ECONOMIC VIEWPOINT

A Look Back At 2020

COVID-19 Is Testing the Resilience of the Economy and Markets

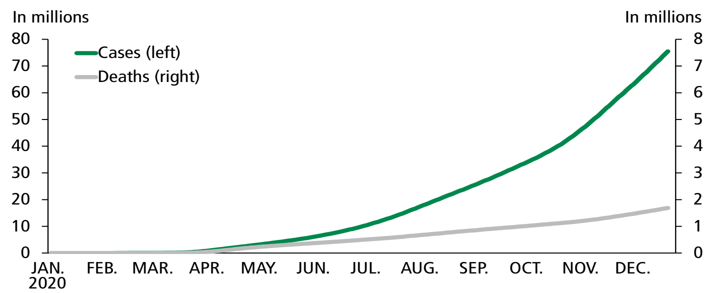
The time has come to take stock of 2020. Here are the main aspects that caught our attention.

The COVID-19 pandemic was 2020's major theme. A year ago, no one could have imagined that an obscure disease that afflicted a few people who went to a market in Wuhan, China, would have such a huge impact on all of the economic and financial news. The disease has infected nearly 76 million people and caused over 1.6 million deaths, according to official data (graph 1).

The pandemic hit China first, its real GDP plunged 10.0% (34.4% on an annualized basis) in the first quarter of 2020 from the final quarter of 2019, the first decline since data were first published. It then spread to Europe and the rest of the world. The economic impact, which mainly came from the drastic measures imposed to curb the spread of the disease, was devastating, particularly for the service sector. **Most countries saw their real GDPs tumble in the first and, especially, the second quarters of 2020.** The relaxion of the main public health measures led to a strong global economic rebound. Despite this improvement, the shortfall from the cyclical peak at the end of 2019 remains significant, at -2.5% for the G20, and the situation is worse for most of the large economies (graph 2). China bounced back remarkably quickly from the crisis, and it should be the only country to record real GDP growth for 2020.

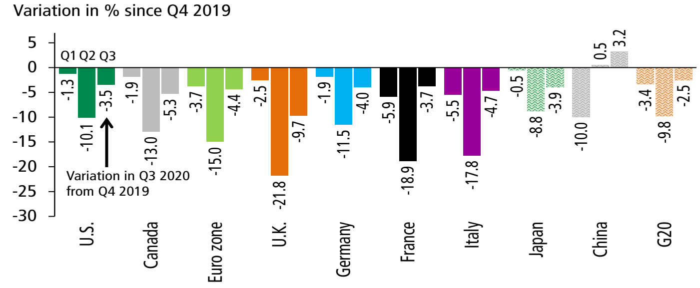
Only a few other topics had a real influence on the international economic news in 2020. We can still think of the **United States–China Phase One trade deal** which led to a truce in the trade war between the two countries. **Brexit** also remained in the news. **The United Kingdom officially left the European Union** (EU) on January 31, 2020, but the negotiations to reach a trade deal between the United Kingdom and the EU before December 31 remain a struggle.

GRAPH 1
COVID-19: A human drama that hit the global economy hard in 2020



Sources: Datastream and Desjardins, Economic Studies

GRAPH 2
Despite the summer upswing, economic activity remains low… except in China



Sources: Organisation for Economic Co-operation and Development and Desjardins, Economic Studies

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hélène Bégin, Senior Economist
Marc-Antoine Dumont, Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

In the United States, Congress reacted to the COVID-19 crisis fairly swiftly with a huge assistance package costing US$1,606B. Obviously, the federal government's deficit jumped hitting US$3,132B on September 30, 2020. Despite the assistance, 22,160,000 U.S. workers lost their jobs in March and April. Close to 56% of these jobs have been recovered. The U.S. presidential election on November 3 led to a major change in governance; Democrat **Joe Biden will become the 46th president of the United States on January 20**.

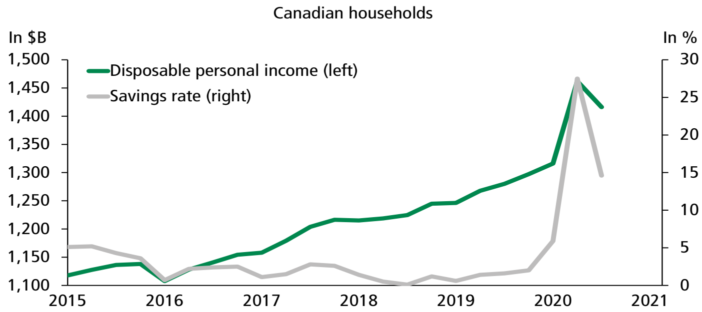
In Canada, the government assistance to help individuals and businesses **cope with the fallout from COVID-19** was more extensive than in most other industrialized countries. Combined with a decrease in certain consumption expenditures, it resulted in a **surge in households' disposable income and savings**. Canadian households seem to be in good position for what follows COVID-19 (graph 3). However, the assistance triggered **a considerable increase in the debt loads of Canadian public administrations**. However, the federal government (and to a lesser extent some provincial governments) started the crisis in fairly good financial shape compared with most other public administrations in industrialized countries, which gives it some wiggle room.

The pandemic and adverse effects of the restrictive measures had **uneven repercussions in the provinces in 2020** (graph 4). Quebec and Ontario were particularly affected, as were the oil-producing provinces, as a result of the decline in global demand. British Columbia and the Atlantic provinces were less shaken. That said, at the end of the year, the second wave of COVID-19 hit several Western provinces hard, along with Quebec and Ontario.

The employment market recorded the worst deterioration in its history in spring 2020. Canada saw unprecedented job losses, with over 3,000,000 jobs lost in just two months. The unemployment rate more than doubled, going from 5.6% in February to 13.7% in May. All of the provinces were affected, but Quebec was hit hardest because its wider economic lockdown. A total of 820,500 jobs disappeared in March and April. Quebec's unemployment rate peaked at 17.0% in April, the highest among the Canadian provinces. Ontario applied restrictive measures a little later, and lifted them entirely last summer. Its unemployment rate thus peaked at 13.6 % in May whereas it was around 5.5% before the pandemic. Employment posted a stunning rebound after that (graph 5). Several provinces reinstated some of the restrictions this fall, which could hinder a full recovery by the employment market.

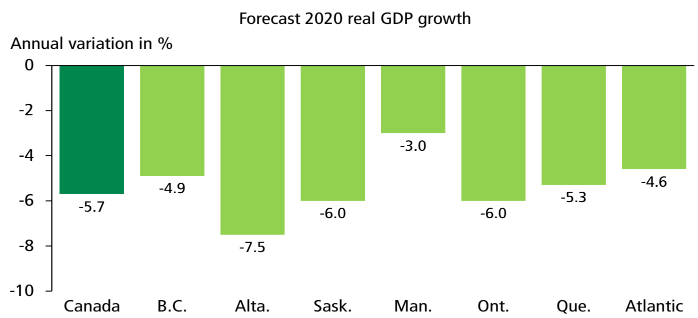
The housing market saw activity tumble in spring 2020. Sales plunged abruptly and average prices adjusted downward in Canada and in Ontario, but stabilized temporarily in Quebec. **The housing sector then posted a surprisingly rapid turnaround, and recovered quickly.** The number of sales and

GRAPH 3
Canadian households' financial situation improved during the crisis



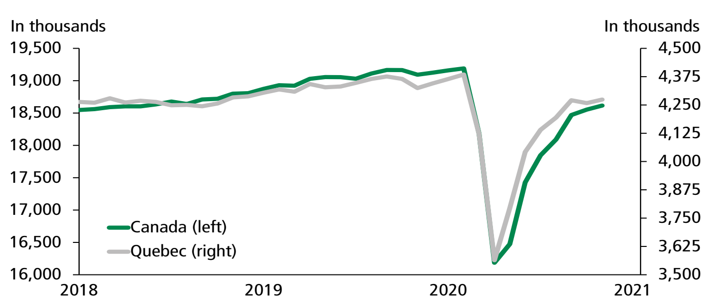
Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 4
All provinces should record real GDP contractions for 2020



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 5
Employment plunged in spring 2020, then turned around without recovering fully



Sources: Statistics Canada and Desjardins, Economic Studies average prices even hit new peaks. The pool of properties on the market is particularly small in Quebec, fuelling the rise in prices.

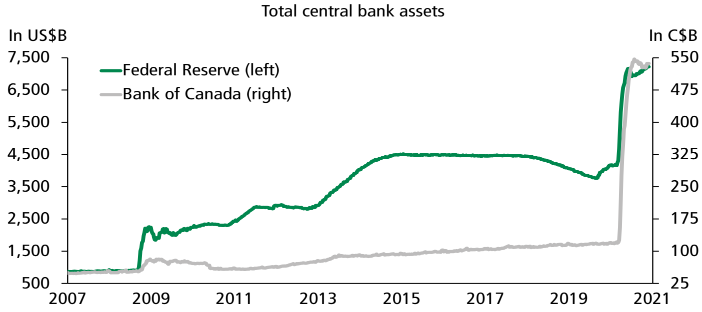
The central banks quickly went back into hyper-intervention mode in 2020. Key rates were lowered to nearly 0% in the United States and Canada, and large asset purchasing programs were launched (graph 6). This was a first for the Bank of Canada, whose balance sheet swelled to five times its previous size. These interventions helped lower all bond yields, and kept credit spreads very narrow. The central banks' energetic action quickly dissipated fears that the pandemic would lead to a major financial crisis.

At the end of last winter, the stock markets recorded one of the most violent plunges in history, then rebounded rapidly. Propelled by tech securities, the U.S. stock indexes did particularly well, hitting new peaks by the end of the summer. After a pause of a few months, good corporate earnings and very promising developments surrounding a vaccine gave the stock markets new momentum at the end of 2020, which also put the S&P/TSX into positive territory for the year. Thanks to the stock market rebound and a substantial drop in bond yields, **in the end, 2020 has been a good year for investors** (graph 7).

The U.S. dollar benefited from the heavy uncertainty in the markets at the start of last spring, but quickly started to trend down against most currencies. At the end of 2020, the Canadian dollar was around US$0.79, a more than two-year high.

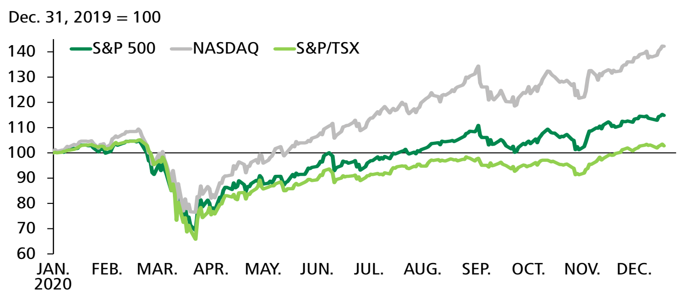
It was a tough year for oil. Collapsing demand at the end of the winter and fears over storage capacity temporarily pulled the WTI (West Texas Intermediate) price down to -US$37.63 in April. Despite a quick rebound, oil prices remain below pre-pandemic levels because of softer demand. Conversely, **base metal and gold prices both shot up this year**. Propelled by the Chinese economy's quick rebound, the LME (London Metal Exchange) index is up 20% since January (graph 8). As for gold, its price established a new record in August, at US$2,067.15.

GRAPH 6
The central banks injected huge amounts of liquidity



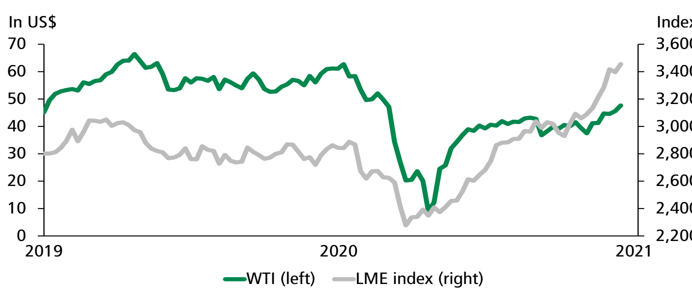
Sources: Datastream, Bank of Canada and Desjardins, Economic Studies

GRAPH 7
The stock markets recorded gains in 2020



Sources: Datastream and Desjardins, Economic Studies

GRAPH 8
Despite the pandemic, base metal prices shot up



WTI: West Texas Intermediate; LME: London Metal Exchange
Sources: Datastream and Desjardins, Economic Studies