

ECONOMIC VIEWPOINT

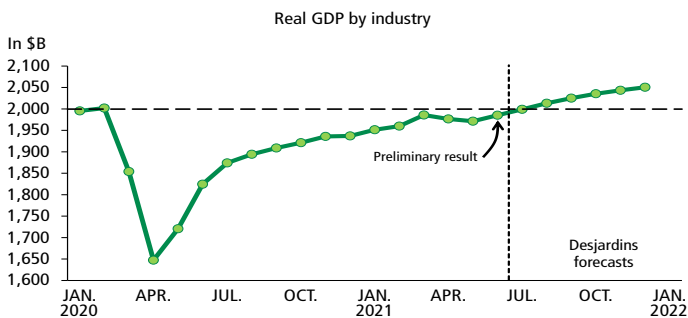
Canada's Economic Recovery Is Well Underway... but There Are Still Many Obstacles

By Benoit P. Durocher, Senior Economist

Even though some more time will have to go by before Statistics Canada confirms it, Canadian production has completely recovered the ground it lost during the pandemic. However, the recovery is very uneven across industries, with some industries still lagging significantly. The same is true of the labour market, although full recovery may take a little longer. Clearly, the pandemic will leave traces that will take several years to resolve while many structural changes are underway.

According to our estimates, real GDP will have completely made up its pandemic-related losses by July or August (graph 1). Of course, we will not be sure until Statistics Canada releases its official data for those two months, some time around the end of September and October.

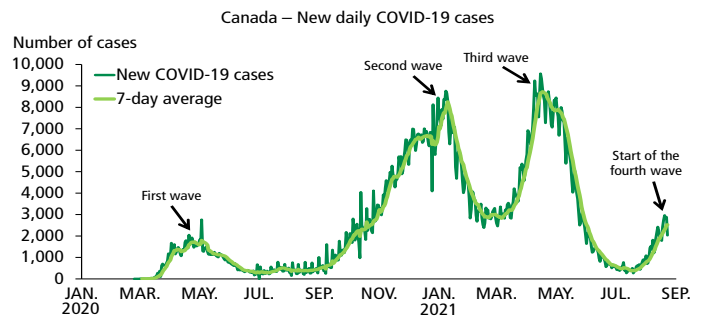
GRAPH 1
Canada has almost achieved full economic recovery



Sources: Statistics Canada and Desjardins, Economic Studies

Bear in mind that Canada has officially gone through three waves of infection since the pandemic started (graph 2). A fourth wave is developing in Canada, but its magnitude and especially its impact on the economy are still quite uncertain. Although the number of infections was lower than subsequent waves, the first wave in the spring of 2020 was like a tsunami for economic activity in Canada. Large segments of the economy ground to a

GRAPH 2
Canada saw three waves of COVID-19 infections... and a fourth is developing



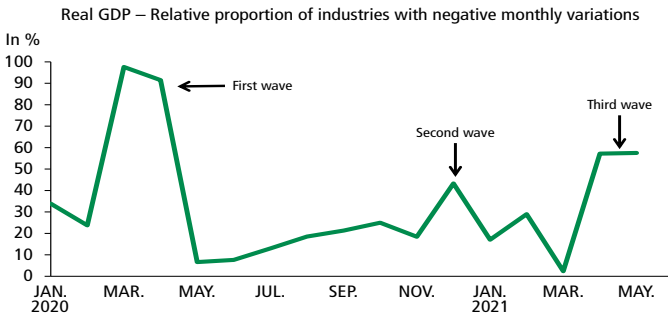
Sources: Public Health Agency of Canada and Desjardins, Economic Studies

halt for a few weeks. The negative impact on Canada's real GDP was very widespread. According to our calculations, production fell off in close to 98% of the principal industries¹ in March 2020 (graph 3 on page 2). The gradual reopening then supported a rebound in the Canadian economy beginning in May 2020.

The number of COVID-19 infections during the second wave in fall 2020 and winter 2021 topped the first wave's peak, but the negative effect of the health measures on real GDP was much more mitigated. Only 43% of the principal industries had

¹ Based on the relative weight of each of the 20 principal industries making up real GDP.

GRAPH 3
The effects of the second and third waves were very different from those of the first one



Sources: Statistics Canada and Desjardins, Economic Studies

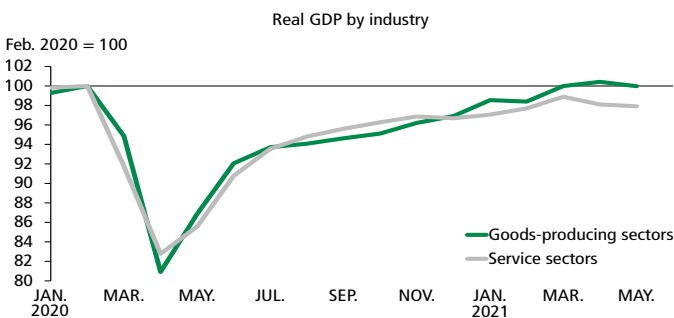
production losses in December. The same observation was made in the third wave, with a high number of infections, but with relatively more moderate negative effects on real GDP, although somewhat larger than in the second wave. This is because the COVID-19 cases were mainly in Ontario last spring, the most populous province in the country, which particularly affected the Canadian average.

Businesses and consumers therefore reacted very differently during the pandemic's second and third waves. Economic agents have now become more used to the constraints caused by the public health measures since last fall. Businesses had their employees working from home or invested in online commercial platforms. That translated into greater resilience in the Canadian economy through the second and third waves.

An Uneven Recovery

The full real GDP recovery we expect in July or August is good news after so much hardship. However, recovery is very uneven across the different sectors, and the pandemic is still disrupting some of them. As a general rule, recovery is well advanced in goods sectors, but delayed for services (graph 4).

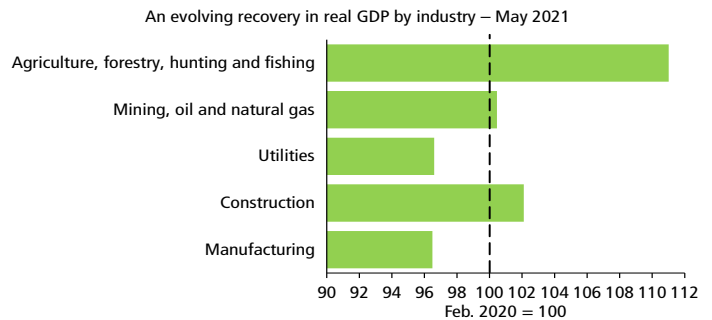
GRAPH 4
The service sectors are behind



Sources: Statistics Canada and Desjardins, Economic Studies

On the goods side, farm, forestry, fishing and hunting output has already reached a higher level than before the pandemic (graph 5). The same is true for construction, which has been bolstered by high demand in the housing market, although utilities and manufacturing are still lagging behind. Lower energy demand due to the health restrictions explains why utilities are in trouble, while shipping and supply problems continue to plague manufacturing. For example, a worldwide shortage of semi-conductors has hit the motor vehicle industry particularly hard.

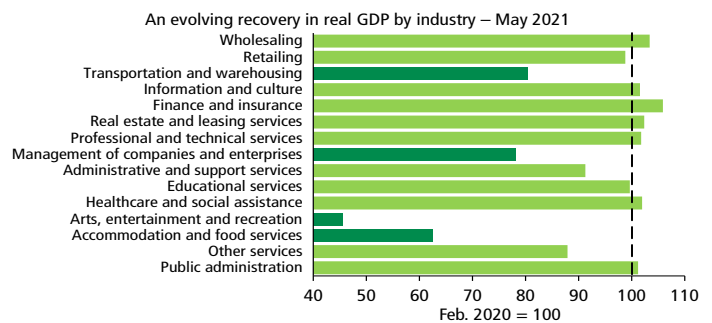
GRAPH 5
Goods-producing sectors: the recovery is very advanced in most industries



Sources: Statistics Canada and Desjardins, Economic Studies

When it comes to services, recovery is much patchier across the sectors (graph 6). Almost 60% of the service industries had recovered by May or were on the point of doing so. Conversely, several sectors were still trying to catch up, generally the ones that had been most severely affected by the governments' health measures.

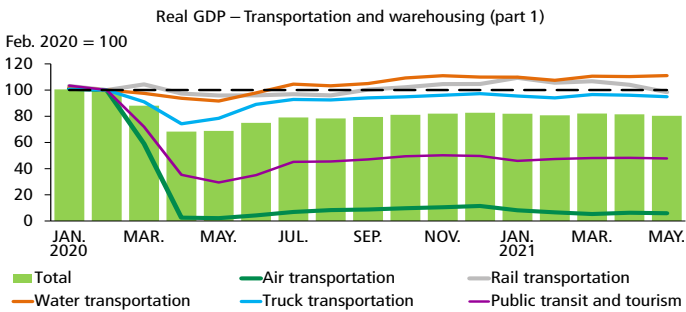
GRAPH 6
Service sectors: the recovery is behind in some industries



Sources: Statistics Canada and Desjardins, Economic Studies

The transportation and warehousing sector is reflecting the difficulties in air transportation and public transit (graph 7 on page 3). Air transportation activities should increase as tourist travel abroad picks up slowly in the coming quarters. That said,

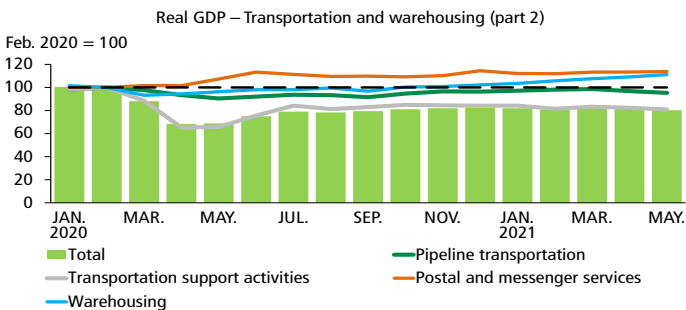
GRAPH 7
Air transportation and public transit still have not caught up



Sources: Statistics Canada and Desjardins, Economic Studies

the recovery for business travel could take much longer. The outlook for public transit is more uncertain. Unless the pandemic gets out of hand again, the return to many workplaces expected by the end of the year should be beneficial. On the other hand, many employees will continue to telework, either full-time or in a hybrid form. Under these conditions, it could take several years for transit to catch up. In contrast, some transportation industries are doing better. This is particularly true of postal and messenger services (graph 8), which are benefiting from the increase in online shopping.

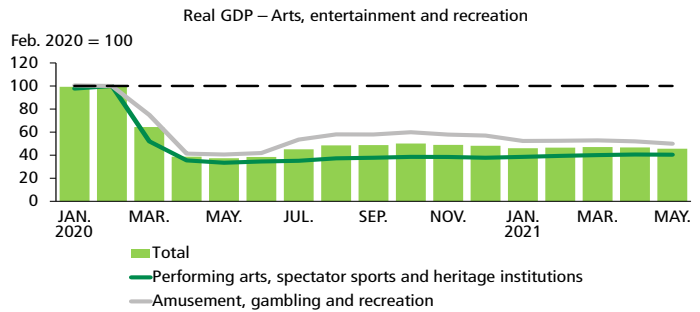
GRAPH 8
The recovery is more advanced in the other components of the transportation industry



Sources: Statistics Canada and Desjardins, Economic Studies

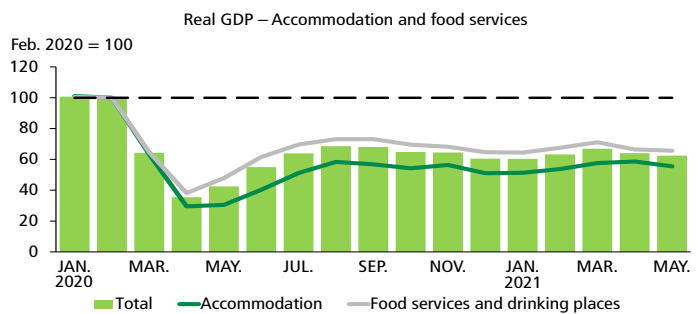
Delays in the recovery of the arts, entertainment and recreation sectors are of course due to strict health measures (graph 9). The gradual lifting of those measures should speed up recovery in the coming quarters. The same applies to the accommodation and food services sectors (graph 10). We should point out that government support for businesses has greatly helped keep those sectors alive. It now remains to be seen just how much the labour shortages in those sectors will hold them back.

GRAPH 9
The arts, entertainment and recreation sectors were hard hit by the health restrictions



Sources: Statistics Canada and Desjardins, Economic Studies

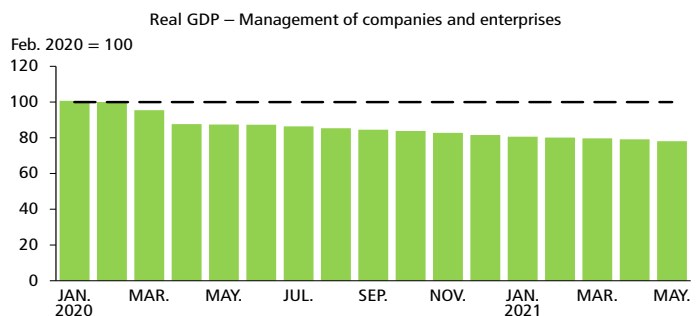
GRAPH 10
Accommodation and food services still have a lot of catching up to do



Sources: Statistics Canada and Desjardins, Economic Studies

Lastly, management of companies and enterprises has also been slow to recover (graph 11). That is no doubt largely due to the fact that the pandemic halted strategic and organizational planning in some companies.

GRAPH 11
Management of companies and enterprises has also been slow to recover



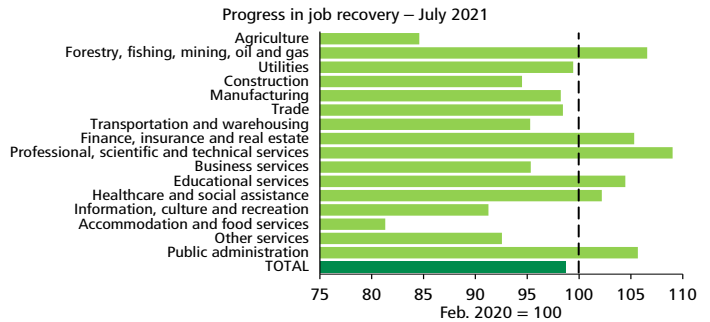
Sources: Statistics Canada and Desjardins, Economic Studies

Significant Disruptions in the Labour Market

The labour market was also greatly affected by the health measures, especially in the first wave. As a result, the unemployment rate rose from 5.7% in February 2020 to a peak of 13.7% in May 2020. A recovery in the labour market has been observed since spring 2020, even though the second and third waves caused temporary difficulties. However, the recovery in the labour market has lagged somewhat behind the recovery in output. Our estimates suggest that total employment in Canada may not return to its pre-pandemic level until next fall (graph 12), lagging output by a few months. Despite all of the jobs being recovered, there will still be a 200,000 jobs shortfall before the employment rate returns to pre-pandemic levels. The recovery is even expected to be somewhat slower for the unemployment rate, which may not be completed until sometime in 2023 (graph 13). That said, as with output, there are significant sectoral differences in the recovery of the labour market (graph 14).

GRAPH 14

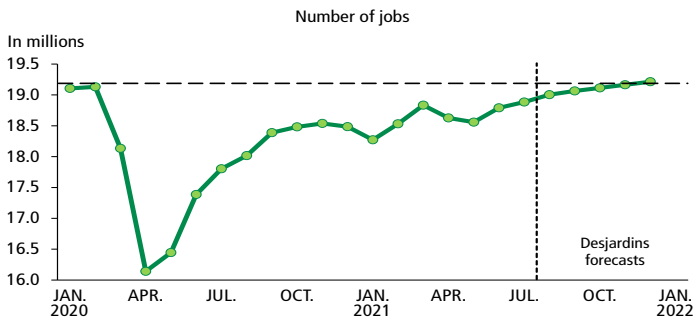
The recovery is also uneven within the labour market



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 12

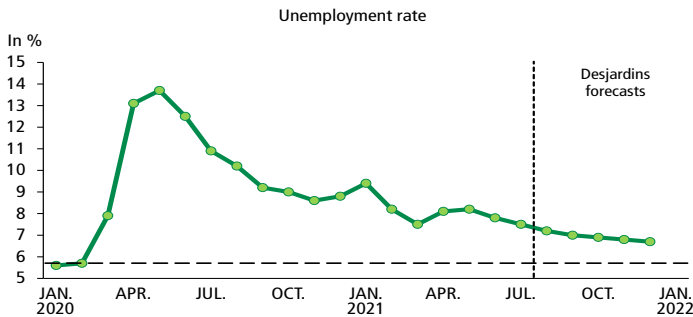
Will employment have recovered completely by the fall?



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 13

It will take several more months for the unemployment rate to drop to its pre-pandemic level



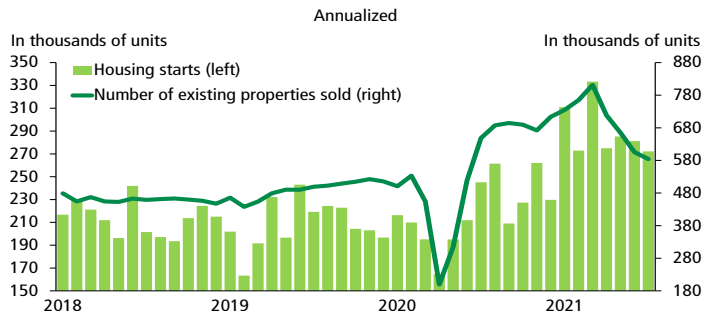
Sources: Statistics Canada and Desjardins, Economic Studies

Significant Challenges for the Months Ahead

Two sectors will be particularly important to watch in the coming months. First, after breaking all-time highs in early 2021, the housing market appears to be stabilizing. Housing starts are lower, as are sales of existing properties (graph 15). In our scenario, this normalization should continue in the months ahead. However, the risks are high, both on the downside and the upside. This could affect the evolution of several sectors of activity, such as residential construction and certain services associated with real estate.

GRAPH 15

After reaching all-time highs, the housing market has calmed down a bit in recent months



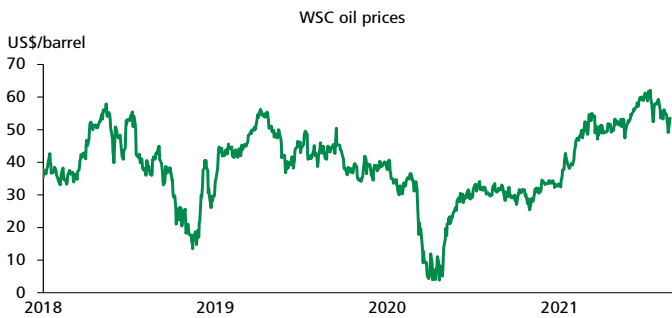
Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins, Economic Studies

Second, the outlook for the commodities sectors is uncertain. If the pandemic can be kept under control, a renewed global demand could favour most of Canada's primary sectors. The fight against climate change should support a strong demand for some metals.² For now, however, the recovery is much more advanced in mining, crop and livestock production, and forestry and logging. On the energy side, the recovery in production

² For further details, see: [Green Technologies and Metals](#), Desjardins, Economic Studies, *Economic Viewpoint*, May 6, 2021, 5 p.

volume is slower, even though the price of Canadian oil has returned to its pre-pandemic level (graph 16). It must be said that Canada’s production has recently been hampered by maintenance work, which has slowed the industry’s recovery. A dispute with the State of Michigan over the Enbridge Line 5 oil pipeline has no doubt cooled the ardour of some Canadian producers. Those difficulties are expected to fade away in the coming months, speeding up the recovery process in Canada’s energy industry.

GRAPH 16
Oil prices have reverted to their pre-pandemic levels



WCS: Western Canadian Select
 Sources: Bloomberg and Desjardins, Economic Studies

A Pandemic That Will Leave Scars

Generally speaking, both production and employment have recovered very well in Canada. That said, the recovery is very uneven among the different sectors. The pandemic has left visible traces that will take several years to wipe out, while some structural changes are underway. For example, many people will continue working from home, which will change consumer habits in terms of transportation, communication and real estate. The popularity of online shopping will likely remain even after the pandemic is over, leading to upheaval in retail and wholesale trade.

The Canadian economy has already overcome several structural obstacles in the past, and, each time, it came out stronger and better equipped to face the challenges of the future. We have every reason to believe that this time will be no different.