Strong reopening leads to long recuperation
Economic outlook

September 2020
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Foreword by Chief Economist Craig Alexander

The combination of the COVID-19 pandemic and an oil price shock has triggered in 2020 the deepest recession of the Canadian economy in modern history. In January and February, Canada was already feeling the impact of the downturn in China on the global economy, which had weakened Canadian trade and lowered commodity prices. The country’s economy then contracted by a stunning 18.2 percent in March and April, as large parts were shut down amid efforts to contain the coronavirus.

The reopening began in May, and over the next two months, the economy rebounded 11.6 percent. Statistics Canada’s flash estimate is a further 3 percent increase in July. That would leave the economy roughly 6 percent below pre-COVID-19 levels of activity.

The good news is that the recovery has been stronger than many forecasters anticipated, particularly with respect to retail spending and real estate activity. But while the data over the past few weeks supports the view that the third quarter will post record-breaking growth, the recovery will lose momentum in the coming months. Indeed, the rapid growth phase of the recovery, fuelled by the reopening of previously closed sectors, is now effectively complete. The remainder of the recovery will be more protracted and uneven. While some sectors have already recovered, others will continue to feel the impact of COVID-19 for years to come.

Overall, we do not expect the level of Canadian economic activity to fully recover until the second half of 2021. Accordingly, fiscal and monetary policy will need to remain highly stimulative.

A key development is how leadership teams across Canada are using the current crisis to make fundamental changes to their business models or programs. While some changes were driven by necessity—like increasing digital delivery and remote work—in many cases, the selected new investments and structural reforms are being made to enable organizations to thrive in the post-pandemic world. At a micro level, many are taking actions that will make them more resilient and competitive.
Where we are today
Economic review: Real GDP by industry

Data through June shows the Canadian economy stood 8.5 percent below its January 2020 level, and as of July may have been 6 percent below. The performance across industries has been uneven. Air transportation, accommodations, and food services remain hard-hit, while less cyclical sectors such as public services, financial services, and power generation are performing well.

Real GDP, peak decline in output (bottom point) and change from January to June (top point)

Percent change

Sources: Statistics Canada, Deloitte.
Economic review: Labour market

As of August, employment remained 5.7 percent below its February level. The economy lost three million jobs, but had recovered two million by August. So, one million jobs remain lost compared to where we were before the pandemic hit. The job losses have not been equally distributed, with women and youth continuing to experience the largest relative declines in employment.

Sources: Statistics Canada, Deloitte.

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Economic review: Remarkable rebound in retail sales

After falling sharply in March and April, retail sales started rebounding in May. In June, total sales were above their pre-COVID-19 levels. This faster-than-expected acceleration in spending was supported by the unprecedented emergency government support programs that allowed household incomes to grow despite massive job losses.

- Many non-essential retail stores were forced to close across the country in March and April to slow the spread of COVID-19.

- As a result, there was a significant drop in real sales, which fell by 8.1 percent in March and another 24.4 percent in April.

- Despite record-smashing job losses, household disposable incomes managed to grow during the second quarter of 2020, thanks to government transfer programs like the Canadian Emergency Response Benefit (CERB).

- This income growth helped to support consumer confidence and allowed retail sales to rebound above their previous peak.

- However, consumer spending patterns have changed greatly—many retail segments are therefore still weak. For example, sales in clothing, gasoline, and motor vehicle retailers are still below pre-COVID-19 levels.

Sources: Statistics Canada, Deloitte.
Economic review: Trade sector recovering

Trade volumes fell sharply during the height of the pandemic. Exports edged up in May and posted strong growth in June and July. Nevertheless, nominal exports remain 6 percent below their February peak, with aircraft and other transportation equipment manufacturers hardest hit.

- The sharp decline in global economic activity has weighed heavily on Canada’s trade sector.
- Real exports fell sharply in March and April, with the rebound only starting in earnest in June.
- Despite two months of strong gains in June and July, real exports were still down 4.8 percent relative to February 2020.
- A few sectors have managed to surpass their February levels, including agricultural commodities, consumer goods, and motor vehicles and parts, although this is being influenced by abnormal seasonal activity.
- The sectors with the biggest hole left to dig out of include the mining industry, machinery manufacturers, and aircraft and other transportation equipment producers.

Exports by commodity, $2012 constant prices
Percent change from February 2020 to July 2020

Sources: Statistics Canada, Deloitte.
International outlook
Global recovery

Global Purchasing Manager surveys signal a broad-based global recovery, but there are increasing concerns that growth may have peaked. All manufacturing subsectors reported growth, while the picture remains mixed in services.

- The latest purchasing managers’ indices (PMIs) from IHS Markit signal a renewal of growth in global activity for the first time in six months.

- On aggregate, the global manufacturing and services industries are growing again but at a relatively slow pace considering the depth of the world economic contraction.

- At 52.3 in August, the global PMI indicates modest growth. However, the export and employment sub-indices remain below 50, pointing to some remaining weakness.

- Markit also reported that, of the 27 countries analyzed, 13 had readings above 50. These indicated most of the world’s major economies, with the exception of Japan, India, and Mexico, are growing.

Sources: IHS Markit, JP Morgan, Haver Analytics
Global outlook

The pandemic has affected every region of the world but the economic impacts have, and will continue to be, varied. The latest economic releases have overwhelmingly posted upside surprises. However, growth is expected to slow considerably, while recent outbreaks of COVID-19 remind us that health risks are likely to continue over the horizon.

• Global GDP is now expected to contract by 4.4 percent this year, with recent data confirming the initial post-lockdown phase of the recovery has been strong. We are currently tracking an unprecedented GDP expansion in the third quarter.

• However, there are already signs that some sectors are beginning to lose momentum as job growth begins to stall. We expect both advanced and emerging economies will continue to feel the economic impacts of COVID-19 for years to come as countries work to overcome the drag of large debts, poor labour outcomes, and growing political unrest.

• Several factors, including the timing and efficacy of a vaccine and varying impacts of second-wave outbreaks, will fuel uncertainty around consumption and investment, which will determine the pace of recovery from country to country.

Real GDP growth
Percent change

Sources: IMF, Haver Analytics Canada, Deloitte
US forecast

With the reopening of its economy, the United States is posting strong growth. US services-producing industries posted robust gains, while US manufacturing output grew at the fastest pace since November 2018 on a surge of export orders. However, the recovery is uneven across subsectors, and it will moderate in the coming months as the fiscal stimulus subsides.

- After a 31.7 percent annualized GDP contraction in the second quarter—the sharpest on record—the US economy has made considerable progress toward recovery in recent months. Overall, we project US GDP will contract by 3.7 percent in 2020.
- The latest labour report was surprisingly good despite the expiration at the end of July of enhanced unemployment insurance. It showed relatively strong job growth and a sharp decline in the unemployment rate.
- However, the pace of recovery is projected to ease in the coming month. The risks of a second wave remain elevated, which is likely to keep consumption and investment restrained over the next few quarters.
- Overall, we expect the US economy to see only a partial recovery, with 3.8 percent growth in real GDP in 2021.

Sources: Bureau of Economic Analysis, Haver Analytics, forecasts by Deloitte.
Canadian outlook
General
Economic outlook: Pace of recovery set to slow

Thanks to unprecedented monetary and fiscal support, the Canadian economy is on track to post exceptionally strong growth in the third quarter. Growth will remain strong by historical standards in the coming quarters but will ease substantially as government support programs are slowly wound down.

- After falling by 39 percent annualized last quarter, real GDP is tracking to gain 42 percent in the third quarter. Growth will slow substantially thereafter as the initial boost from the easing of public health restrictions wanes.

- Overall, real GDP is set to decline by 5.8 percent this year and rebound by 6.4 percent in 2021.

- The household sector will propel the recovery, with consumer spending and residential investment expected to post strong growth.

- After falling sharply in the first half of the year, business investment will also start to grow this quarter.

- The trade sector is helping to cushion the economic blow this year as imports fell faster than exports. Next year, trade will detract from growth despite solid gains in exports.

Sources: Statistics Canada, forecasts by Deloitte.
Financial outlook: Interest rates to remain low

One of the key factors underpinning the economic recovery in Canada is public stimulus. The Bank of Canada has unleashed its arsenal of tools, cutting its benchmark overnight rate to its lower bound, deploying a bond buying program (referred to as quantitative easing (QE)), and providing guidance with respect to the near-term path of interest rates.

- In response to the pandemic, the Bank of Canada moved at an unprecedented speed to slash interest rates to close to zero. Then, it provided forward guidance to financial markets that the low interest rates will persist for years.

- The Canadian economy was resilient enough during the 2008/09 financial crisis that the Bank of Canada did not need to complement rock-bottom interest rates with a QE program. This crisis, the economy needed that extra help, and the Bank of Canada’s balance sheet has increased significantly in a very short time.

- The overnight rate is forecast to remain at its current level of 0.25 percent until early 2023.

- With interest rates in Canada and the United States expected to remain stable into 2023, the Canadian dollar will remain relatively flat, increasing marginally in line with an expected small improvement in oil prices and averaging around 77 US cents.

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Canadian outlook
Household sector
Canadian labour markets: Growth set to cool

After job numbers plunged and then rebounded at a breathtaking pace over the March-to-July period, employment growth has started to slow. It’s a trend expected to continue over the coming months, alongside the deceleration in economic growth.

- Over 1 million jobs remain lost since February despite months of strong job creation. With the pace of hiring slowing, we do not expect employment to return to its pre-COVID-19 levels until the second half of 2021.
- With employment gains beginning to slow, the unemployment rate will not return to its near-historical lows that we saw heading into the crisis.
- After peaking at 13 percent in the second quarter, the unemployment rate will trend down to 7.2 percent by the end of next year.
- The uneven industry recovery will be reflected in employment outcomes. For example, employment in accommodation and food services and in culture, recreation, and entertainment will see the slowest recovery.

![Employment growth set to slow, unemployment rate to remain elevated](image)

Sources: Statistics Canada, forecasts by Deloitte.
Canadian consumer spending supported by government transfers

The unprecedented government support for households will allow for a strong rebound in consumer spending in the third quarter. Despite overall strength, there will be a high degree of variability in the pace of recovery, with some consumer spending categories unaffected by the pandemic and others facing a protracted recovery path.

• Despite massive job losses, the government support programs were so generous that, when combined with lower inflation, real personal disposable income increased by 55 percent at annual rates in the second quarter.

• Despite strong income growth, business closures during the spring combined with heightened consumer apprehension, as evidenced by plunging consumer confidence, led to a sharp drop in consumer spending.

• Rising incomes and falling spending pushed the household savings rate to 28.2 percent in the second quarter—a record high.

• After falling by 43 percent in the second quarter, real consumer spending will start to recover in the third quarter, as evidenced by the rebound in retail spending.

• The recovery will be uneven, with travel-related categories experiencing a long road back to pre-pandemic levels of output.

Real consumer spending by select category, indexed to 2019: 1 = 1

Sources: Statistics Canada, forecasts by Deloitte.
Canada’s resale home market heats up

The resale home market was hit harder than new construction during the pandemic. But as restrictions eased, would-be homebuyers flocked back into the market, leading to a surge in sales and prices.

- The resale home market was hit harder than new construction as apprehension among buyers dampened both sales and listings activities.
- The pause in resale activity proved temporary. In July, new listings reached their highest ever for the month and sales were the highest ever in any month. They were up 30.5 percent from last July.
- With sales outpacing new listings, the resale market is firmly in seller’s territory. Indeed, the sales-to-new listings ratio shot above 73.9 percent in July, a ratio not seen since the early 2000s.
- Our forecast calls for resale housing market transactions to continue to expand at a brisk pace over the second half of this year, supporting higher prices. The strength in real estate will buoy consumer spending on housing-related items.

**Strong resale activity boosts residential investment**

Ownership transfer costs (real estate commissions, ownership transfer taxes, legal, and other fees), percent change

Sources: Statistics Canada, forecasts by Deloitte.
New-home construction remains resilient

Canada’s housing market experienced a temporary pause during the mandated closures in selected regions but has been among the fastest sectors to bounce back during the reopening. Fuelled by strong demand and low interest rates, the housing sector will remain robust over the near term.

- The market for new and existing homes in Canada has remained resilient throughout the pandemic. After a brief dip in the second quarter, housing starts have rebounded strongly—surging to 262,400 in August.

- Driven by low interest rates and solid demand, new home construction will remain elevated over the next few years with housing starts coming in at over 200,000 per year.

- We have seen a pick up in both single and multiple housing starts although growth has been stronger in the multiples category as starts have been strong in space-constrained cities.

- The composition of building in recent years has been concentrated in multiple-unit dwellings (i.e. condos). The limited supply of single detached homes has allowed them to attract strong price growth.

- Slower immigration could be a headwind on real estate activity, but this should be temporary as immigration levels recover.

Sources: Mortgage and Housing Corporation, forecasts by Deloitte.
Canadian outlook

Business sector
Energy market: Falling oil prices collapse oil and gas investment

The collapse in oil prices has caused oil and gas investment to drop to a 20-year low. Investment would have fallen even further without large investments related to LNG Canada. The long-term outlook for the oil and gas sector remains weak.

- Oil prices have rebounded somewhat after being hard-hit by an unprecedented drop in demand as transportation ground to a halt across the globe in the spring.
- Weak demand, particularly in the aviation sector, and high inventories will keep prices in check throughout the remainder of this year. However, demand is beginning to recover and inventories are starting to fall from recent highs. As the global economy continues to strengthen, the economic forecast assumes the price of WTI crude oil will average $48 next year. While this is well above recent lows, it is still below the average for 2019.
- Despite the recent price recovery, the energy sector faces numerous challenges. We expect a 21 percent decline in oil and gas investment in 2020. In 2021, we expect energy investment to rise by just 10.9 percent.

Sources: Statistics Canada, forecasts by Deloitte.

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Non-energy business investment

A large decline in corporate profits, mandatory lockdowns, and a high level of uncertainty has hit business confidence, leading investors to hold off planned investments.

- Business investment has been one of the weakest-performing areas of the Canadian economy over the last four years.
- The level of capital stock per worker has declined for four straight years, from $92,200 per worker in 2015 to $88,400 in 2019. This has contributed to Canada’s poor productivity growth.
- Pandemic-related shutdowns and reduced demand have caused a collapse in corporate profits, which are projected to decline by 28 percent in 2020 after an almost 12 percent decline in 2019.
- As a result, corporations are expected to slash non-essential capital expenditures. Purchases of machinery and equipment are expected to fall by 17 percent in 2020, although this will mask key investments in digital capabilities. Construction is expected to outperform since many activities in this sector continued throughout the shutdowns. Still, construction is projected to decline by 8.5 percent in 2020.
- Although we expect non-energy business investment to bounce back with growth of 11.7 percent in 2021, levels will remain weak, resulting in ongoing declines in the capital stock.

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Trade sector to recover, but long-term prospects limited

*While trade has recovered quickly, this short-term boost will not last as structural trends—like lagging competitiveness and lack of investment—will hamper long-term prospects.*

- Exports of goods declined sharply at the height of the pandemic due to lower global demand. After falling 33.6 percent below February levels in April, the recovery has been nearly as fast as the decline. As of July, merchandise exports had nearly reached where they were at the beginning of the year.
- In contrast, exports of services have seen little improvement since they bottomed out in May. They remain 21 percent below January 2020 levels.
- Merchandise exports are projected to continue to bounce back and reach their pre-pandemic highs by the end of the year. Exports of services, which are closely linked to travel, will take longer. They are not expected to reach pre-recession levels until the second half of 2021.
- By commodity, one of the slowest areas to recover will be exports of aircraft, which will be held back by lower rates of travel. Similarly, travel- and transportation-related exports are not expected to fully recover for several years.
- Although the quick recovery in aggregate exports is good news, the boost to trade will not last as long. Structural trends, such as lagging competitiveness and lack of investment, will negatively affect the trade sector’s long-term prospects. This sector is expected to underperform overall economic growth over the longer term.

Sources: Statistics Canada, forecasts by Deloitte.

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Canadian outlook

Government sector
Fiscal accounts: Federal

The Government of Canada is racking up massive deficits from spending on support programs and transfers to individuals and businesses.

• The federal government announced massive support measures to combat the economic fallout of COVID-19, such as the CERB income support for unemployed workers and the CEWS wage subsidy for businesses.

• The federal deficit is tracking in the $350 billion range in the current fiscal year, more than 10 times the projected deficit in the last budget. Consequently, the federal net-debt-to-GDP ratio is likely to jump from 31.1 percent in 2019 to over 49 percent this year.

• However, low interest rates mean the Government of Canada can afford this massive stimulus.

• The fiscal deficit for this year is likely to rise further as additional stimulus is announced.

• Looking ahead, the deficit will fall as government support programs are scaled back. However, a pro-growth agenda will be needed to allow a return to balanced budgets.

Federal net lending

$ billions

Sources: Statistics Canada, forecasts by Deloitte.

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Fiscal accounts: International comparison

Low interest rates for the foreseeable future will keep debt payments manageable.

- Although the major government support programs are coming to an end, governments around the world will be left with substantial deficits for many years to come. This will lead to higher debt levels.

- We expect provincial governments will see net lending soar to over $50 billion this fiscal year and remain near $39 billion in fiscal year 2021-22.

- Tight spending control is projected to resume in 2022 as provinces begin to reign in spending.

- The good news is that low interest rates for the foreseeable future will keep these debt payments manageable, at least for the time being.

- While Canada’s total net debt (including federal and provincial debt) remains favourable compared to many of our trading partners, it is projected to tick up from 64 percent of GDP in 2019 to 85 percent in 2020.

Sources: International Monetary Fund, forecasts by Deloitte.
Industrial outlook
Industry overview

This recession has had significantly different impacts on Canadian industries, as noted earlier. Overall, a few will manage to grow this year while others are in for record-breaking declines.

- Industries across the country have been impacted by the pandemic, with most sectors experiencing a decline in output.
- The hardest-hit sectors have been in tourism, where travel restrictions, forced business closures, fear of public gatherings, and hesitation by consumers to spend have led to sharp declines in activity.
- Canada’s mining sector has also been hit hard because the steep drop in oil prices has disincentivized drilling activity.
- The finance, real estate, and insurance sector is bucking the overall trend thanks to the rapid recovery of the resale home market and stock-market volatility driving demand for investment advice.

Outlook for real GDP by industry in 2020

percent change

- Arts, entertainment, and recreation
- Accommodation and food services
- Transportation and warehousing
- Administrative and support services
- Mining, and oil and gas
- Manufacturing
- Retail trade
- Wholesale trade
- Health care and social assistance
- Construction
- Professional, scientific, and technical services
- Waste management and remediation services
- Educational services
- Information and cultural services
- Utilities
- Government
- Finance, insurance, real estate and rental and leasing
- Crop, forestry, fishing and trapping and support

Sources: Statistics Canada, forecasts by Deloitte.
Select sector profiles

Energy

• Canada’s mining industry has been hit hard during this recession, as demand for energy used to fuel industrial production, tourism, and work commuting all fell.

• Oil and gas production has fallen since the beginning of the year but not by as much as could be expected, given that it is difficult to shut-in production at some large non-conventional facilities.

• Where low oil prices and demand is really hitting the industry is on the drilling side. Support activities for mining and oil and gas extraction in June were 77 percent below their January level. Drilling activity is down in Alberta, Saskatchewan, BC and Manitoba.

• Although not hit as hard as the energy sector, non-energy mining has faced significant challenges. A sharp drop in potash production has dragged down the performance of non-metal mining.

Tourism

• The tourism sector is experiencing some of its most severe activity declines on record.

• Compared to January 2020, real GDP in June was down 95 percent in air transportation, 59 percent in arts, entertainment, and recreation, and 58 percent in accommodation services.

• This sector will face a prolonged path to recovery. A return to normal levels of output depends on the pandemic being controlled, since the sector’s recovery requires governments to ease restrictions, individuals to be comfortable with leisure travel, and households to have the income to afford it.

• Because of these factors, we do not expect a return to pre-COVID-19 levels of output in the tourism-dependent industries during the next few years.

Health care

• One interesting aspect of this recession is that despite the fact that it was caused by a health care crisis, we’ve actually seen a fairly significant decline in output in the health care sector.

• This is because many health services were deemed non-essential, and facilities such as dental offices and private health clinics were forced to close.

• As of June, real output in health care and social assistance was 11 percent below where it was at the beginning of 2020.

• Even with restrictions easing, many health facilities are operating at reduced capacity to comply with sanitization and physical distancing guidelines. Output in this sector will therefore not return to pre-pandemic levels until the fourth quarter of 2021.
Provincial outlook
Provincial overview: Uneven growth prospects this year

Every province entered into recession as the pandemic wreaked havoc on economies from coast to coast. The degree of decline across the provinces varies based on their industrial composition, with those having a larger share of work that could easily transition out of the office faring better and those dependent on energy facing the dual impact of a pandemic and a sharp drop in oil prices.

- The economic shutdowns and physical distancing measures brought on by virus containment measures will cause all provincial economies to shrink in 2020.

- The effect of the COVID-19 pandemic varies. The sharpest declines are in Newfoundland and Labrador, Alberta, and Saskatchewan, where the economies are reeling from both the pandemic and the plummeting demand in the price of, and demand for, oil. Saskatchewan is also dealing with a drop in potash production, adding to its mining sector woes.

- British Columbia is faring better than most of the provinces, as work has continued on two major infrastructure projects that were not interrupted by lockdown measures.

- Every province is expected to post strong growth next year. Output will be slowest to return to pre-pandemic levels in the energy-dependent provinces, as demand for oil remains sluggish.

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Sources: Statistics Canada, forecasts by Deloitte.
Assumptions and risks
Forecast assumptions and risks

Economic forecasting always involves making some assumptions, which leads to a degree of ambiguity and risk. While we have all learned a lot about COVID-19, the fact the coronavirus continues to circulate means the degree of uncertainty remains elevated and therefore many risks to the economic outlook remain.

Assumptions

- **In our forecast, we assume a vaccine has been developed and is in wide circulation by the middle of next year. This reduces physical distancing requirements and allows the hardest-hit sectors to recover faster.**

- **Significant economic scarring is expected, such that the economy only returns to its pre-crisis levels of output by the third quarter of 2021.**

- **Embedded in our forecast is the assumption that we will not see a large second wave of infection, which avoids a widespread lockdown that would push the economy back into recession.**

- **Government support programs have been key in facilitating a strong economic rebound. The forecast assumes those programs will be scaled back gradually.**

- **The Bank of Canada is expected to reduce its bond-buying program in 2021, but it is not expected to raise rates until 2023.**

- **Oil prices are projected to gradually rise as global inventory levels are reduced. A key assumption is that new supply remains constrained.**

Risks

- **The major risk to the near-term economic outlook is the coronavirus and the impact measures to control its spread could have on our domestic economy and also on that of major economies across the world.**

- **Should infections escalate, any targeted lockdowns would slow the recovery, while a return to a broad economic lockdown would cause a double-dip recession. If Canada manages its health risks but major trading partners do not, the Canadian recovery will be slowed.**

- **The exact timing and full deployment of a vaccine is uncertain. If it is delayed beyond the middle of 2021, the recovery will be tempered.**

- **The household sector has had tremendous support during this crisis from federal income supports to mortgage loan deferrals. As the CERB is replaced with less generous EI payments and as the six-month mortgage deferrals come to an end, there is a risk that household spending will be softer than expected.**

- **Businesses have also received tremendous support, from the wage subsidy program to commercial rent relief. Nevertheless, forced closures in the spring and weak demand are taking a toll. There is a risk that some businesses will be forced to cease operations and that new ones may not take their place as quickly as expected. This would slow the recovery of employment and investment.**

- **There is also increased risk due to rising protectionism. Increased tension between China and the United States could negatively affect demand for Canadian inputs.**
**Possible economic recovery scenarios**

*Uncertainty remains heightened. We therefore recommend a scenario approach to planning. The following chart outlines three possible scenarios for economic recovery:*  

### Current baseline

**A steep but short-lived downturn**
Pandemic containment efforts prove successful, economic activity manifests in a steep but short-lived decline.

- Global shutdowns result in a recession in 2020, with **global growth contracting by 4.4 percent**.
- We see a more rapid return to normal worldwide as testing and new vaccines allow authorities to lift restrictions, and business and household confidence returns.
- The Canadian economy sees a V-shaped recovery as containment efforts in Canada continue to be relaxed in the fall and winter.
- Overall, the Canadian economy experiences a **real GDP decline of 5.8 percent in 2020** and containment efforts are fully relaxed by next summer.
- However, a full recovery does not occur until the second half of 2021.

### Downside

**Prolonged pandemic and delayed rebound**
Pandemic lasts longer than we’re ready for, with a virus resurgence leading into 2021.

- **The global economy experiences a 5 percent decline** in real GDP in 2020. The recession is expected to last nine quarters.
- In Canada, the economic recovery in the second half of the year is more subdued, leading to a projected **GDP decline of 6.6 percent in 2020**.
- In this scenario, the Canadian economy faces a prolonged shutdown into 2021.
- Advanced economies struggle to fully reopen for business as the virus resurgence toward the end of 2020. Emerging countries ramp up containment measures in the third and fourth quarters.
- A short rebound occurs in late 2020, but a virus resurgence places pressures on the Canadian economy leading into 2021. **Gradual recovery is expected to begin mid-summer 2021, closing the year at 2.8 percent growth and activity still below pre-pandemic levels.**

**Worst-case scenario**
Containment fails. The virus continues to mutate, preventing the development of a successful vaccine.

- **The global economy experiences a 6 percent decline** in real GDP in 2020.
- The Canadian economy experiences a similar decline as the other two scenarios, in the first half 2020. The recovery in the second half remains muted. There is an **average GDP decline of 6.8 percent in 2020 and growth close to zero in 2021.**
- Unprecedented contraction in advanced and emerging economies keeps global demand subdued for 2.5 years.
- Sociopolitical unrest materializes in a large number of countries.
- We expect a **modest rebound in 2022.**
Concluding remarks
Concluding remarks

On balance, the economic outlook presented in this report points to cautious optimism. The recovery has proven more front-end-loaded than expected. However, there is still likely to be deep economic scars from the contraction. With the initial bounce associated with the reopening now behind us, the pace of recovery will slow markedly.

Policymakers are keenly aware of the fragility of the recovery and the need to maintain supports to both the household and business sector to ensure growth remains on track. As a result, we expect federal stimulus programs will be scaled back at a measured pace, while monetary policy will likely remain accommodating, with rock-bottom interest rates lasting for years.

Overall, we expect all sectors of the Canadian economy to chalk up a better performance next year than we saw in 2020. In our baseline scenario, we do see economic activity returning to pre-pandemic levels by the second half of next year, but it will remain prudent for businesses to continue to use a variety of scenarios in their planning so they are prepared for the different ways the economic recovery could unfold.

As businesses strive to plan in a climate of economic uncertainty, those that showed an ability to pivot and adapt to changing circumstances will need to continue to rely on those skills as the recovery will unfortunately be bumpy and fraught with risk. This adaptability and ability to innovate may in fact be just what the Canadian economy has been lacking for years.

After the pandemic is behind us, Canada will face numerous challenges stemming from our aging demography, low levels of investment, and subpar productivity performance. We need the type of innovative thinking that businesses have shown since COVID-19 hit to continue long after the crisis abates. Indeed, what Canada needs is a pro-growth agenda from both governments and private organizations that will recover lost jobs, support income growth, and permit fiscal rebalancing.
Appendix
## Economic forecast table

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<td>Unemployment rate (%)</td>
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Note: Unless otherwise noted, all figures are expressed as annualized percent changes.
## Financial forecast table

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<td><strong>Interest rates (%)</strong></td>
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<td>3-month vs. 10-year</td>
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<td>USD/CAD (S$)</td>
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<td>CAD/USD (US cents)</td>
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Note: Unless otherwise noted, all figures are expressed as annualized percent changes. Sources: Statistics Canada, Bank of Canada. Forecast by Deloitte Economic Advisory, as of September 14, 2020.
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