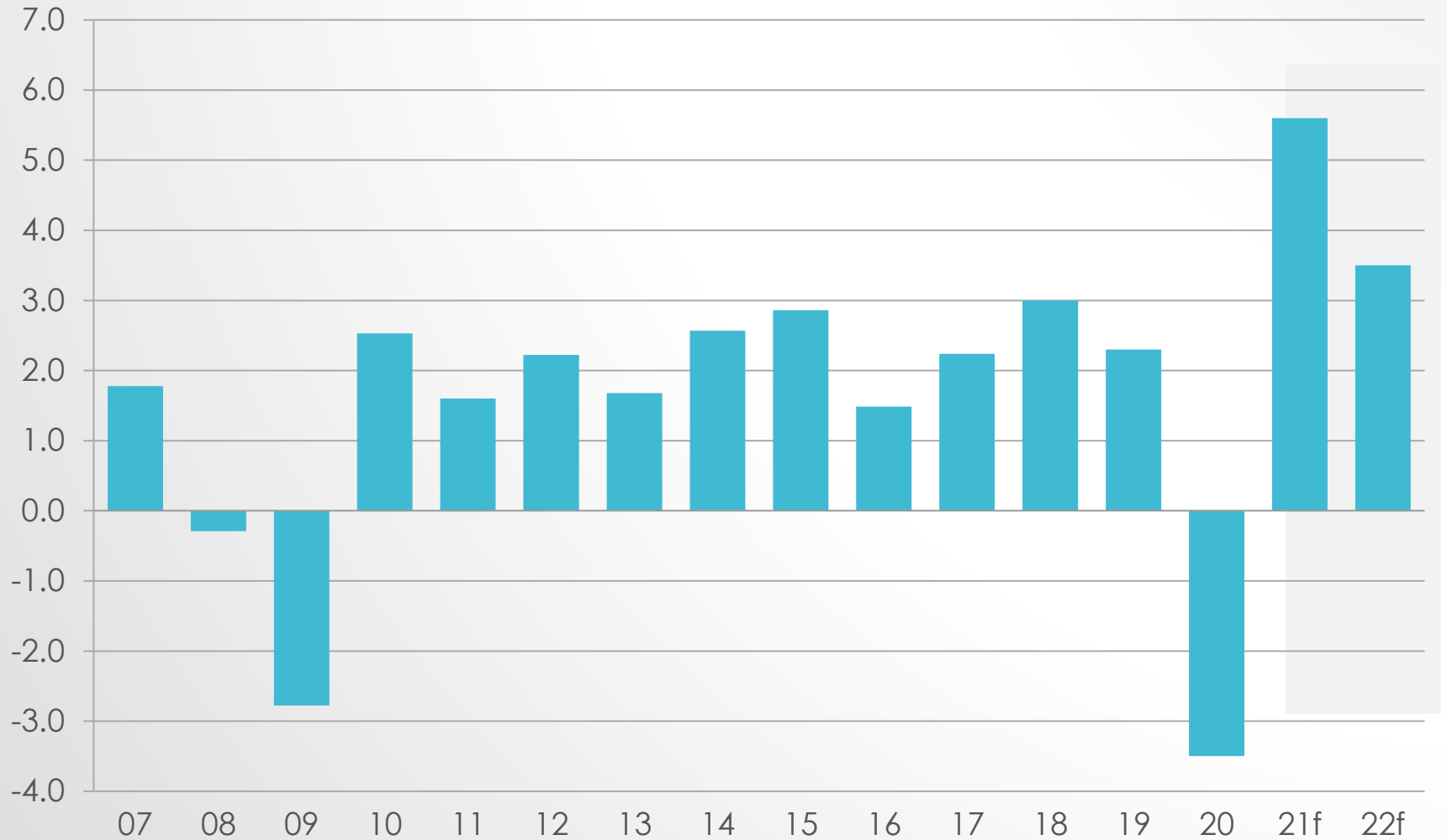
PER CENT CHANGE



Source: Consensus Economics, IMF.

U.S. OUTLOOK

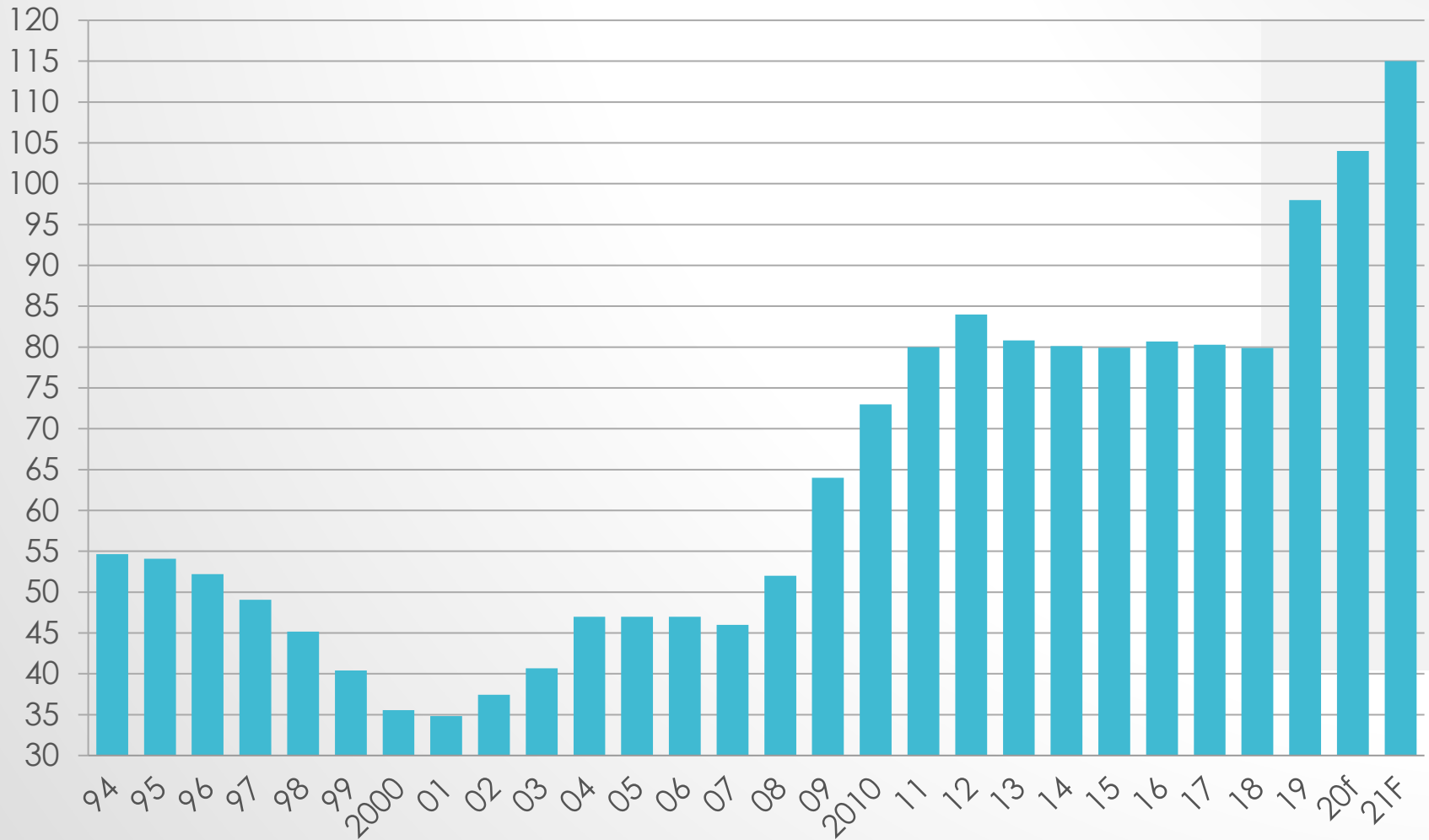
U.S. real GDP growth, per cent change



Sources: BEA, Fed, IMF

SOARING U.S. PUBLIC DEBT

per cent of GDP

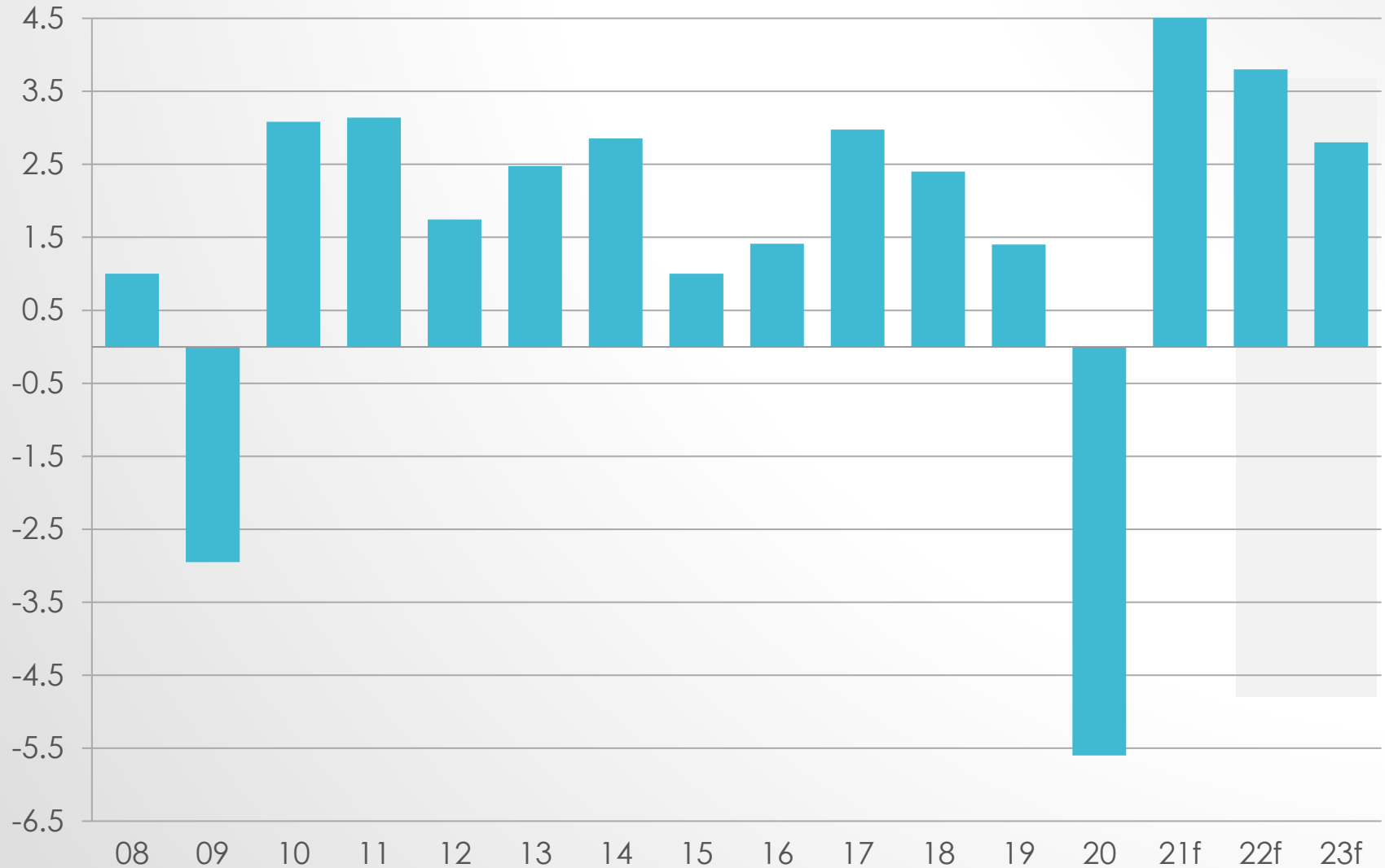


CANADIAN RECOVERY

- Canadian recovery from pandemic shutdown started Q4 20
- Solid growth projected, but...
- Inflation elevated due to energy prices, global supply chain disruptions
- Protests, further pandemic waves restraining recovery
- Level of GDP climbing back toward potential (in 2024?)

CANADIAN SHUTDOWN AND RECOVERY

Real GDP, per cent change



Sources: Bank of Canada; Statistics Canada; Finance Canada.

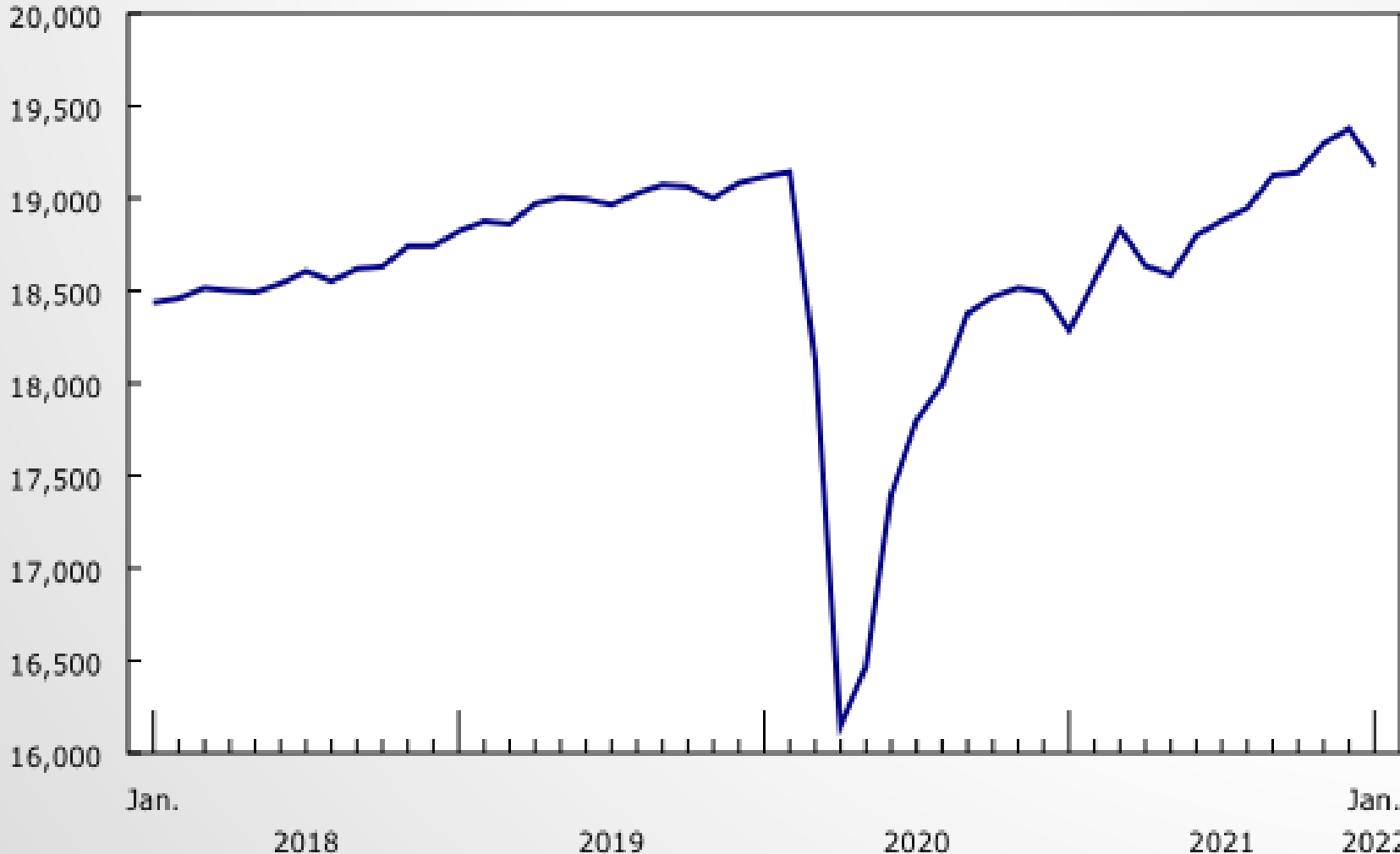
LABOUR MARKETS

- Jobs in Canada returned to pre-pandemic levels in September 2021
- Unemployment rate declining...
- ... but still higher than pre-pandemic due to increased labour force participation
- January 2022 setback
- Accommodation, food services still lagging the recovery

CANADA: EMPLOYMENT

SOURCE: STATISTICS CANADA

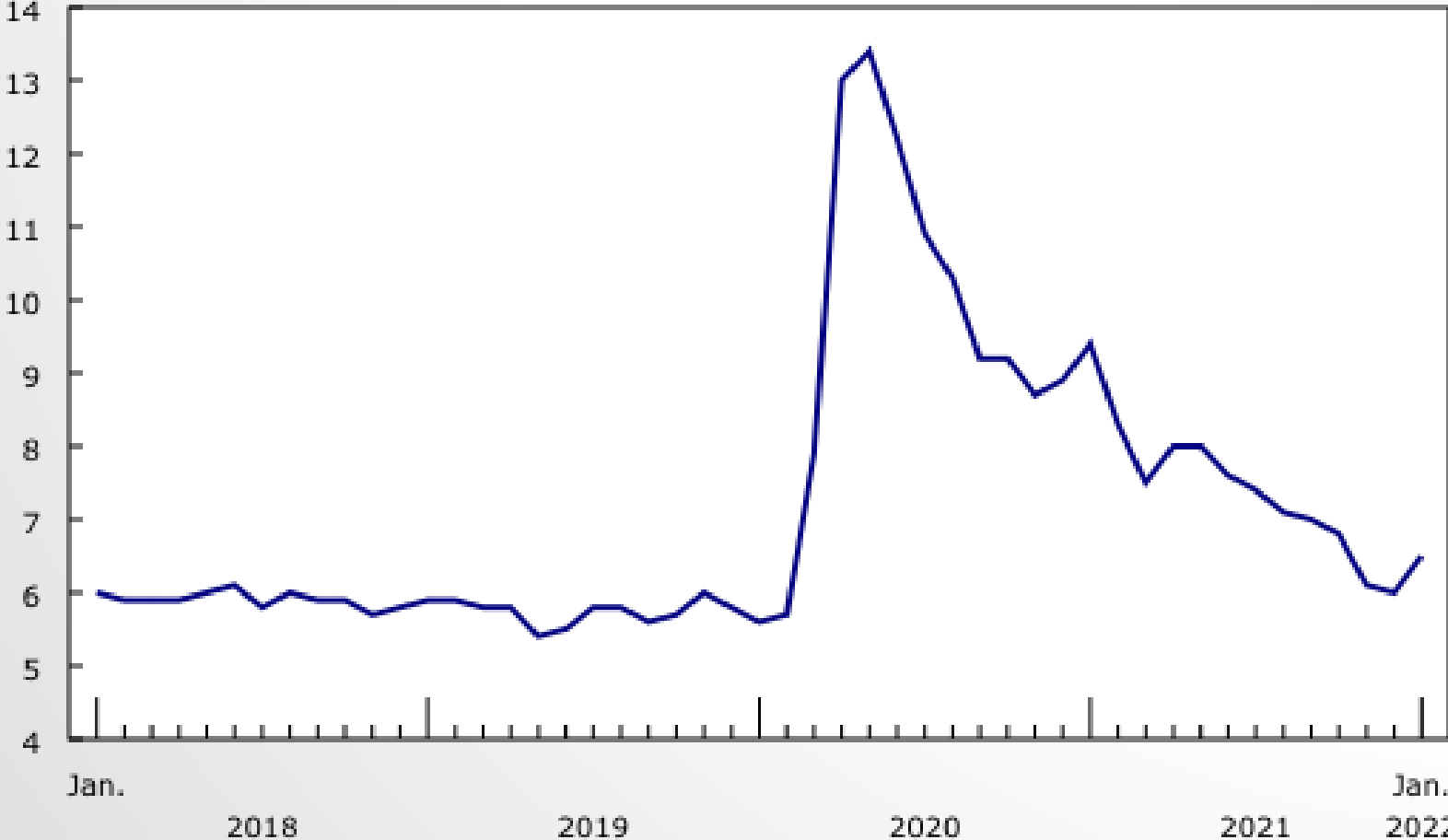
thousands



CANADA: MONTHLY UNEMPLOYMENT RATE

SOURCE: STATISTICS CANADA

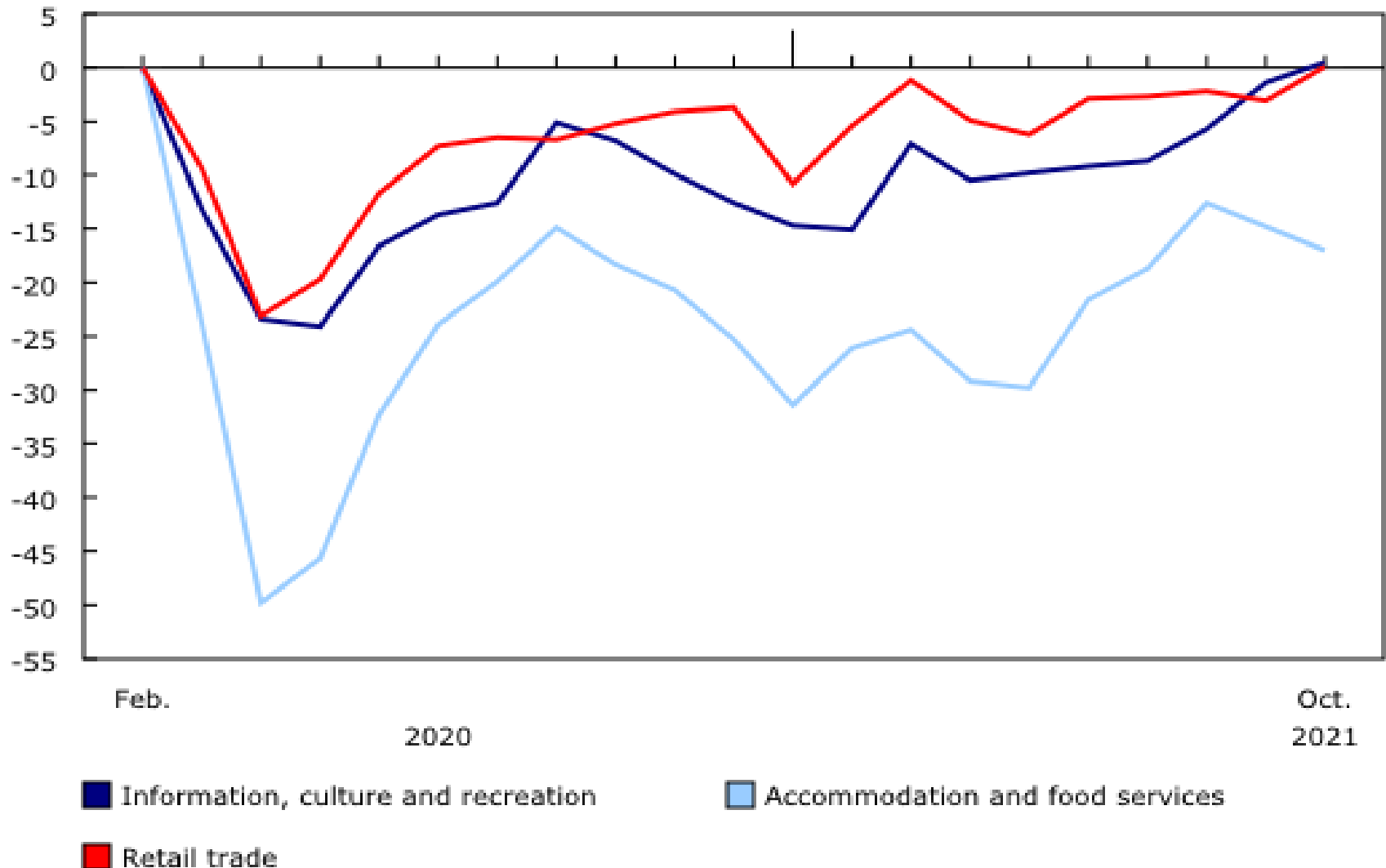
%



EMPLOYMENT RECOVERY: KEY SECTORS

SOURCE: STATISTICS CANADA

employment change (%) compared with February 2020

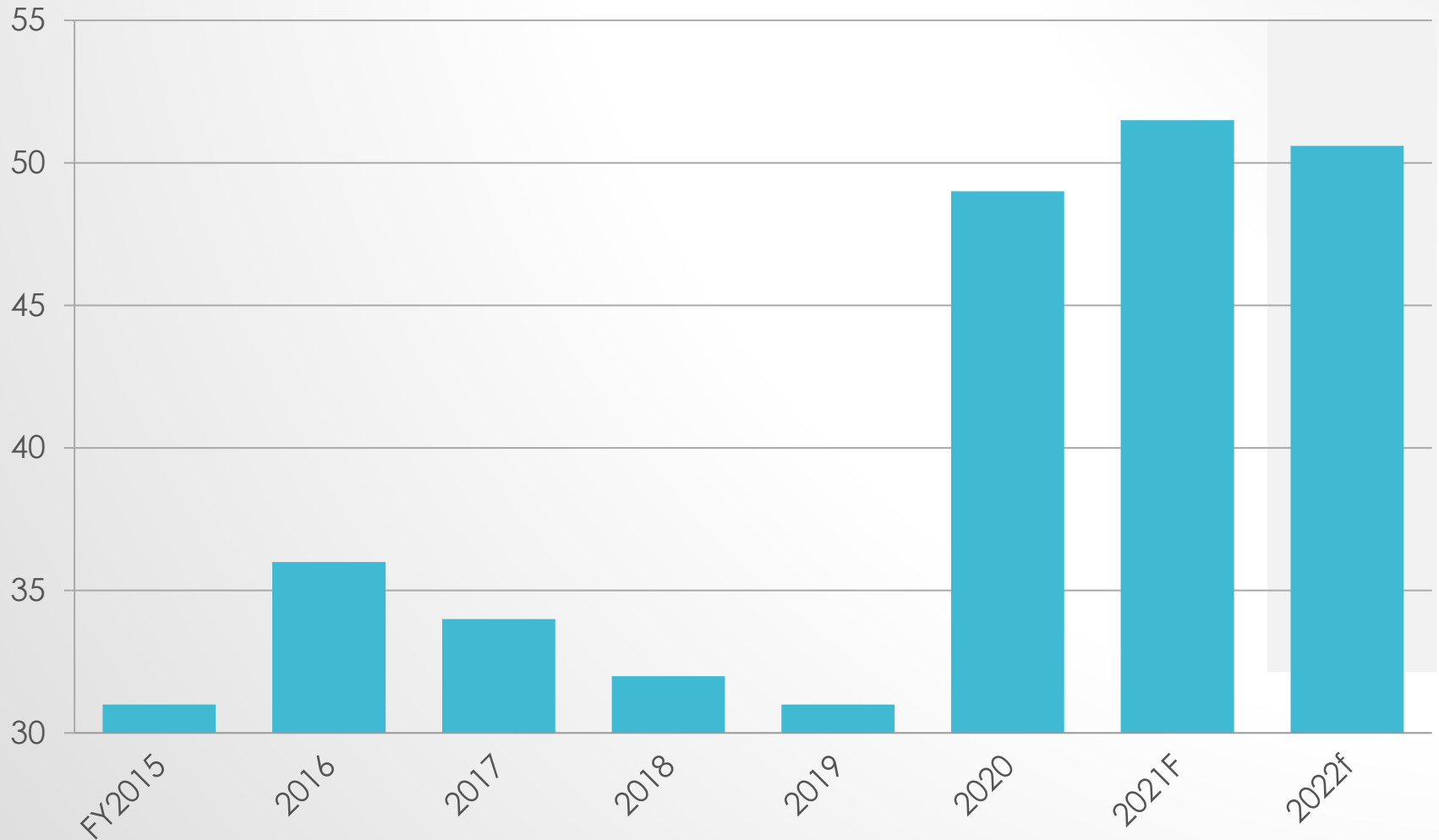


PANDEMIC FISCAL ACTION

- Exceptional fiscal spending to support affected individuals and businesses
- Federal deficit approached \$400 B in FY 2020-21
- Provinces also saw deeper deficits
- Pandemic fiscal support being pulled back, but deficits remain elevated
- Fed deficit of \$155 B projected FY 2021-22, lower in future years – but no clear anchor

JUMP IN FEDERAL DEBT

PER CENT OF GDP

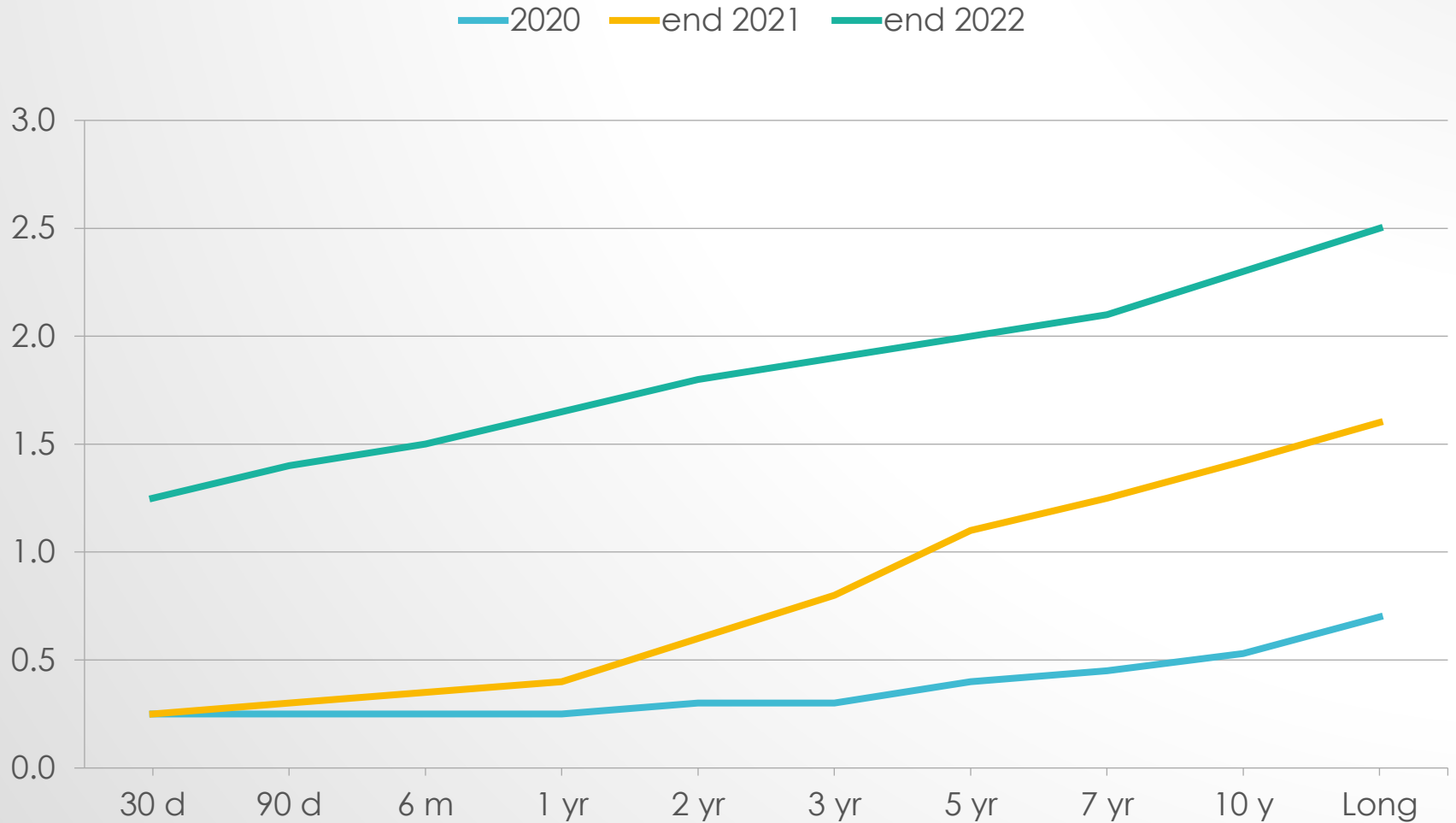


PANDEMIC MONETARY ACTION

- Exceptional monetary accommodation to prevent deflation and shore up economy
- Overnight rate slashed to 0.25 pc
- QE and massive bond purchases flattened the yield curve
- Exceptional bond purchases have ended, interest rates will rise in 2022
- B of C balance sheet to shrink as bonds mature

CANADIAN YIELD CURVE

GOVERNMENT BOND AND TREASURY BILLS, PER CENT



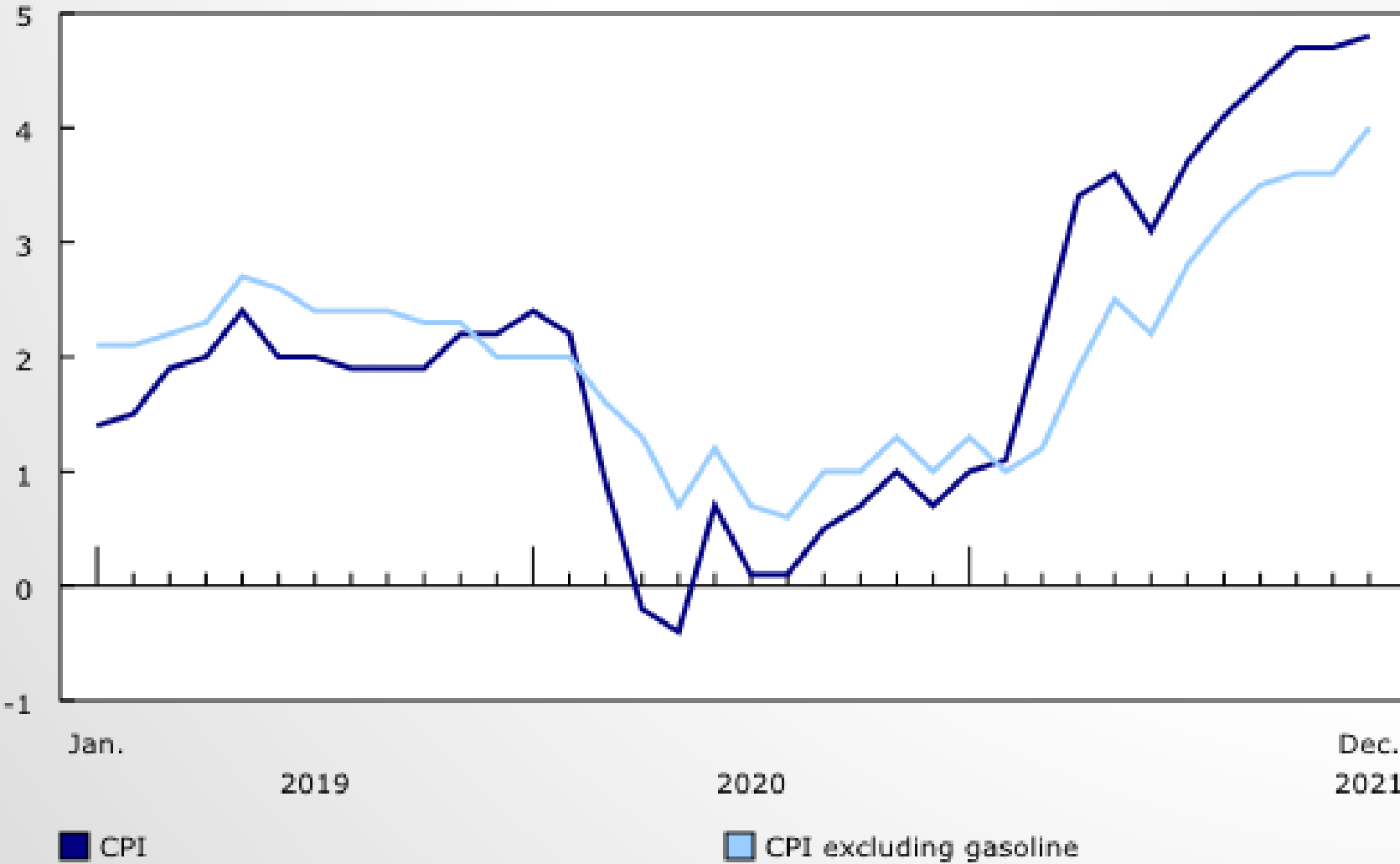
WHAT'S DRIVING INFLATION?

- Inflation took off globally in 2021 driven by supply side factors
 - Oil and gas prices
 - Supply chain disruptions
- Combined with solid domestic demand recovery
- Fiscal and monetary stimulus providing a lubricant
- No magic to reducing inflation – restore more normal monetary and supply conditions over time

CPI AND ENERGY PRICES

SOURCE: STATISTICS CANADA

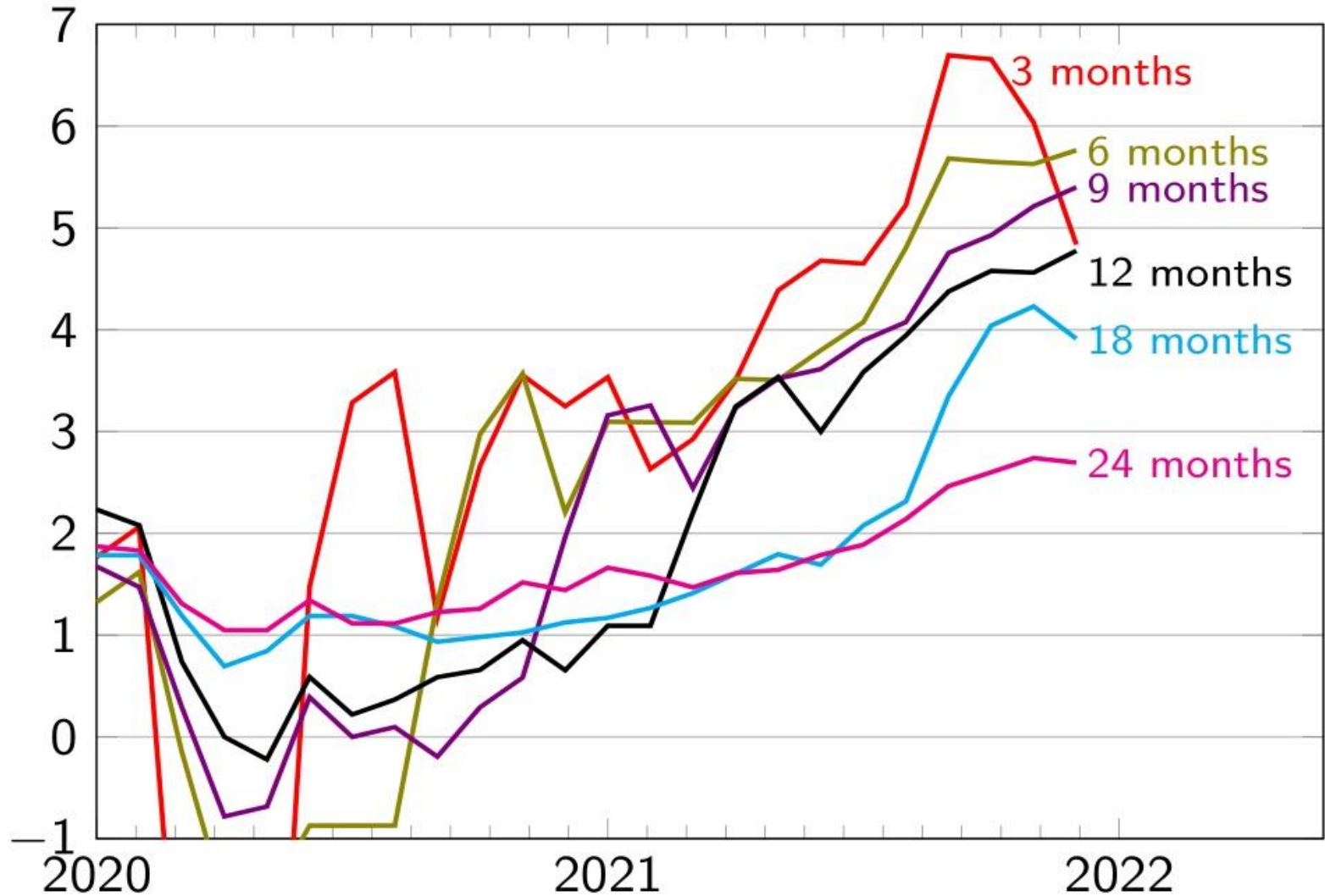
12-month % change



INFLATION – NOT IN ALL SECTORS

	October 2020 to October 2021
	% change
Main contributors to the 12-month change	
Main upward contributors	
Gasoline	41.7
Homeowners' replacement cost	13.5
Purchase of passenger vehicles	6.1
Other owned accommodation expenses	13.8
Meat	9.9
Main downward contributors	
Mortgage interest cost	-8.9
Passenger vehicle insurance premiums	-6.4
Telephone services	-8.0
Fresh vegetables	-4.0
Digital computing equipment and devices	-5.2

Annualised Consumer Price Index inflation over past...



WILL INFLATION ABATE?

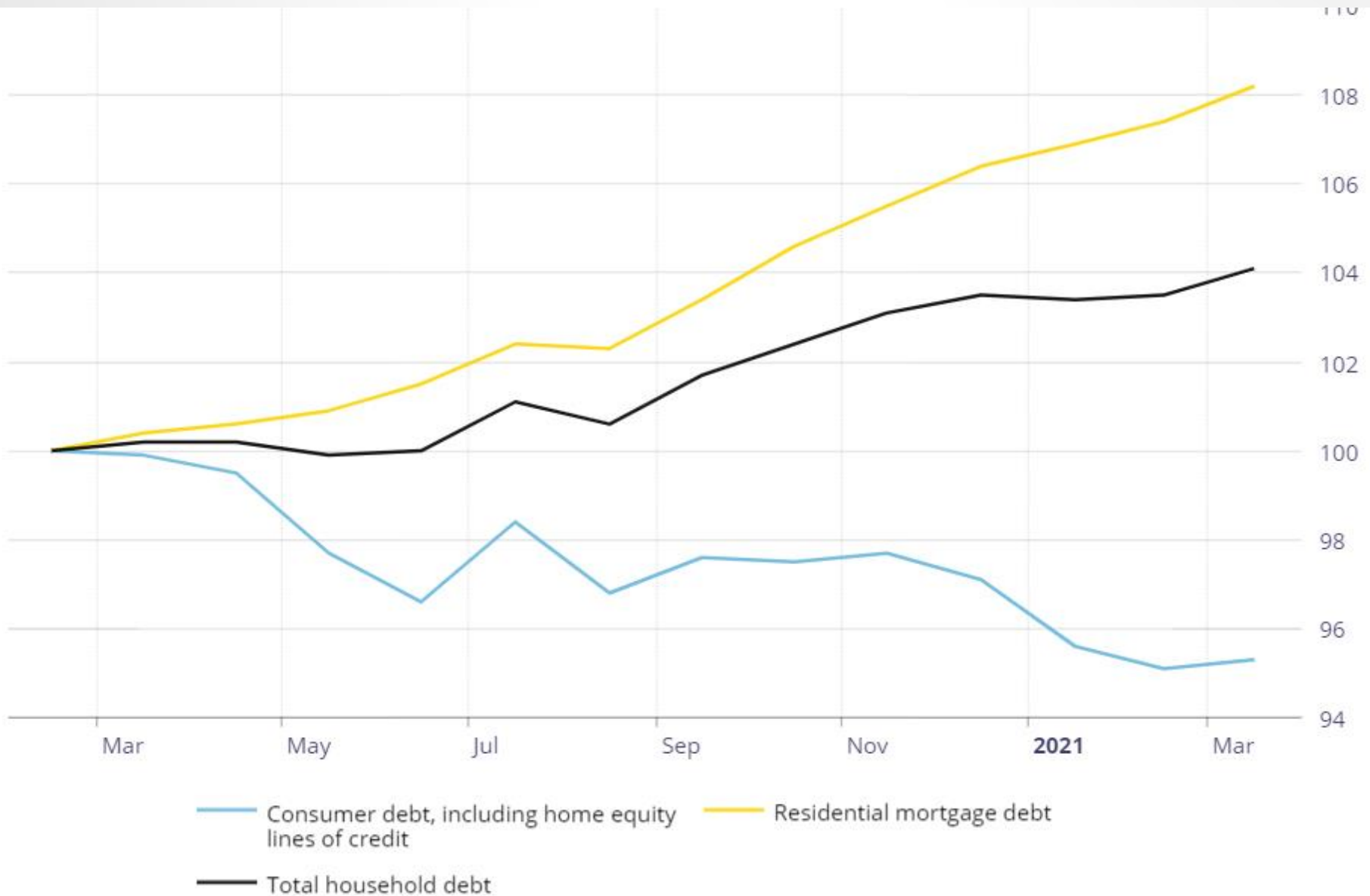
- Surge in energy and housing prices unlikely to be repeated in 2022
- Supply chain disruptions not easily fixed, but healing has begun
- Watch wage pressures -- demographic, economic, social forces
- Monetary policy will restrain inflation, but a blunt instrument
- Be careful what you wish for!

CANADIAN HOUSING MARKETS

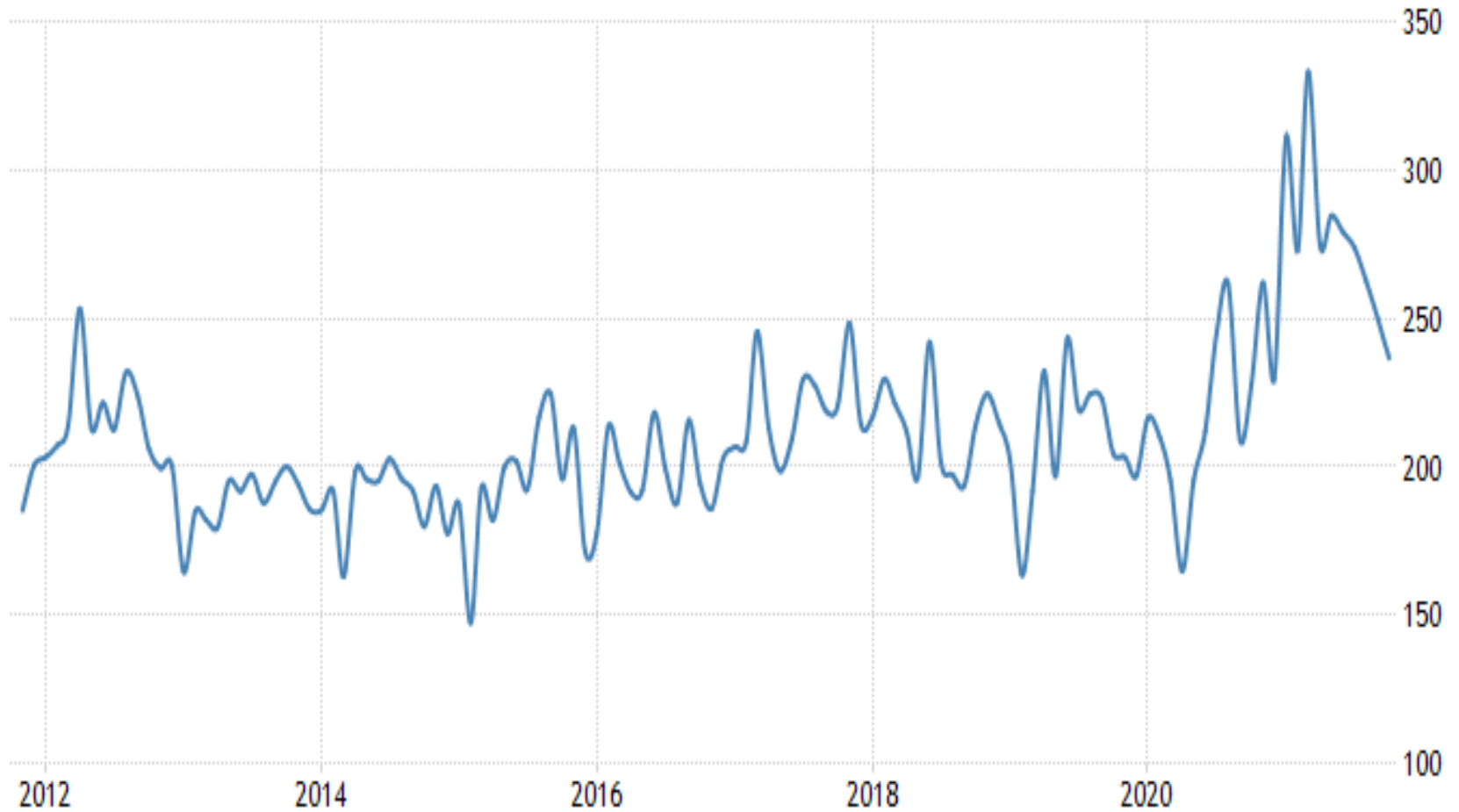
- Strong demand recovery = rapid increase in housing prices in many markets
- Sales vs. inventory ratio also elevated
- As mortgage rates rise, both will moderate
- What will the housing market adjustment will look like?
- Slower price growth, or will prices drop in some markets?

MORTGAGE DEBT ON THE RISE

MARCH 2020=100



CANADA: HOUSING STARTS



SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | CANADA MORTGAGE AND HOUSING CORPORATION

KEY BUSINESS ISSUES

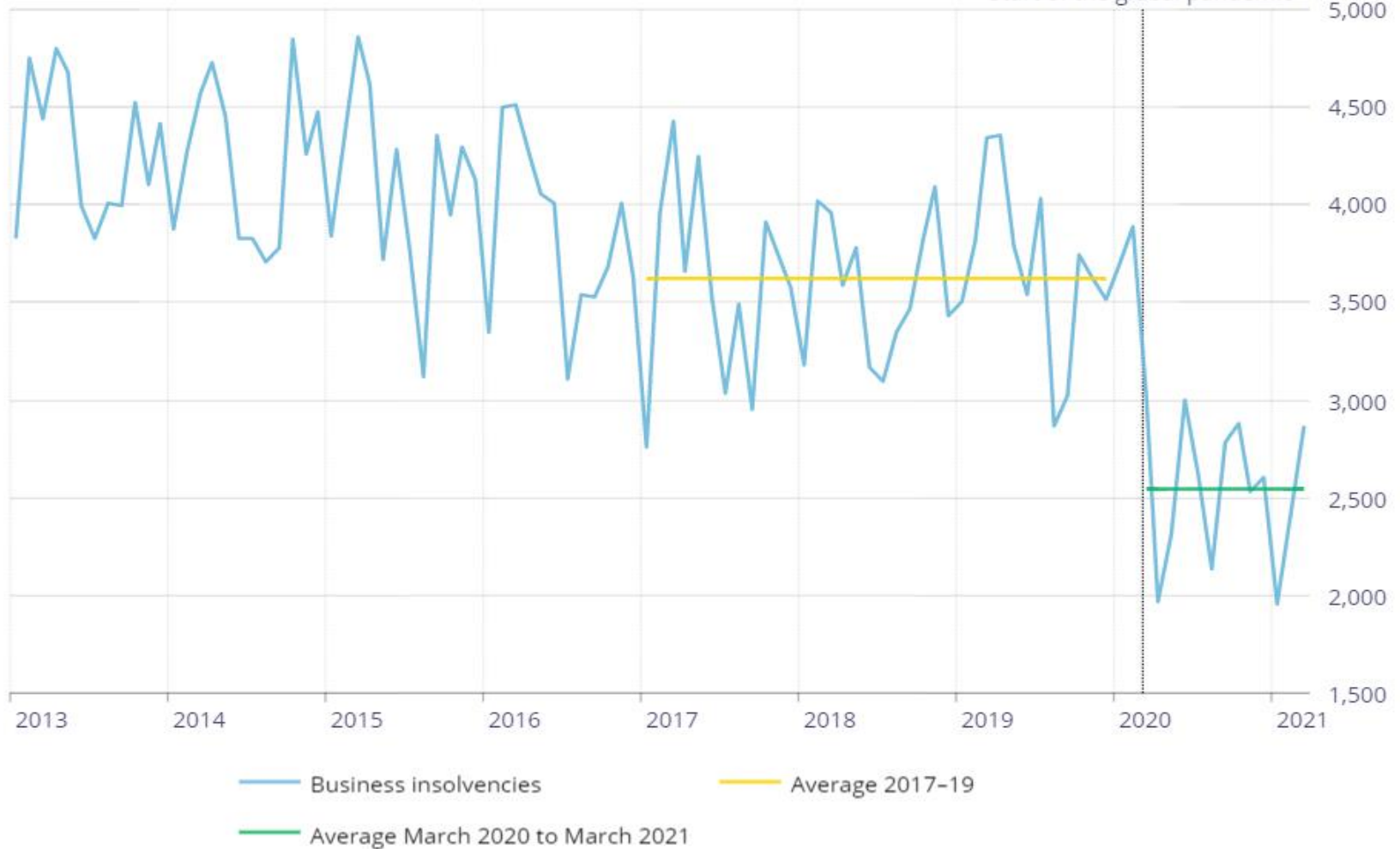
- Disruption to supply chains, suppliers, buyers, competitors
- Digital sales have doubled – and will keep growing
- Shift to remote work and meetings
- Business closures in affected sectors

BUSINESS FAILURES DOWN

Chart 11: Business insolvencies are 30 percent lower than their pre-pandemic levels

Insolvencies filed by businesses, annualized

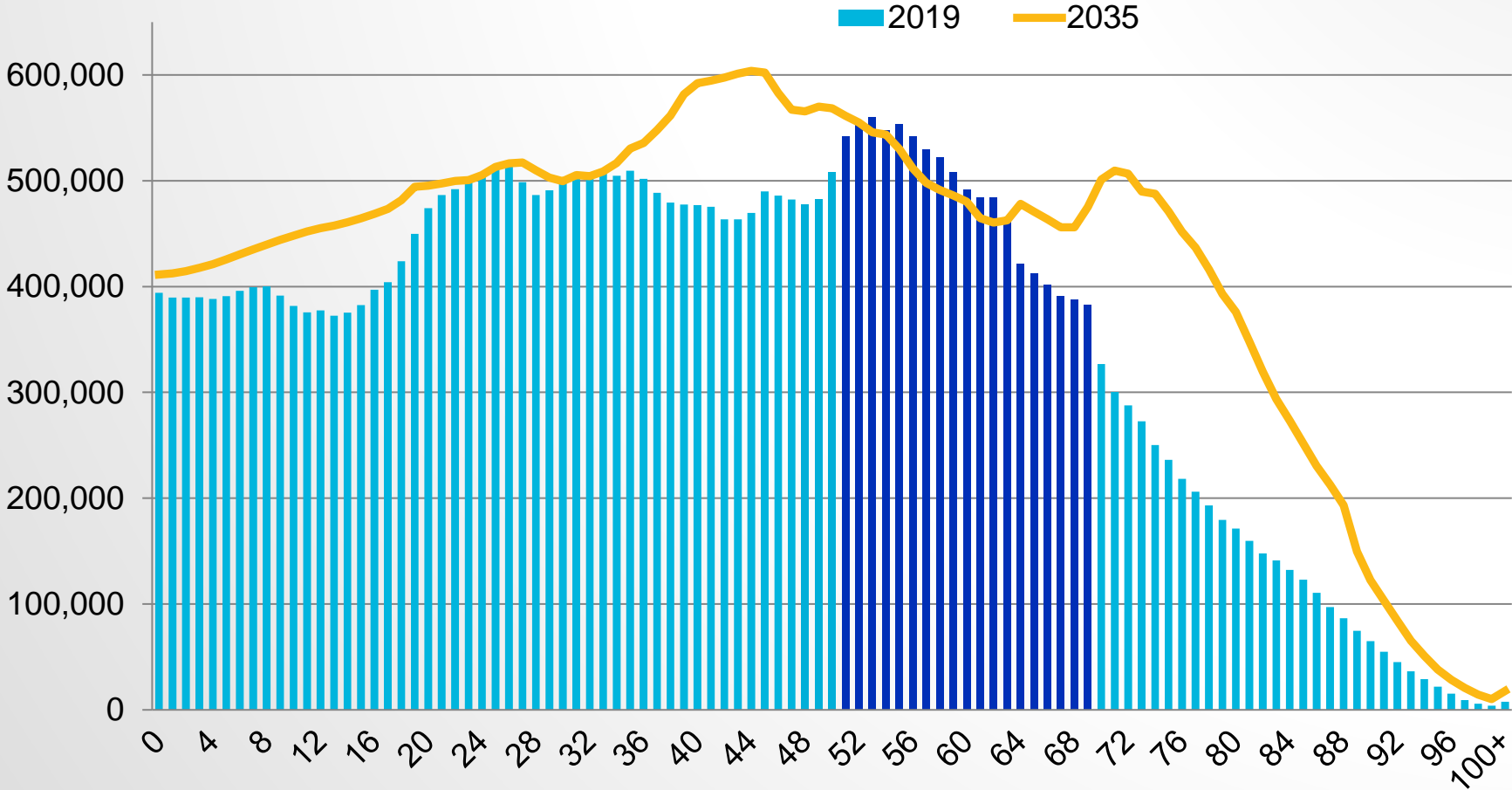
Start of the global pandemic



THE MEDIUM TERM: FADING GROWTH POTENTIAL

- Aging demographics mean slower annual growth ahead in many economies
- U.S.: potential has dropped from 3 per cent to around 2 per cent
- Canada: 1.7 per cent
- EU: 1.5 per cent
- Japan: under 1 per cent
- China: 4 per cent or less

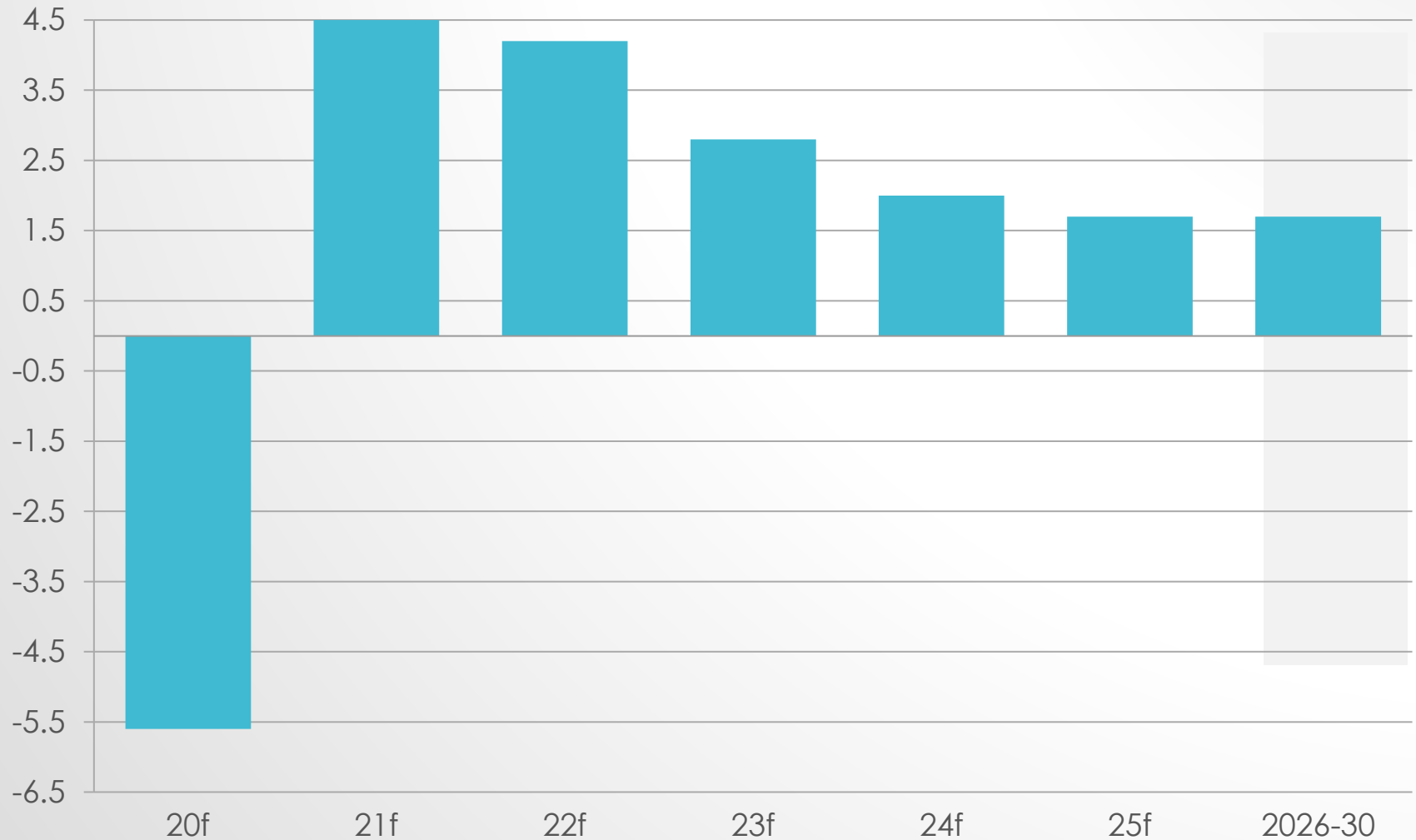
CDN POPULATION DISTRIBUTION BY AGE, 2019 AND 2035



Sources: Statistics Canada; CBoC.

CANADA: MEDIUM-TERM OUTLOOK

Real GDP, per cent change



Sources: Bank of Canada; Statistics Canada, Finance Canada.

CLIMATE CHANGE AND GROWTH

- Climate change will weigh on the economy over the coming decades.
- Economic challenges in two forms:
 - Physical risk of climate change – extreme weather, floods, forest fires
 - Energy transformation to slash GHG emissions
- Obvious risks to conventional energy output, employment, investment, wealth
- But also growth opportunities -- cheaper renewable energy, massive investment, innovation everywhere

CLIMATE POLICY

- Smart climate policy choices and early action would limit the negative impact on growth
- Smart policies include:
 - carbon price signals to strengthen incentives
 - flexible regulations to complement carbon pricing
 - selective fiscal incentives
 - massive investment in:
 - climate risk mitigation
 - adaptation
 - energy production and use with low or no emissions

CLIMATE AND GROWTH ANALYSIS

- Negative impact on growth can be limited by:
 - smart policy design
 - early action
 - cheaper net zero energy
 - strong sustained investment
 - widespread innovation
- Ecofiscal Commission (2018): GDP impact of carbon pricing is small, 0.1 - 0.2 per cent annually
- CICC (2021): with early comprehensive climate policy, level of GDP only 2 per cent lower in 2050 / 2100

CLIMATE-GROWTH ANALYSIS (2)

- RBC: “The Net Zero Opportunity” (2021) indicates investment of \$2 trillion required to reach net zero 2050
- Trottier Energy Institute: “Canadian Energy Outlook 2021”; five scenarios with focus on net zero in 2045, 2050, 2060
 - Net additional annual investment of 0.2% to 1.9% of GDP, largely in net-zero electrification
 - Rapidly falling marginal costs of net zero energy (renewables, biofuels) another key factor
- Much more research required!

CONCLUSIONS

- Immediate outlook: global and Canadian output steadily recovering from pandemic shutdown
- But numerous complications and risks
- Medium term: aging demographics are pulling down growth potential
- Longer term: growth challenges (and opportunities) of climate change and energy transformation



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