



The path to recovery

Webinar for Ontario

July 2020





Agenda

- ① U.S Economic Outlook
- ② Canadian Economic Outlook
- ③ What will the recovery look like

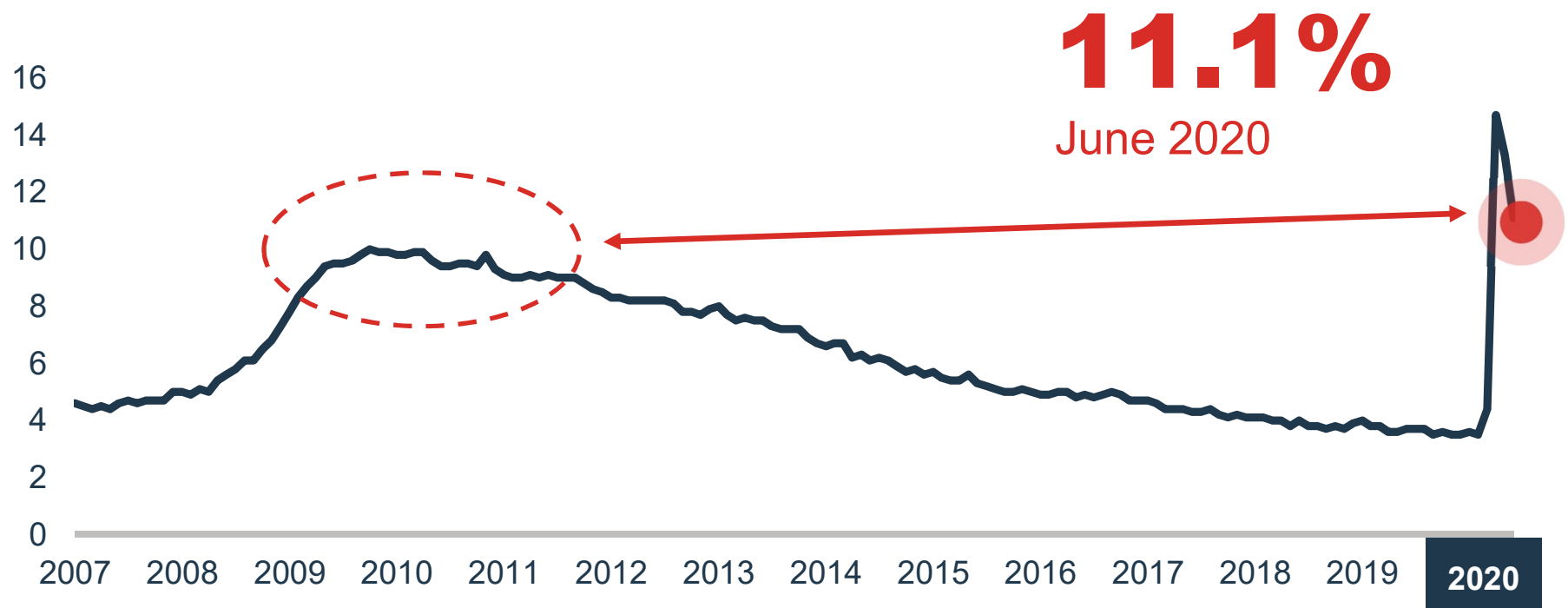


U.S. economic outlook

U.S. job market is improving, but unemployment remains high



Unemployment rate, monthly

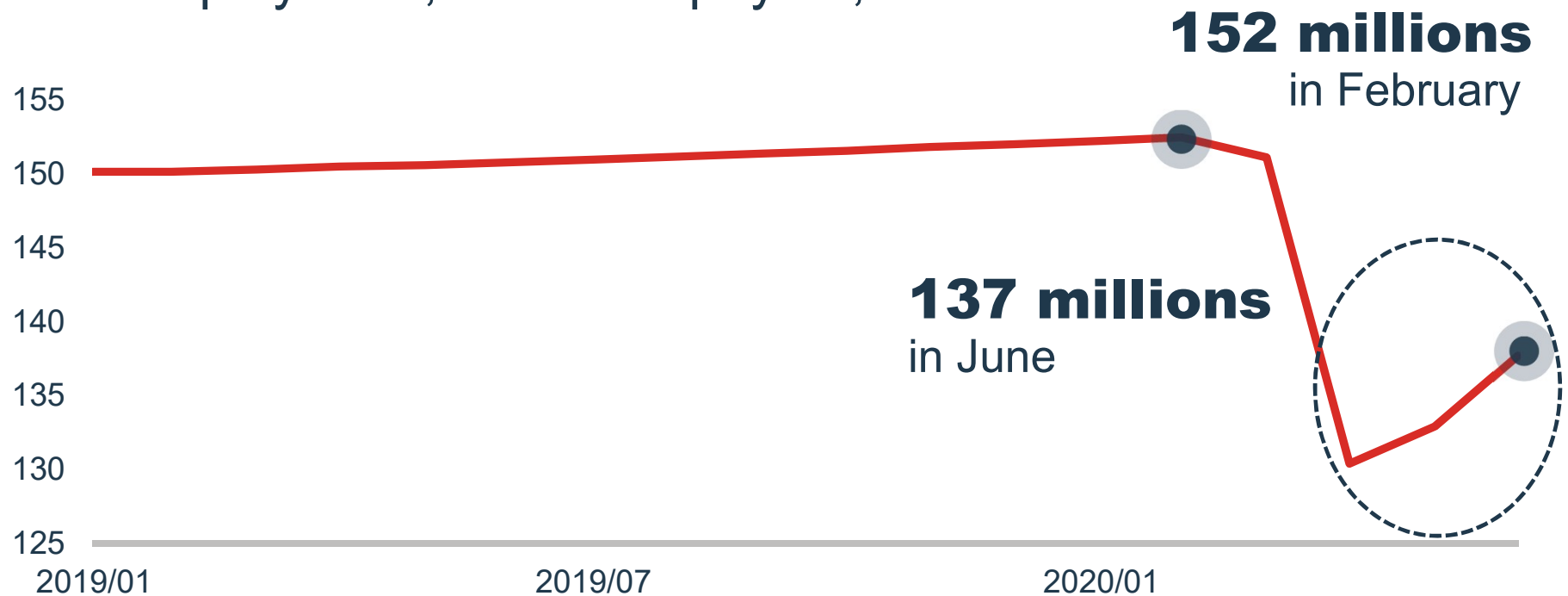


SOURCE: Bureau of Labor Statistics.

BDC – Economic Outlook and Analysis

Employment is slowly recovering as lockdown measures are lifted

U.S. employment, non-farm payroll, in millions



SOURCE: Bureau of Labor Statistics.

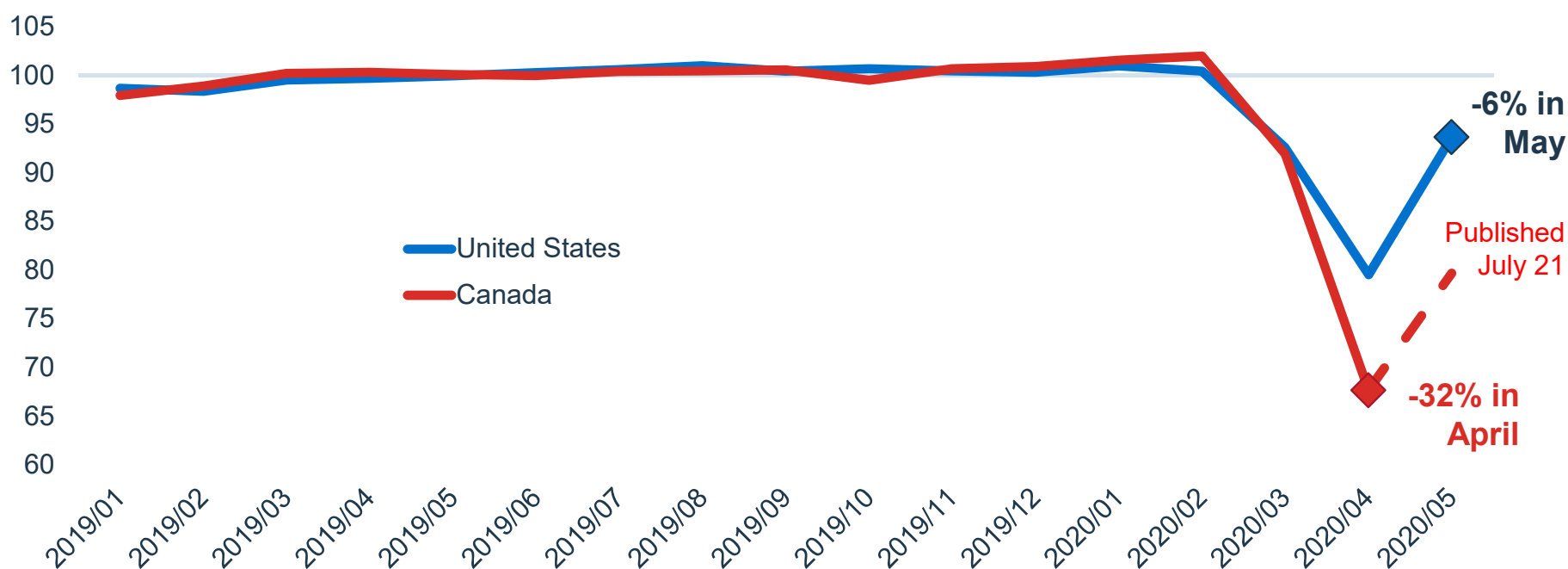
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American consumers return to stores



Retail sales, seasonally adjusted (2019 average = 100)



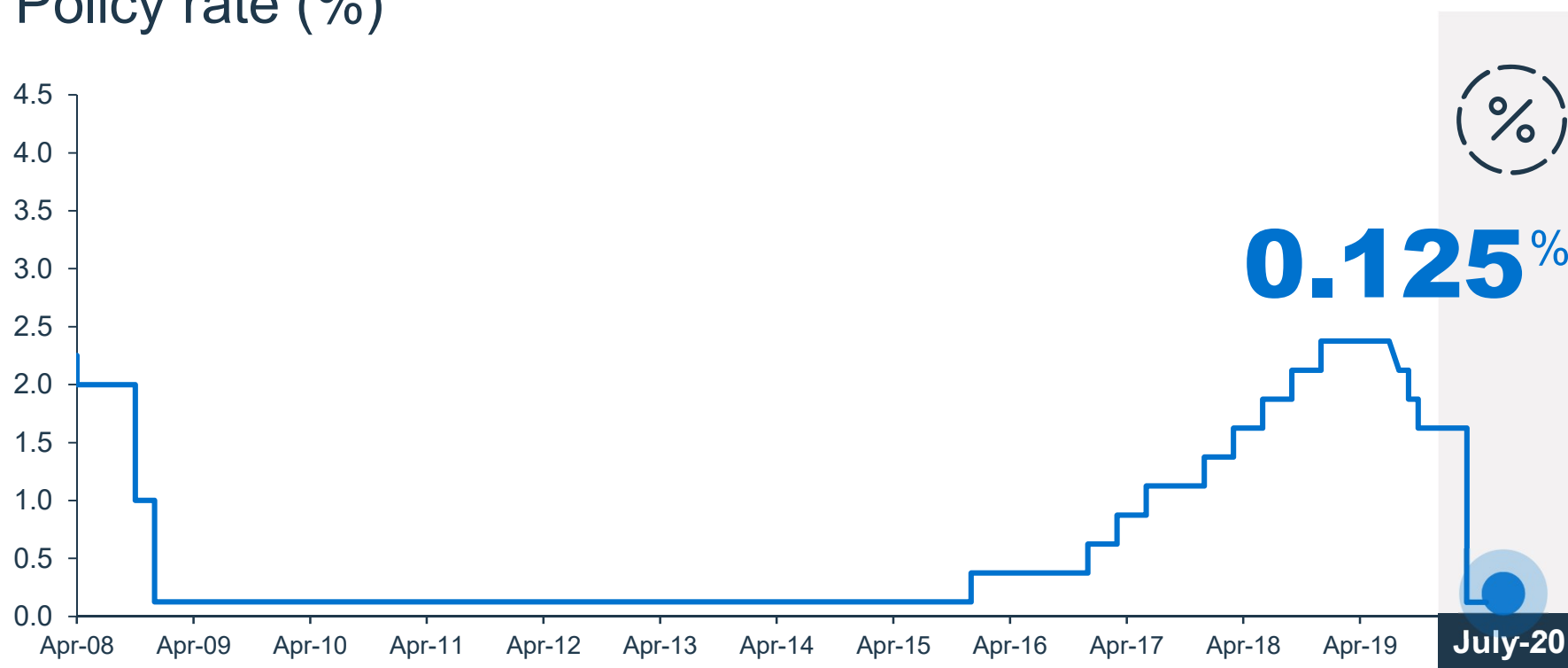
SOURCES: Federal Reserve Bank of St. Louis, Statistics Canada

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COVID-19 has taken the federal funds rate back to 0%...



Policy rate (%)



SOURCE: Bank of International Settlement

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...as fiscal policy also lends a helping hand



Most aggressive stimulus package ever – trillions of dollars (with potentially more to come)



\$525B

industry relief (of which >\$50B going to airlines)



> \$550B

direct transfers or tax cuts



> \$350B

small business assistance



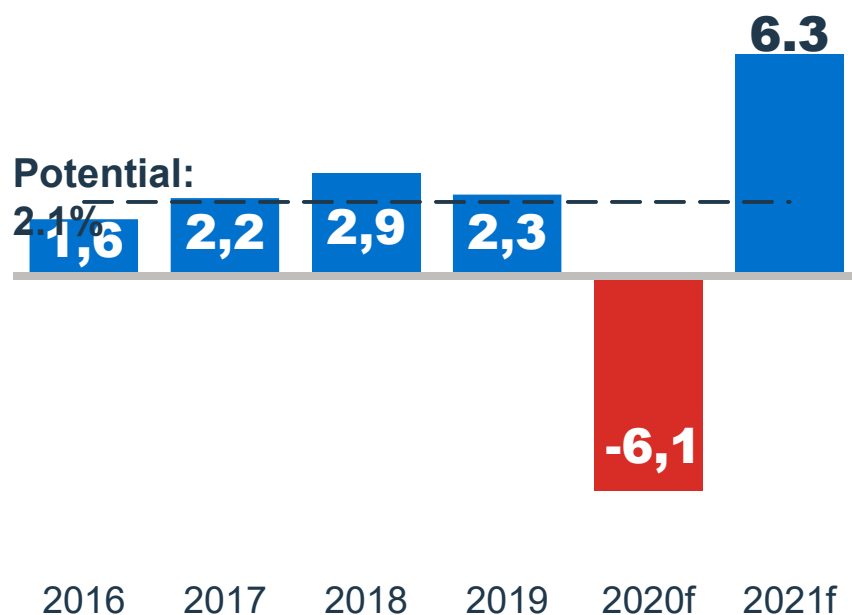
\$4T

additional financing programs /increased liquidity

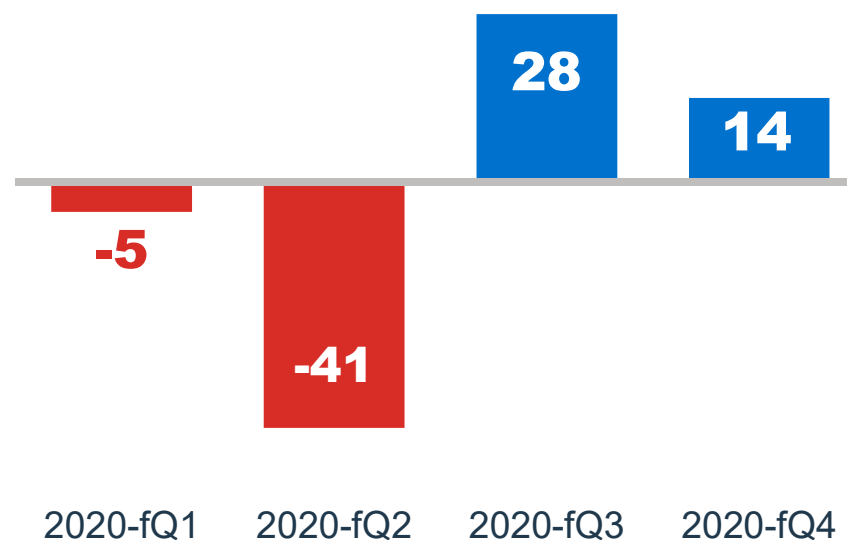
The U.S. economy has taken a hard hit



Real annual
GDP growth (%)



Quarterly growth,
annualized (%)



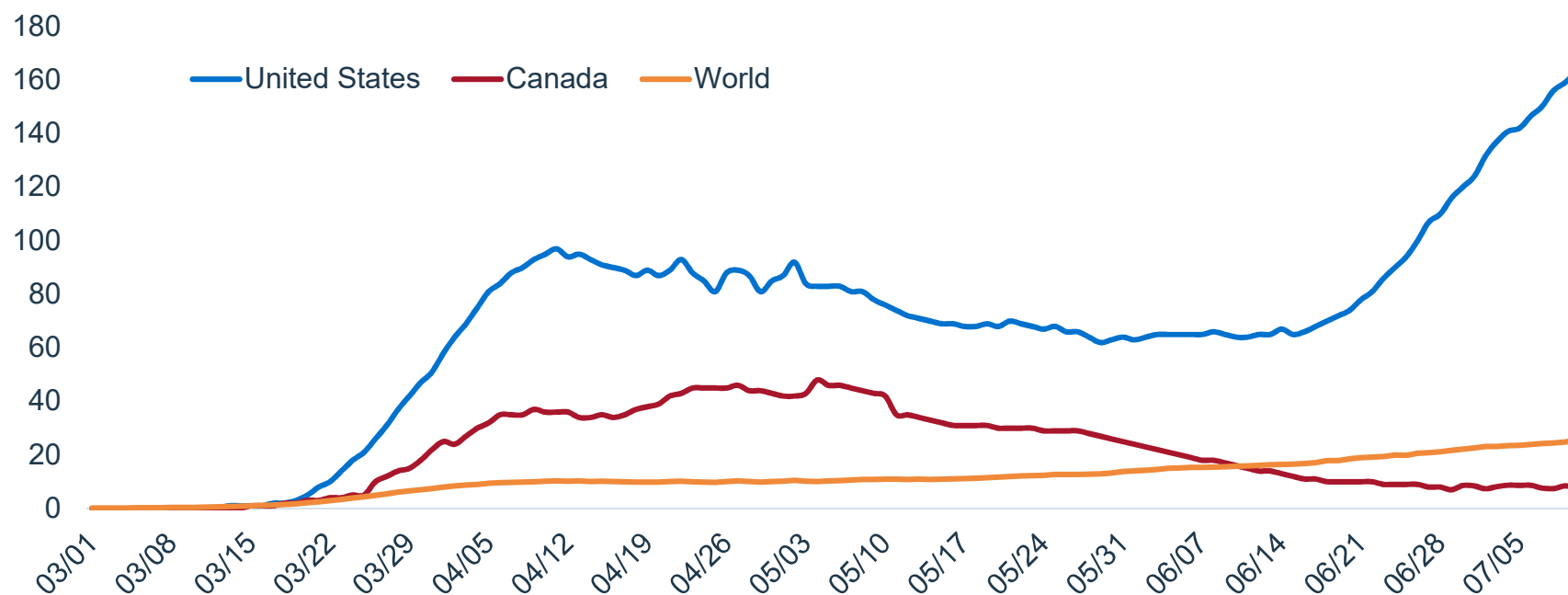
Note: f = forecast

SOURCE: Oxford Economics, BDC calculations.

Second spike in U.S. Covid-19 infections will have negative impacts



Daily new confirmed cases per 1M people (7-day moving average)



SOURCE: Our World in Data, last data point: July 10th 2020

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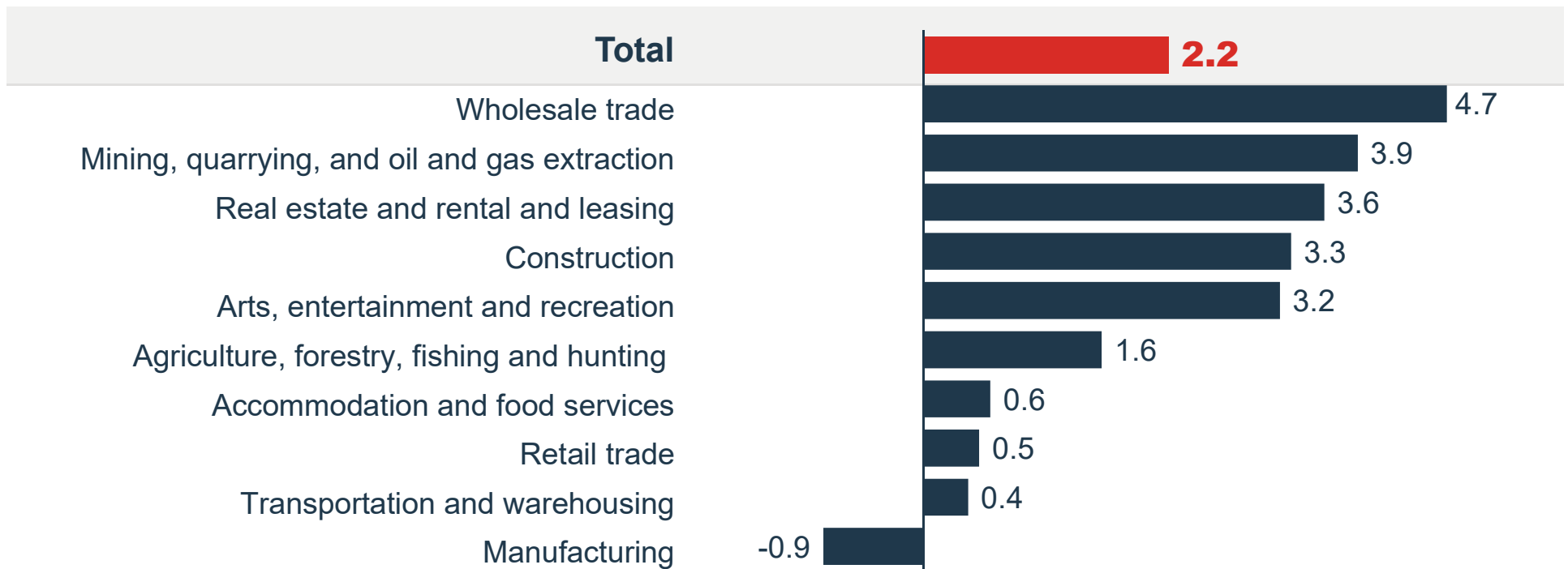


Canadian economic outlook

A good start to 2020 for Canada



Year-over-year change in real GDP in February 2020
(% growth)

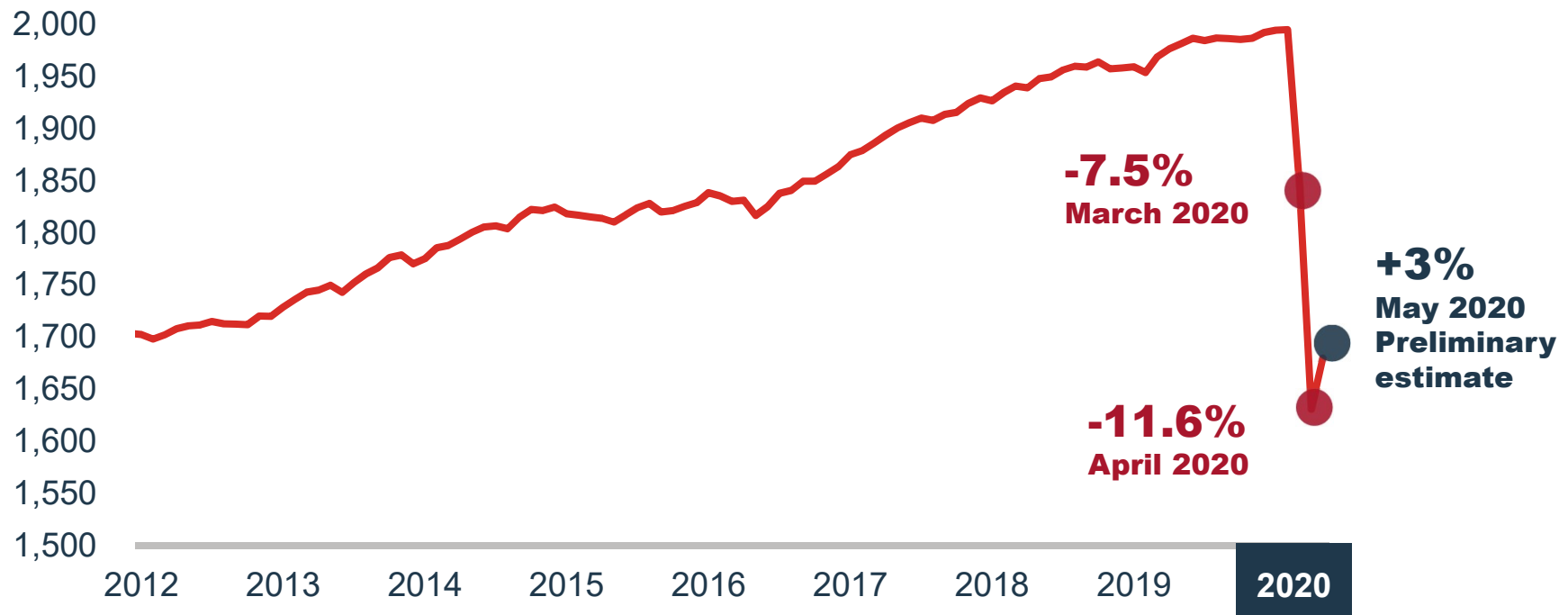


SOURCE: Statistics Canada



Sharpest economic slowdown on record

Monthly real GDP (\$ billions, annualized)

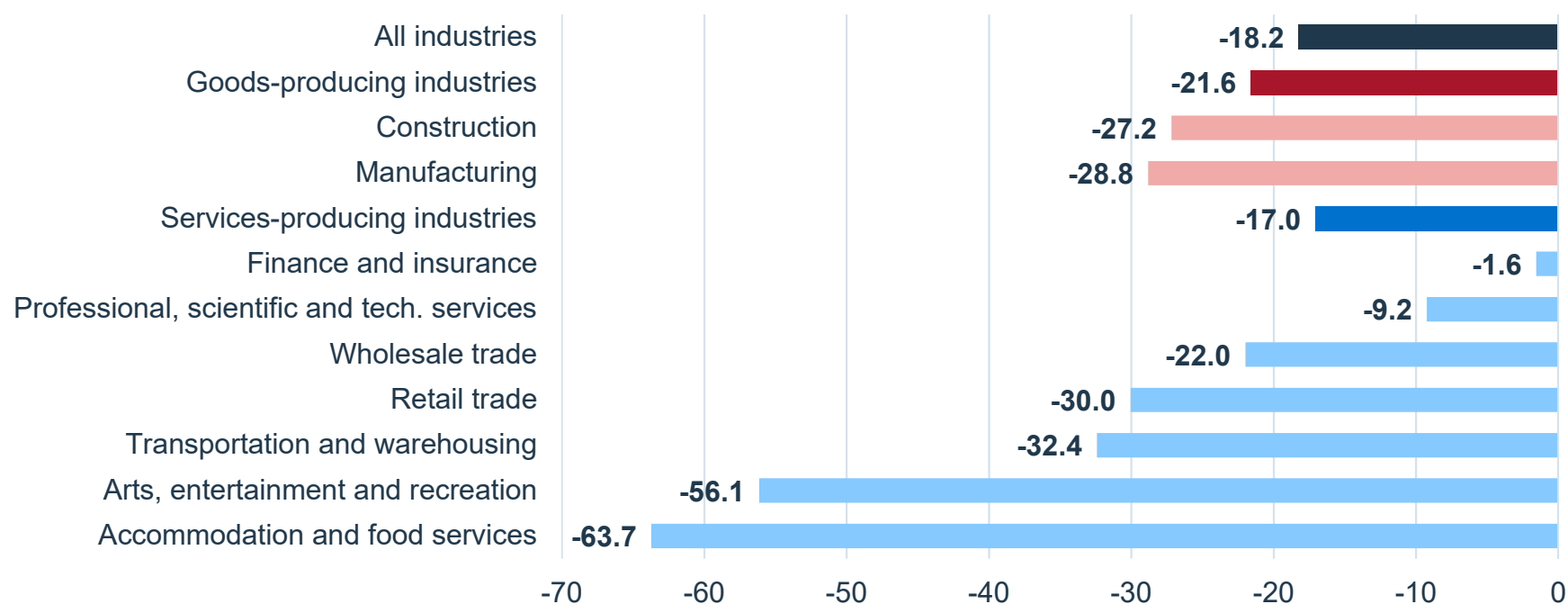


SOURCE: Statistics Canada.

Measuring the economic impact of lockdowns



Change in real GDP between February and April 2020, % growth

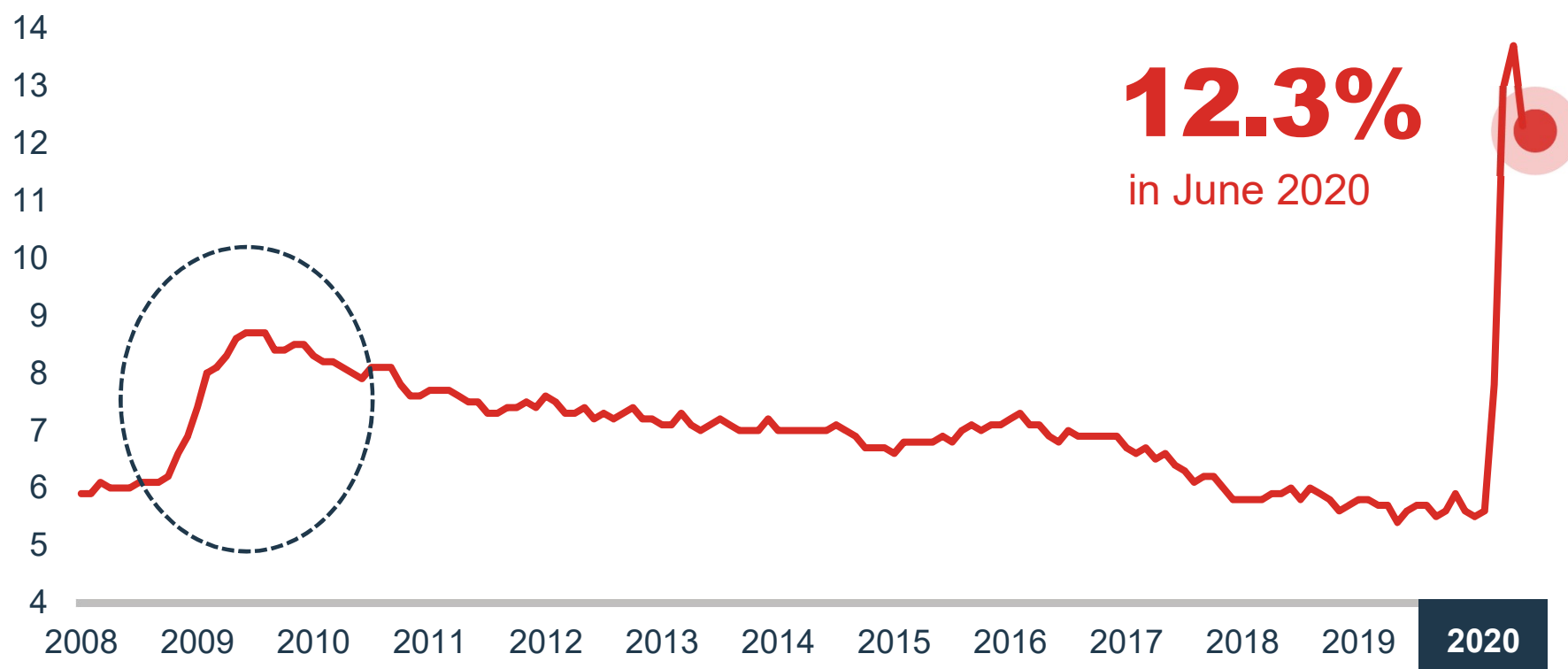


SOURCE: Statistics Canada

Unemployment rate is declining in June



Unemployment rate (% of labour force)

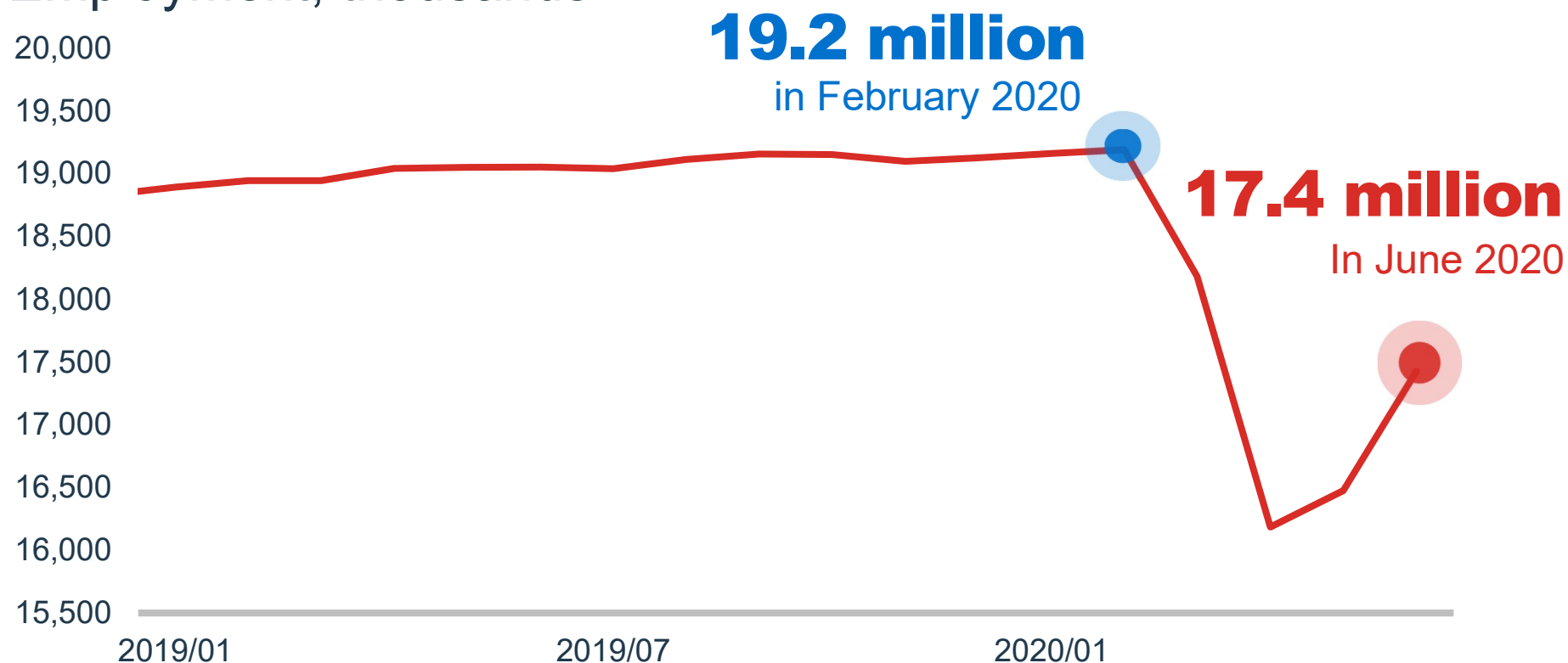


SOURCE: Statistics Canada.

Canadians are going back to work faster as the economy is reopening



Employment, thousands



SOURCE: Statistics Canada.

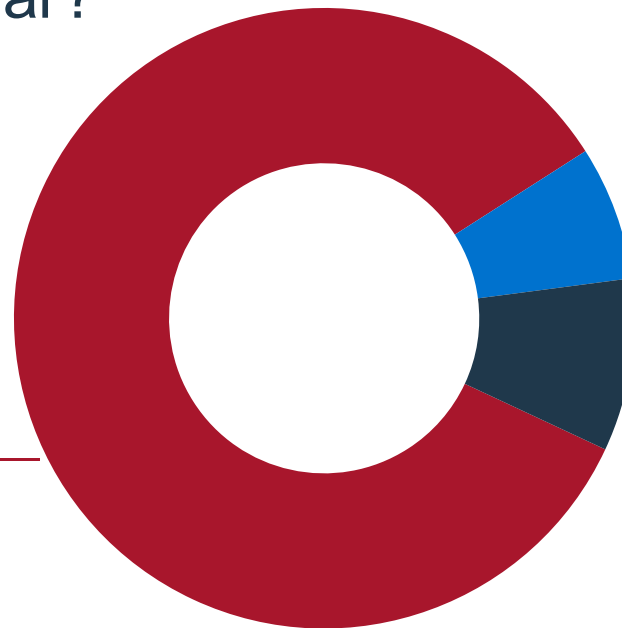


Canadian businesses are profoundly affected

Have you felt the impact of the coronavirus
on your business so far?

84%

Negative impact



7%

Positive impact

9%

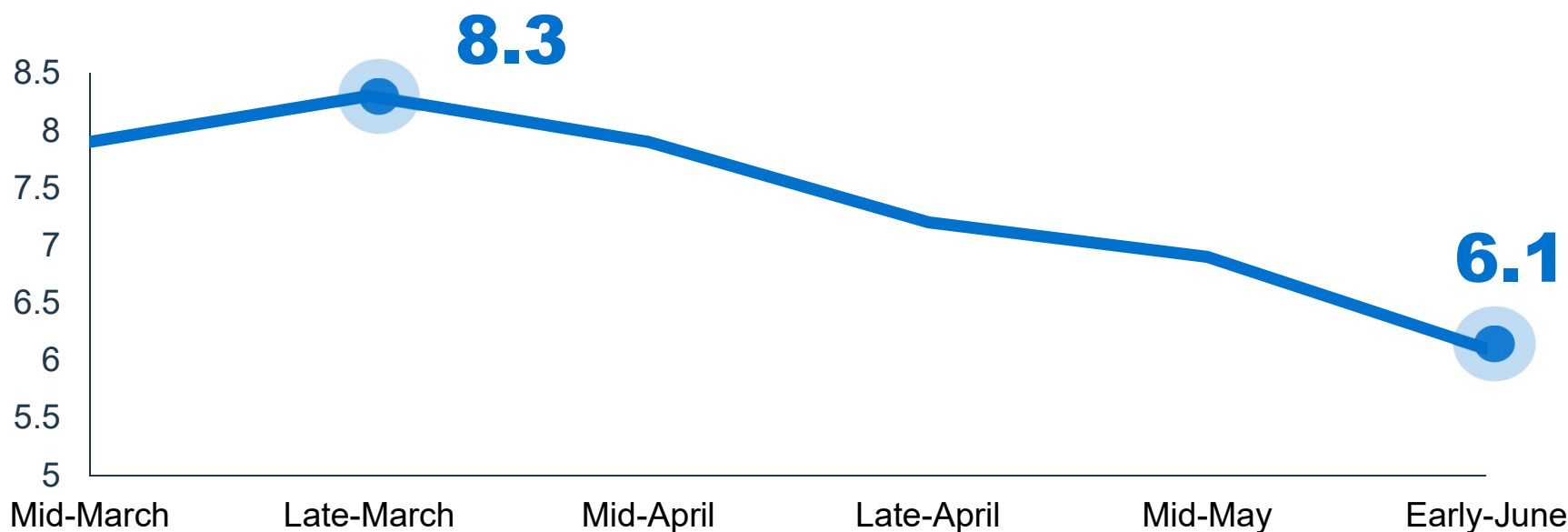
No impact so far

BASE: All qualified respondents (n=481). Due to rounding, total may not equal to 100%.
Survey was conducted between June 2nd and June 7th, 2020, among BDC ViewPoints panel members
(business owners and decision-makers).

Entrepreneurs are less worried about their business than at the beginning of the crisis



How worried are you about the impact of COVID-19 on your business? (scale from 0 to 10; 0="not worried at all" and 10="extremely worried")



BASE: All qualified respondents (n early-June= 475-481). Results are presented in terms of those worried with the situation (scores of 7+ out of 10). Due to rounding, totals may not equal to 100%.

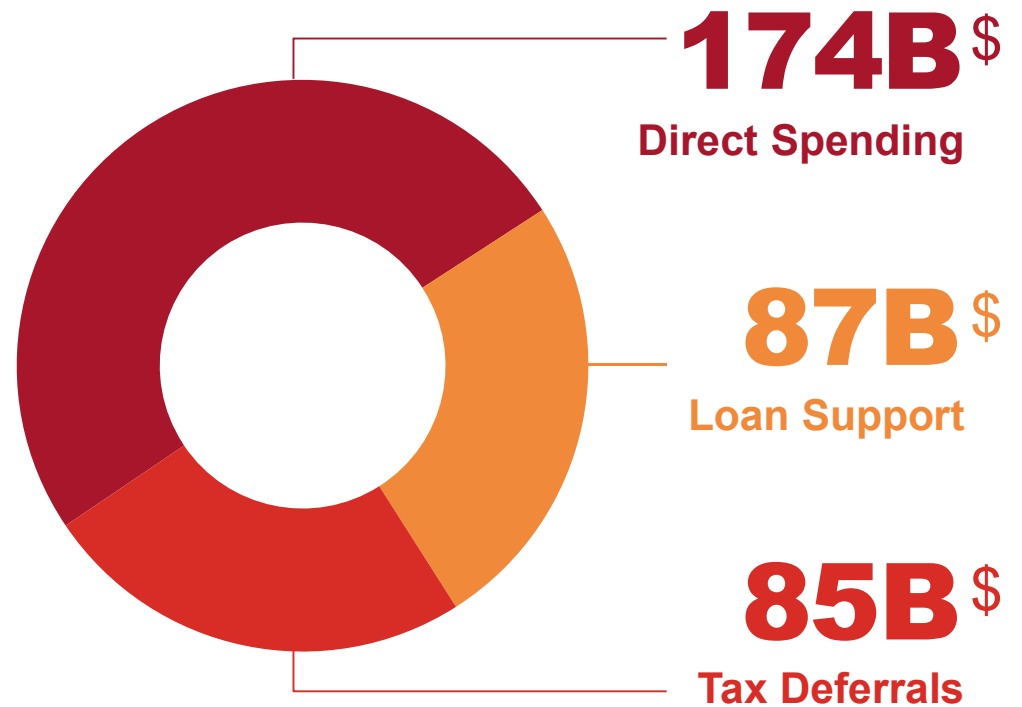
COVID-19 federal budgetary measures

Share of federal measures



\$345 billion

in support measures



SOURCE: Government of Canada, Department of Finance

**What will the
recovery look
like**

The recovery will be gradual and slow in Canada



- 1** The economy will reopen in phases
- 2** Consumers will remain cautious
- 3** Business investment intentions are low

1

The economy is reopening but going back to normal will take time



Businesses reopened or planning on reopening soon, % by sector



BASE: BDC study, June 2 to June 7, 2020. All respondents (n=285). Have you been able to resume your operations since they were suspended in whole or in part?

2



Consumers will remain cautious

Public health reasons

Loss of purchasing power

Social distancing measures

A lot of uncertainty

Hours worked remains down by 17% → significant loss of income...



Reduction in hours worked between February and May 2020

Sectors less impacted

- Utilities **0.1%**
- Finance, insurance, real estate **-10%**
- Professional, scientific and technical services **-11%**
- Health care **-18%**

Sectors more impacted

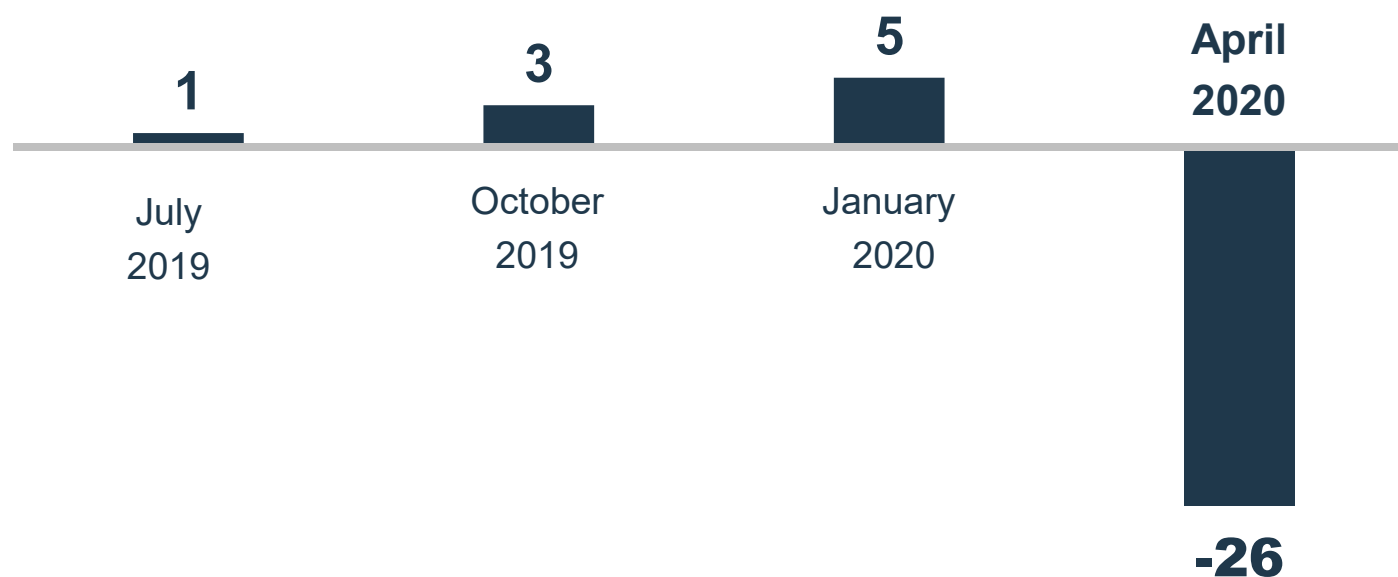
- Wholesale and retail **-19%**
- Transportation and warehousing **-25%**
- Information, culture and recreation **-32%**
- Accommodation and food services **-58%**

3

Investment intentions collapsed in April...



Indicator of Investment Intentions (balance of opinion)

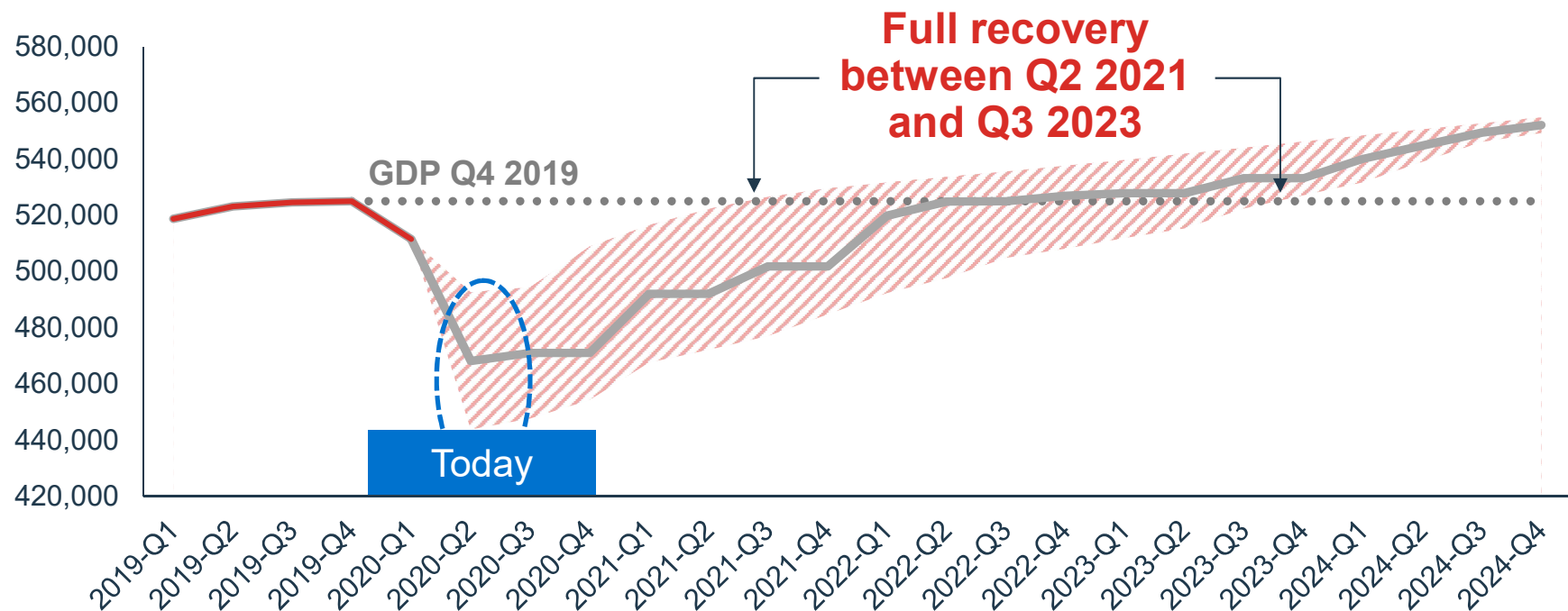


BASE: All respondents (n=1,000). Respondents who did not know or preferred not to answer were excluded from the calculation base. Over the next 12 months, what do you expect your company's investment spending to be?

The recovery will be gradual and slow in Canada



Quarterly GDP chained 2012 prices, millions \$



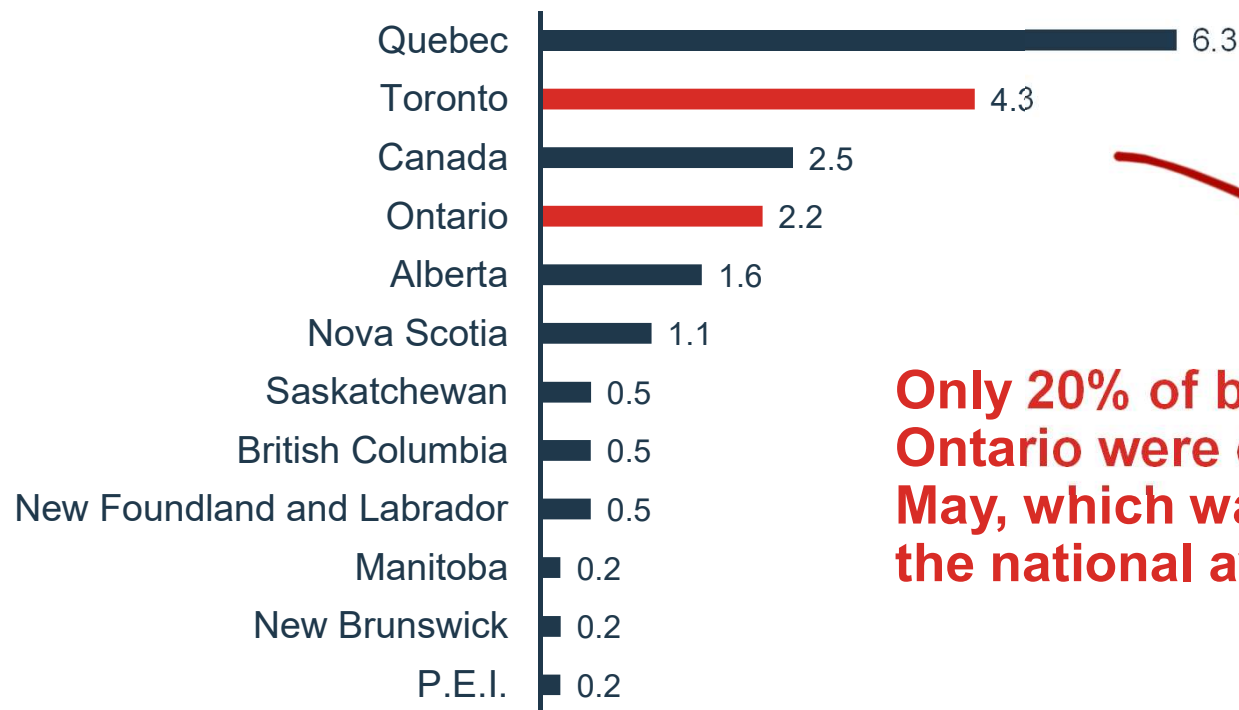
SOURCE: Oxford Economics, BDC calculations

A stylized map of Ontario, Canada, is shown in a dark red color against a dark blue background. The map is positioned in the lower-left quadrant of the slide. In the top-right corner, there is a small red asterisk-like symbol.

What will the recovery look like in Ontario

Ontario among the worst affected provinces and the slowest to re-open

Covid-19 cases per 1,000

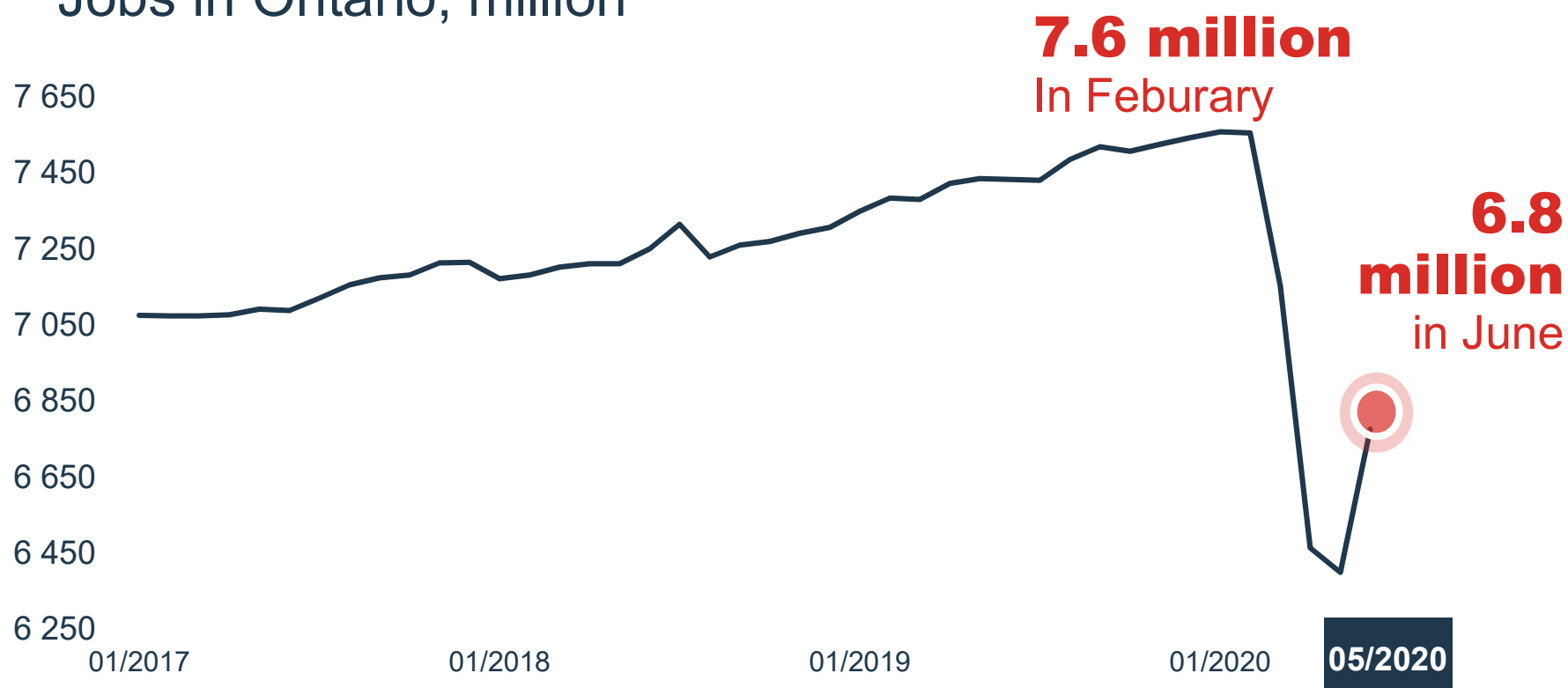


Only 20% of businesses in Ontario were open in mid-May, which was lower than the national average of 28%

The sharpest downturn in Ontario with a fifth of jobs lost



Jobs in Ontario, million

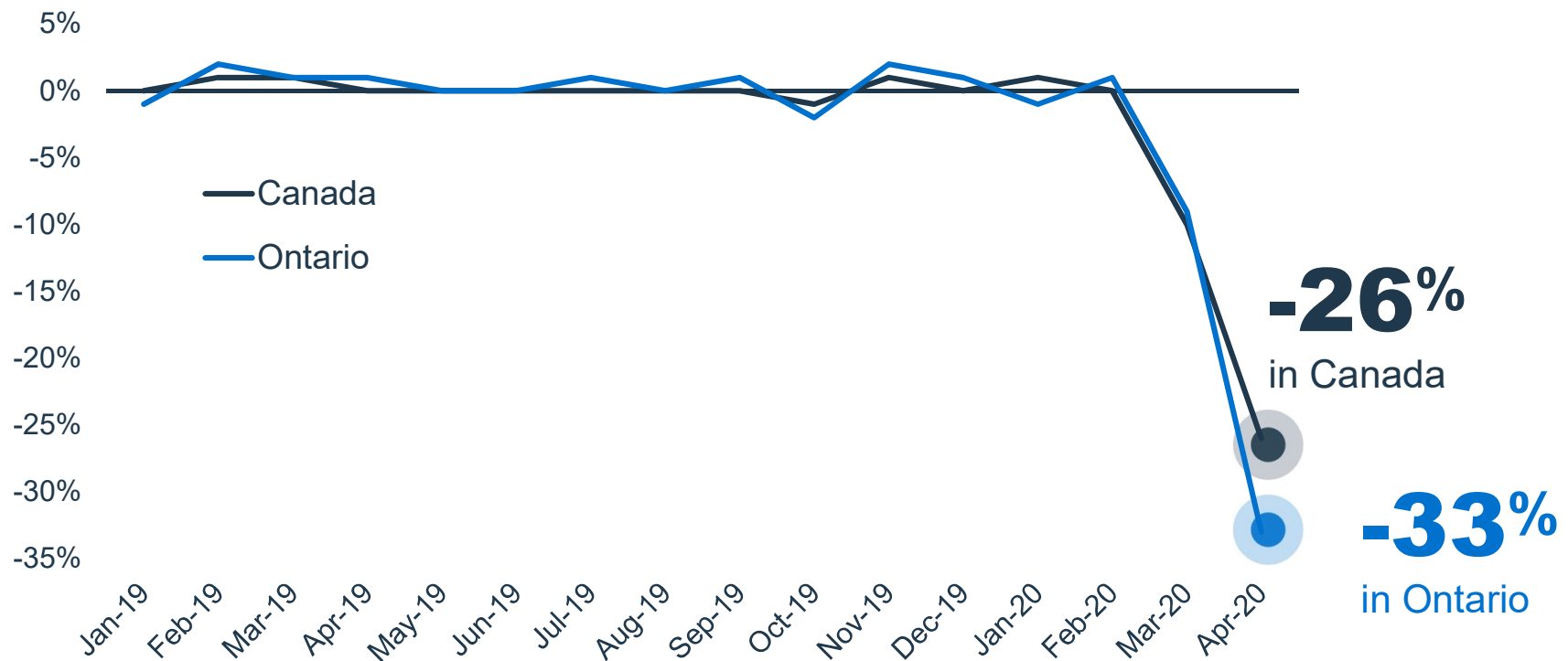


SOURCE : Statistique Canada

Retail sales are down by 33% in Ontario



Retail trade sales, seasonally adjusted, % growth

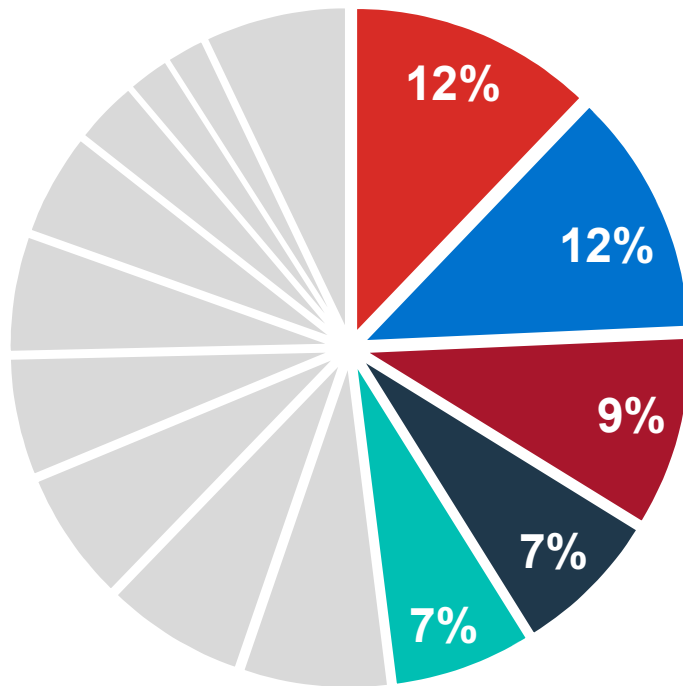


SOURCES: Statistics Canada

Sectorial recovery in Ontario

Important economic sectors took a hit in employment

Top 5 economic sectors and employment loss in Ontario,
% change between Feb and June 2020



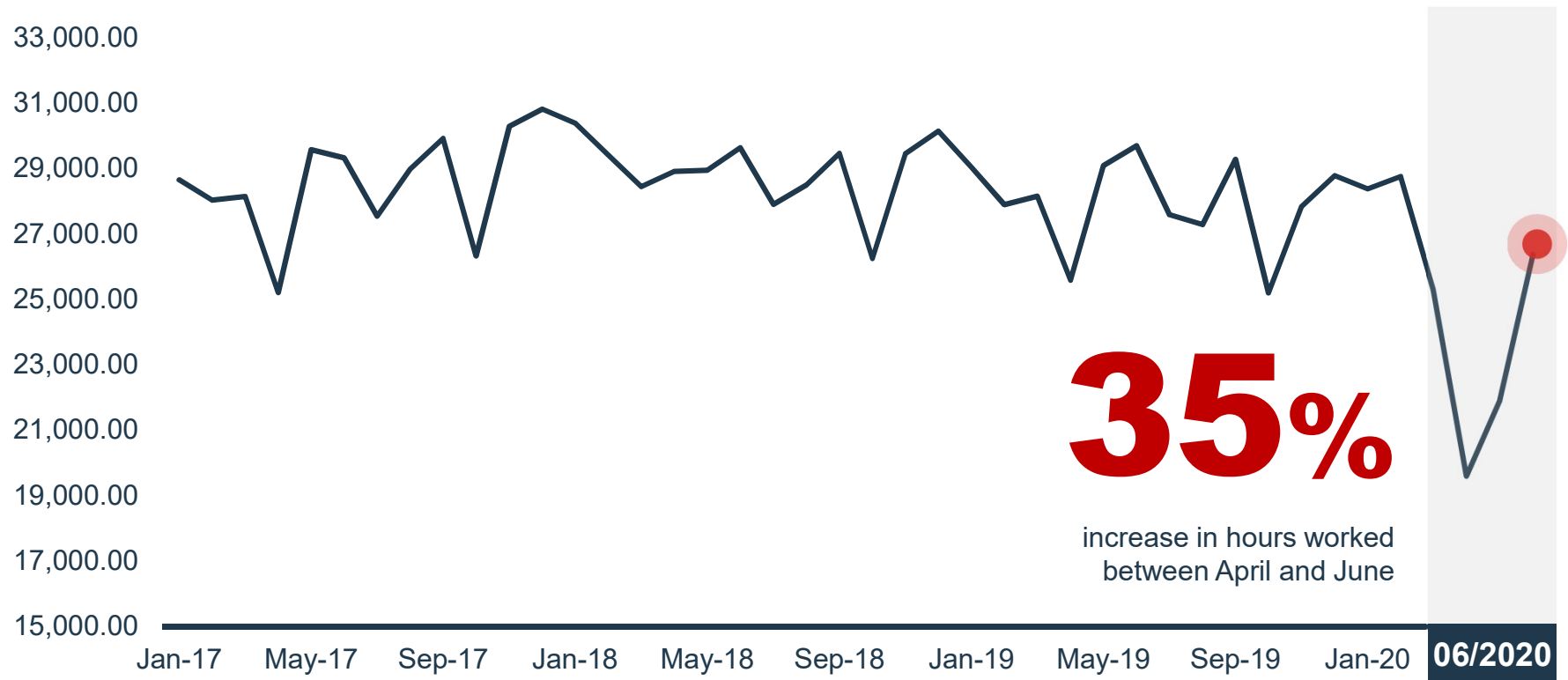
Manufacturing	-7% in jobs
Retail and wholesale	-11% in jobs
Finance and insurance	0% in jobs
Professional services	-8% in jobs
Construction	-11% in jobs

SOURCE: Statistics Canada and BDC Calculations.

Manufacturing activity in Ontario is picking up slightly in May...



Total actual hours worked in manufacturing, thousand, Ontario

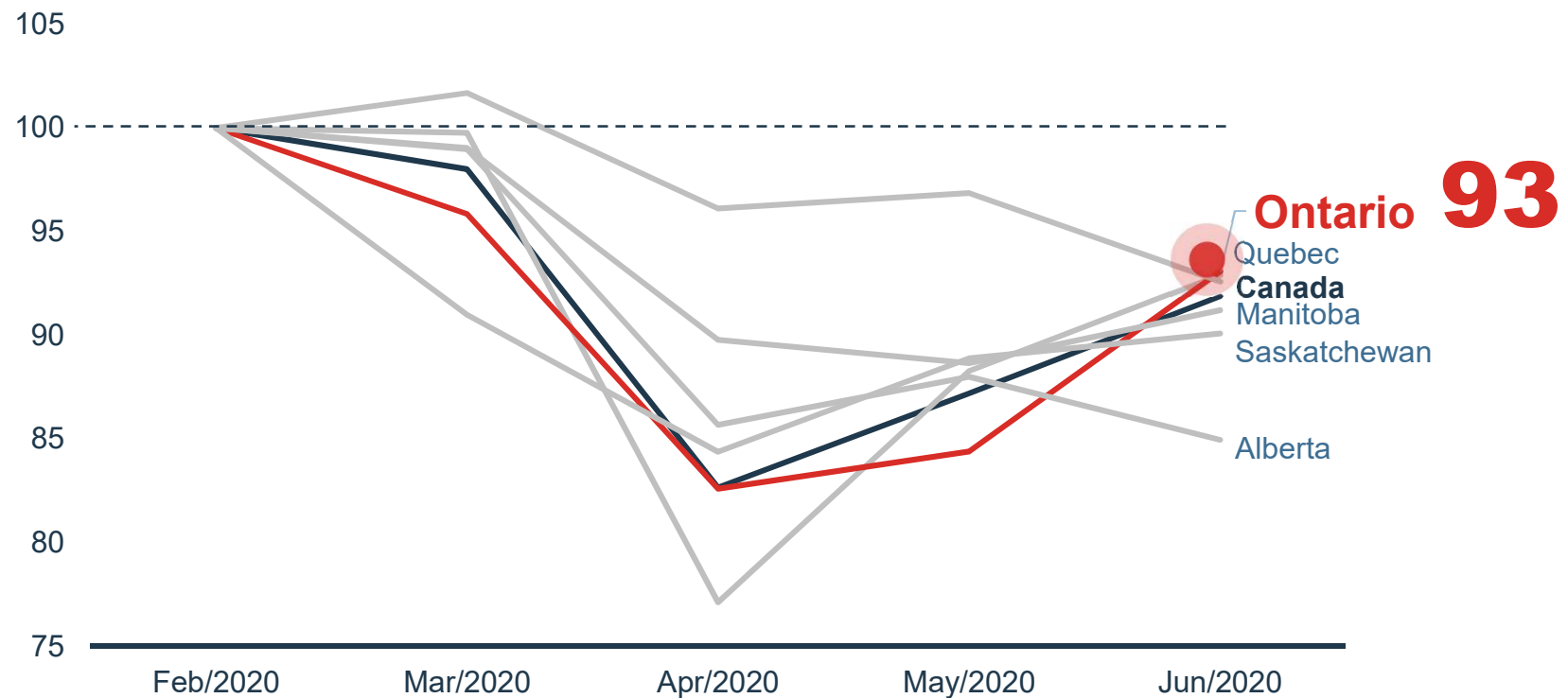


SOURCES: Statistics Canada and BDC Calculations.

... and slightly above the Canadian average in June



Employment in manufacturing, Atlantic, Index Feb 2020=100

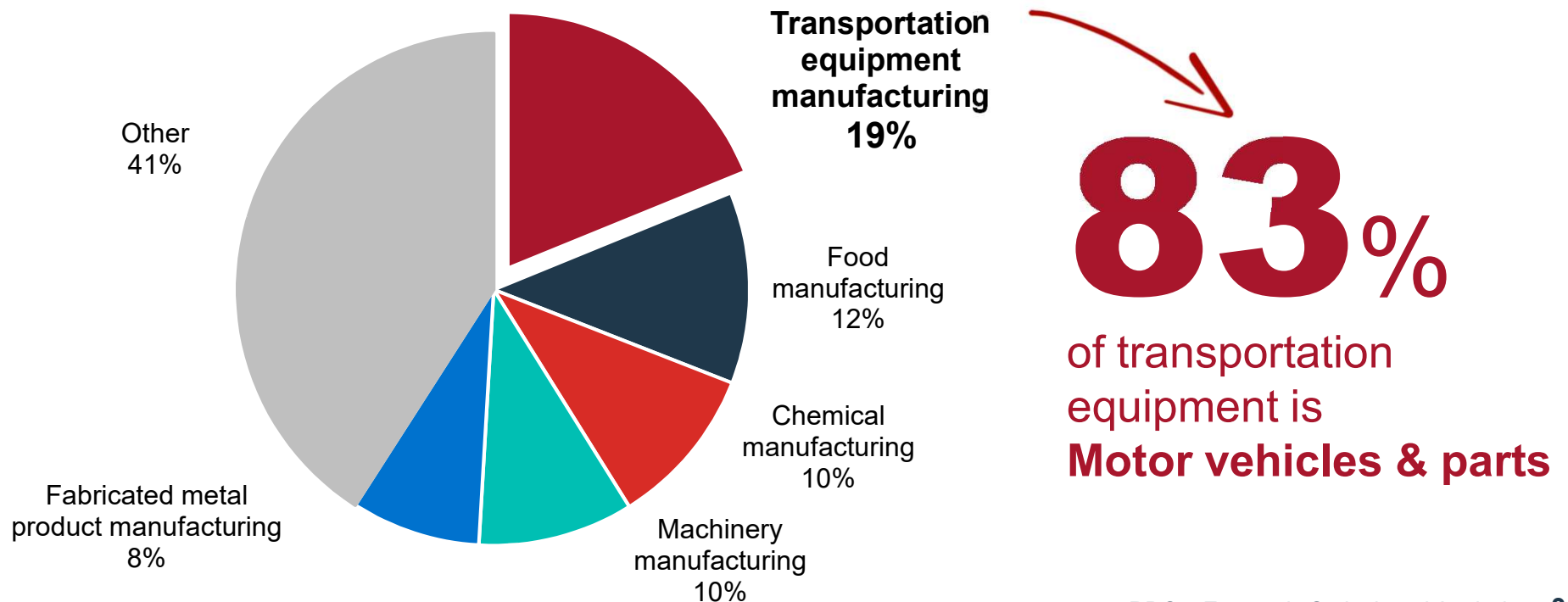


SOURCE: Statistics Canada.

Car production is the largest sub-sector in manufacturing industry



Share of GDP in manufacturing sub-sector, 2019, Ontario



SOURCES: Statistics Canada and BDC Calculations.



Challenges ahead for the auto sector

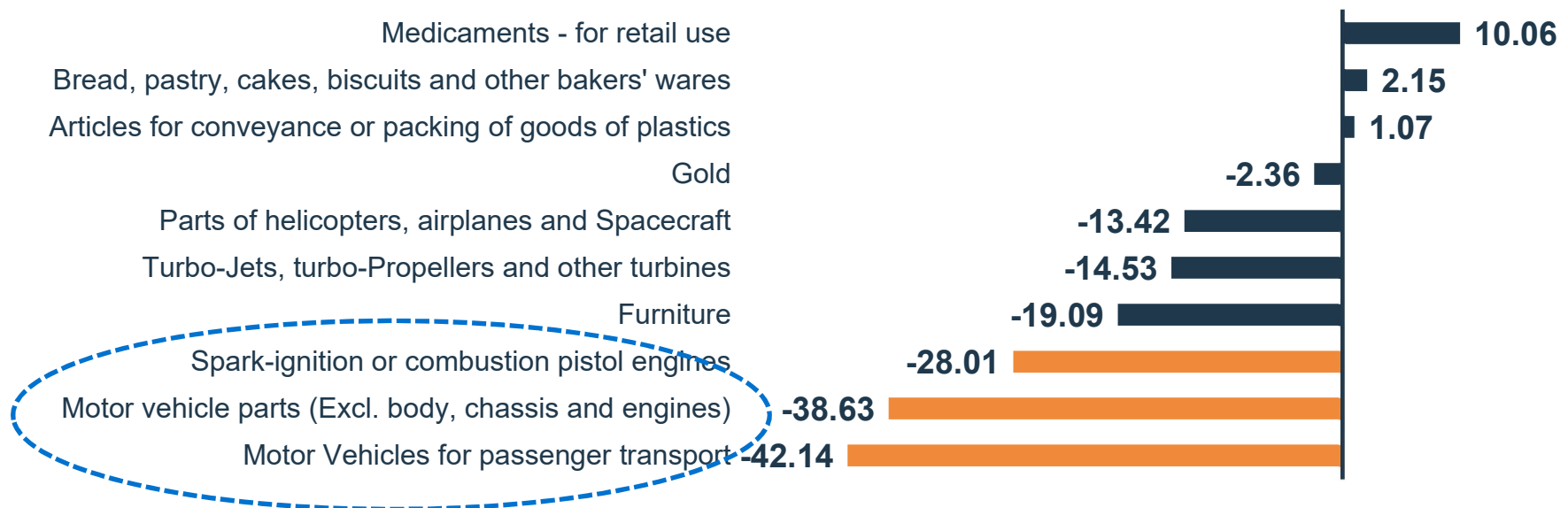
Global demand headwinds and supply chain constraints

Drop in disposable income and low consumer confidence will weight on demand going forward



Many top export products are dropping, especially in the automotive manufacturing sector

Ontario total exports, Top 10 products
% change Jan-May 2020 and 2019



SOURCE: Statistics Canada.



**Automotive
manufacturing will
be the hardest hit
manufacturing
sector in 2020**

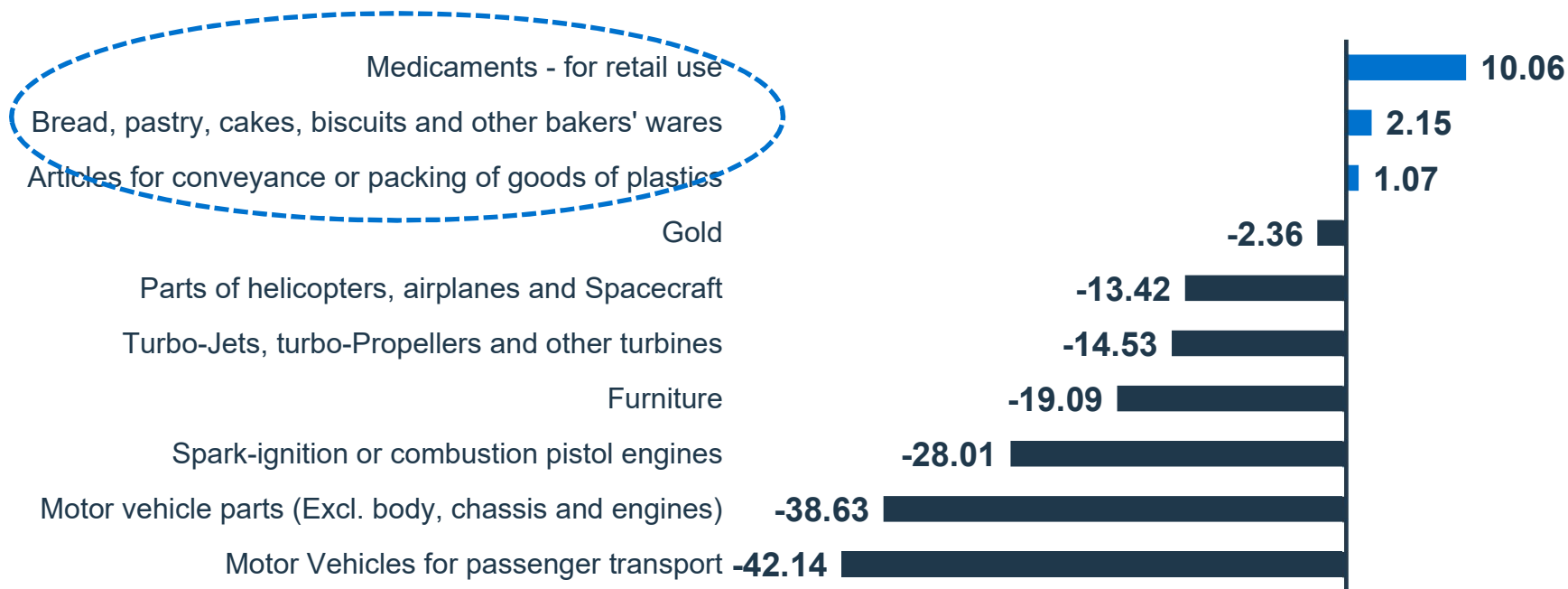
50%

**decline in GDP output
in 2020 for the auto
manufacturing sector**

Food and chemical manufacturing saw an increase in their exports



Ontario total exports, Top 10 products
% change Jan-May 2020 and 2019



SOURCE: Statistics Canada.

Food and chemical manufacturing: the **fastest sectors** to recover



Food products manufacturing

Much smaller contraction than overall manufacturing sector

Demand tends to be more stable because food products are essential goods

As restaurants re-open, demand for high value goods such as meats and seafoods will bounce-back.



Chemical manufacturing

Soaps, detergents and pharmaceutical have very prospects, as the economy now focuses on healthcare and cleanliness.

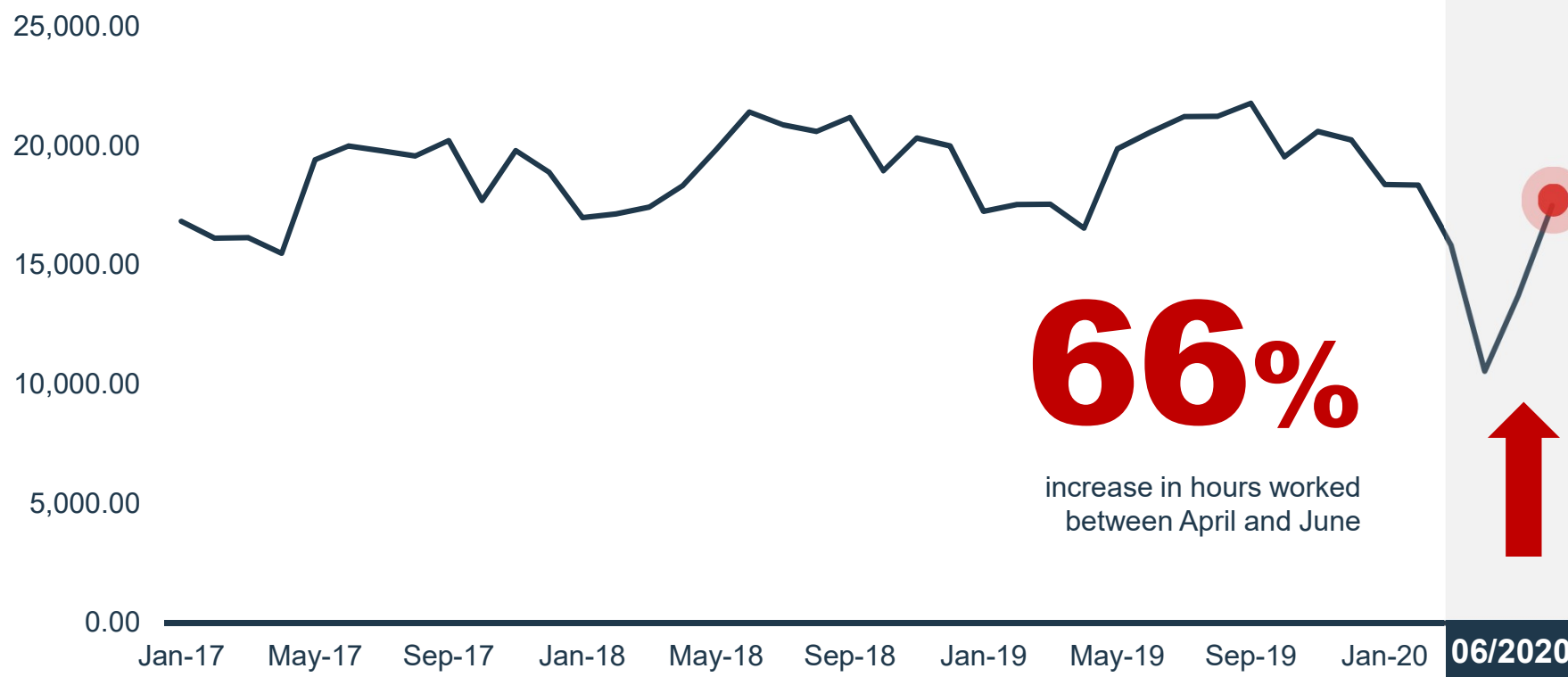
Many chemical are used in downstream industrial goods.

Paints and coatings will have a gradual recovery, as production of transport equipment slumps

End of lockdown leads to a pick-up in construction activity



Total hours worked in manufacturing, thousand, Ontario



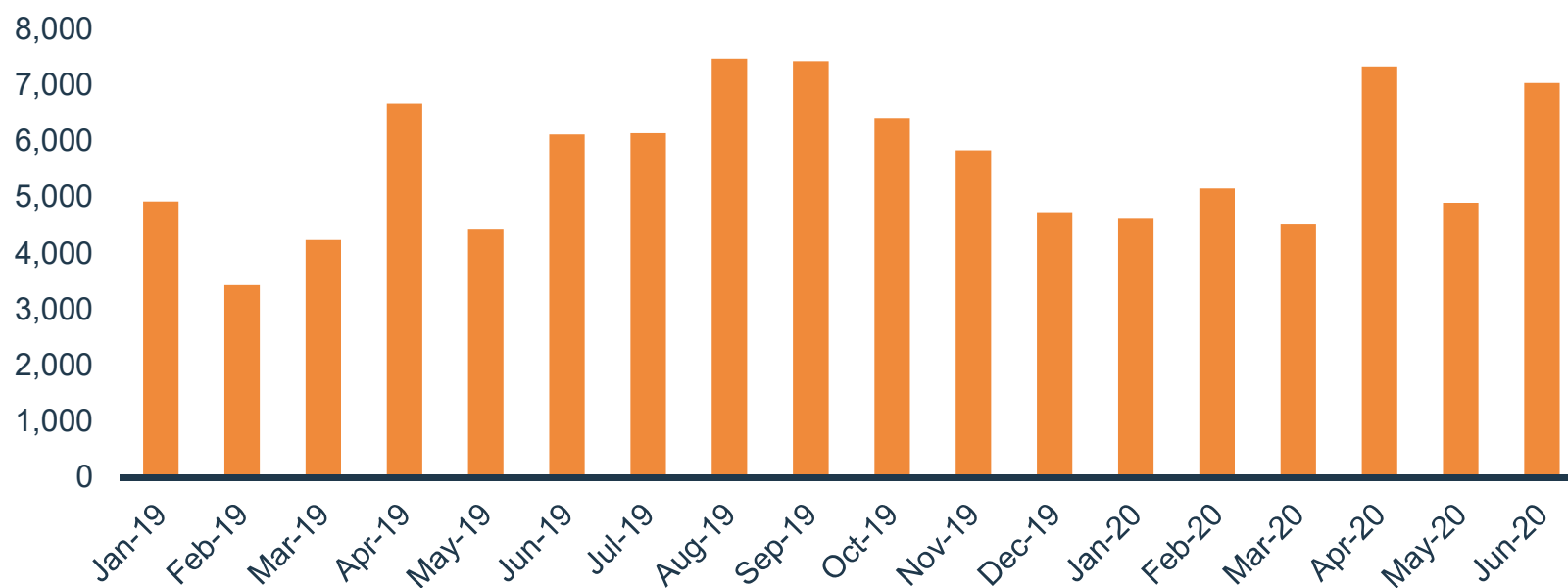
SOURCES: Statistics Canada and BDC Calculations.

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Housing starts on the rise again with 7,042 new units in June



Housing starts, units under construction and completions in centres 10,000 and over, Ontario



SOURCE: Statistics Canada



Yet, new home construction will face some challenges in the near-term



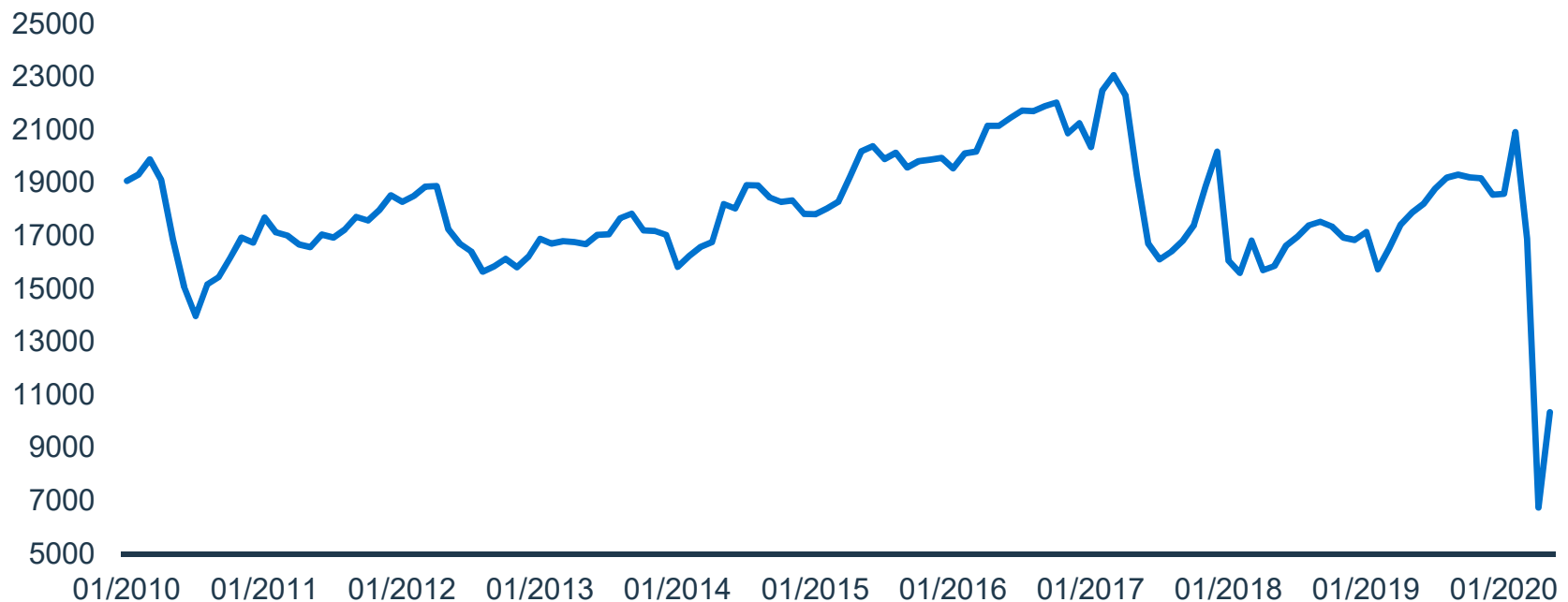
Many households will be unable to purchase a new home due to unstable job and wage situations despite very low mortgage rates.

Decline in population growth, mainly due to immigration, will affect the demand for housing.

Ontario has experienced the steepest decline in home sales, but it should recover gradually



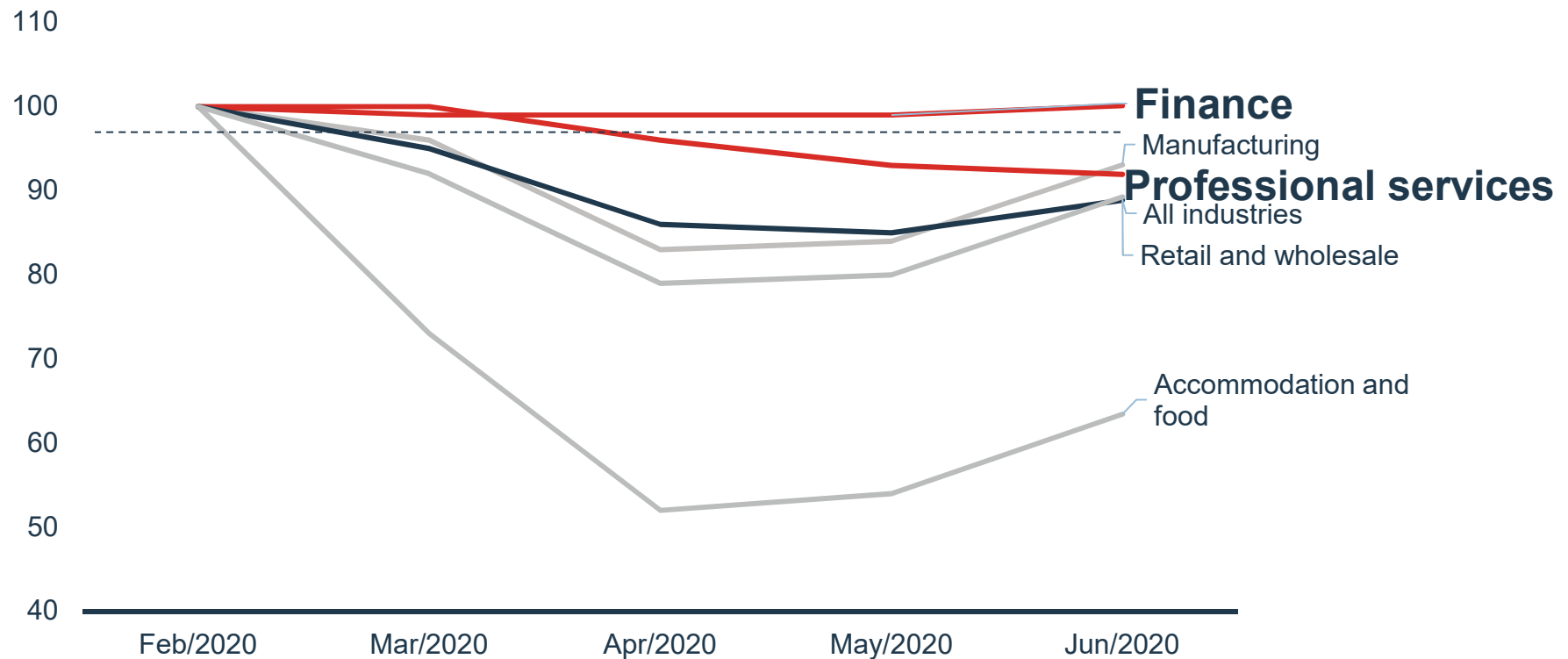
Total home sales, seasonally adjusted, Ontario



SOURCE: CREA

Finance and professional service sectors well positionned for recovery

Employment in Ontario, Index Feb 2020=100



SOURCE: Statistics Canada

Fast come back for business and ICT sectors

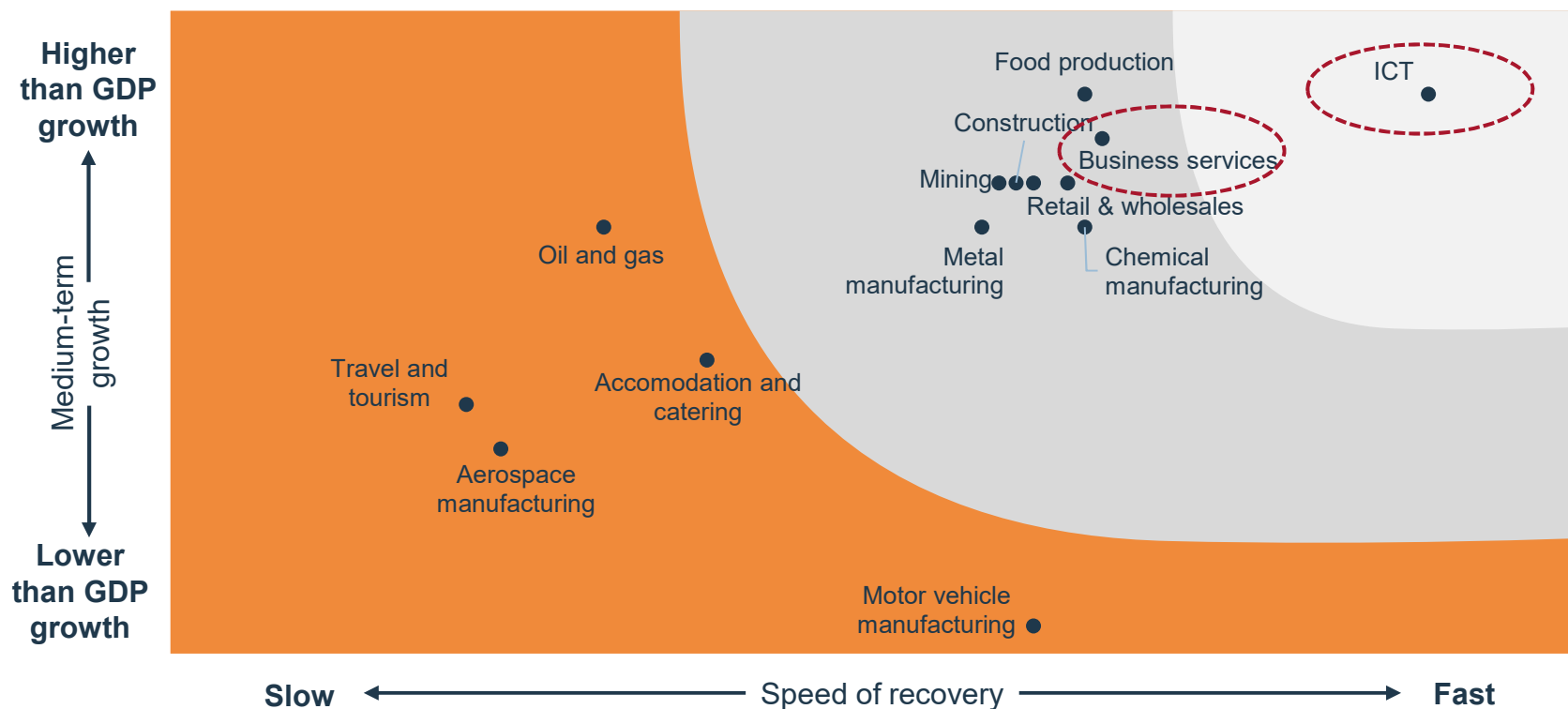
Professional services experienced lower levels of disruption

They can work remotely, minimising the impact to labour supply

The recovery will also be strong as the downturn also brings opportunities. They will benefit from investments in online infrastructure



Heat map of the restart and acceleration of economic activity



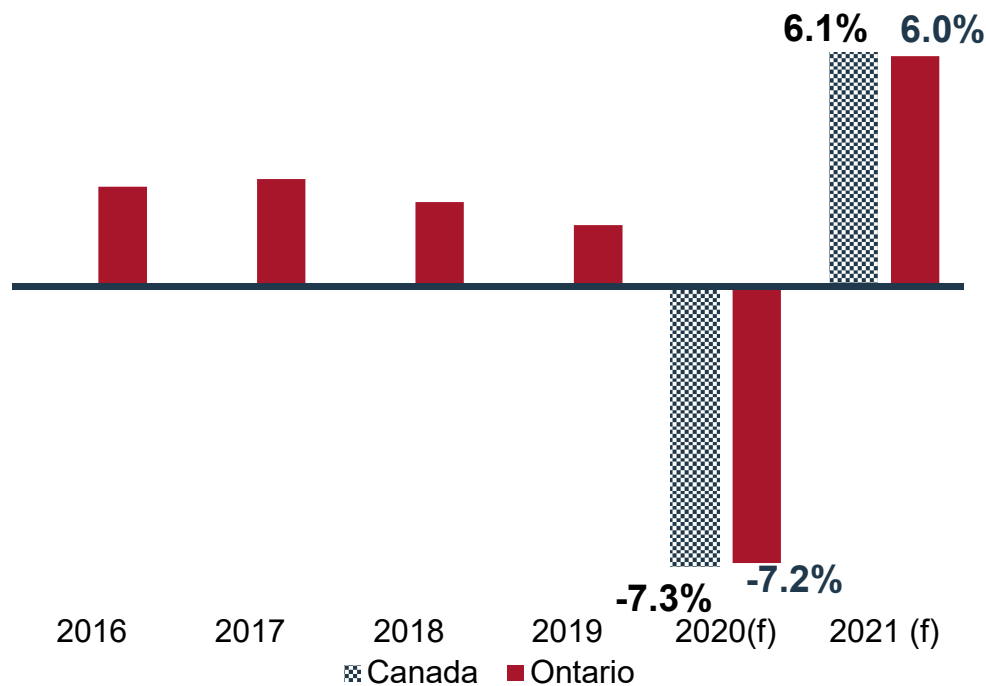
NOTE: Medium-term growth is based on the % difference in the level of output by 2024 relative to pre-covid baseline. Medium-term growth for GDP is forecasted to -0.6%. Speed of recovery is based on the period when output returns to Q4 2019 levels and GDP is forecast to return to level in Q3 2021.

SOURCE: Oxford Economics, BDC



Key Takeaways – Ontario

GDP growth, %



SOURCE: Statistics Canada and average estimates by chartered banks

- Manufacturing is showing early signs of recovery.
 - **Auto manufacturing** will be slow to recover due to global demand headwinds and supply chain constraints
 - **Food and chemical manufacturing** are expected to recover fast
- **Construction** activity will take time to recovery as investment are low. Many households will be unable to purchase a new home due to unstable job situations
- **Professional, financial and ICT services** sectors will see a fast recovery. They will also benefit from investments in online infrastructure

**The Canadian economy
is restarting,
but the recovery will be slow
due to the severe economic
shock and the uncertainty
around COVID-19.**



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