

# GLOBAL EXPORT FORECAST

COVID-19: NO WINNERS,  
ONLY SURVIVORS

EDC Economics

June 18, 2020

Insights on challenges and opportunities for  
Canadian exporters in the next two years.



## EXECUTIVE SUMMARY

# COVID-19: NO WINNERS, ONLY SURVIVORS

By Peter Hall

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When it comes to the global economy, an annual decline is extremely rare. It's not common in a world recession, and when it happens, the number is usually pretty small. Now, forecasters are leapfrogging each other to be more negative. It's a staggering turn of events that affects all regions, all countries, and all industries—nothing has escaped COVID-19's effects. But is everyone being impacted evenly?

Hardly. As soon as the reality of COVID-19's spread started to kick in, some industries, like travel, were impacted immediately, without warning. Those that had some warning didn't get much, and the ability to react was limited. Lockdown arrested all but the most essential business activities. In these cases, panicked consumers stocked up on available supplies, which struggled to keep up with demand. All told, the massive loss of employment and income has pummelled all business flows. As such, the impacts on exports by industry can be classified as bad, worse and terrible. Recovery will likewise lift the fortunes of all industries, but that will also be uneven. EDC Economics' latest Global Export Forecast sheds light on these disparate impacts.

Fear of infection dried up travel plans almost instantly. Only the rush to get home kept things going, but that, too, ended abruptly. Air carriers first resorted to deep discounts until the cash crunch demanded more severe actions. This quickly blew back on tourism and the aerospace sector.

The oil and gas industry, already awash in supply, was slammed by a rapid reduction in demand as the daily commutes stopped. The collapse in air travel didn't help, and lower industrial use of oil and gas iced the cake. Prices momentarily went negative, underlining the dire circumstances.

The auto sector rounds out the high-impact list. Massive sales reductions were common regardless of market. The aerospace, oil and gas, and automotive sectors are outliers in our export forecast, each declining by more than 30% this year. Only the very worst-hit industries saw such declines in the Great Recession.

Just two industries—the lucky ones—will see single-digit declines this year. The agri-food sector has been a beneficiary of panic-buying, handing some select processors and food retailers their best results in a long time. Things have been less certain in primary food production, as processors' capacity was further constrained by workers' health concerns. Consumer goods have also fared well, in spite of problems in the clothing and footwear categories. These are expected to see 8% and 9% reductions in activity this year—which would easily have been bottom spot in our previous forecast. Ores and metals squeak on to this list, down 10% in 2020.

## EXECUTIVE SUMMARY (continued)

# COVID-19: NO WINNERS, ONLY SURVIVORS



With one exception, the rest huddle together in the minus-teens, including advanced technology, forestry products and machinery and equipment. Chemicals and plastics will fall by 11% this year.

Are next year's rebounds proportional to 2020's plunges? Sadly, no. The prospect of a price revival in oil and gas is remote, as any significant increase is expected to be met with a surge of non-conventional supply. Other elements of the energy sector will contribute to an impressive 2021 increase, but crude oil shipments will remain suppressed. The auto sector will manage a 22% increase next year, a rise that won't get it back to pre-COVID levels. Aerospace will see a meagre 6% gain in 2021, consigning shipments to the chasm for another year.

A cluster of industries will see next year's gain roughly match the 2020 plunge in percentage terms, generally getting back to pre-COVID levels by the end of 2021. This includes agri-food, chemicals and plastics, and consumer goods. Both the industrial machinery and equipment and advanced technology industries are expected to see gains outpace this year's decreases, in percentage terms, owing to pent-up demand and increased interest in technology solutions employed during the lockdown period. In sum, Canada's exports will decline 20% in 2020 and rise 19% in 2021.

For most, getting through the gap is critical. Early signs of recovery in economies hit later with the pandemic are exciting stock markets, and leading to a general belief that we might be through the worst of it. May and June started a return-to-work for many, and as momentum builds, so too will demand. Public spending will continue to flow, and most central banks will hold policy interest rates at rock-bottom levels, providing support, and some insurance, for the fledgling recovery.

COVID-19 has generated no winners—only survivors. Some industries got off lightly; recovery won't be as rough for them. Others were hit hard, but will also rebound hard. But still others face the prospects of a dreaded L-shaped recovery, or drawn-out U. If there's any good news, there's plenty of demand for most, if not all industries when this is all over. That makes survival all the more important, regardless of the sector.



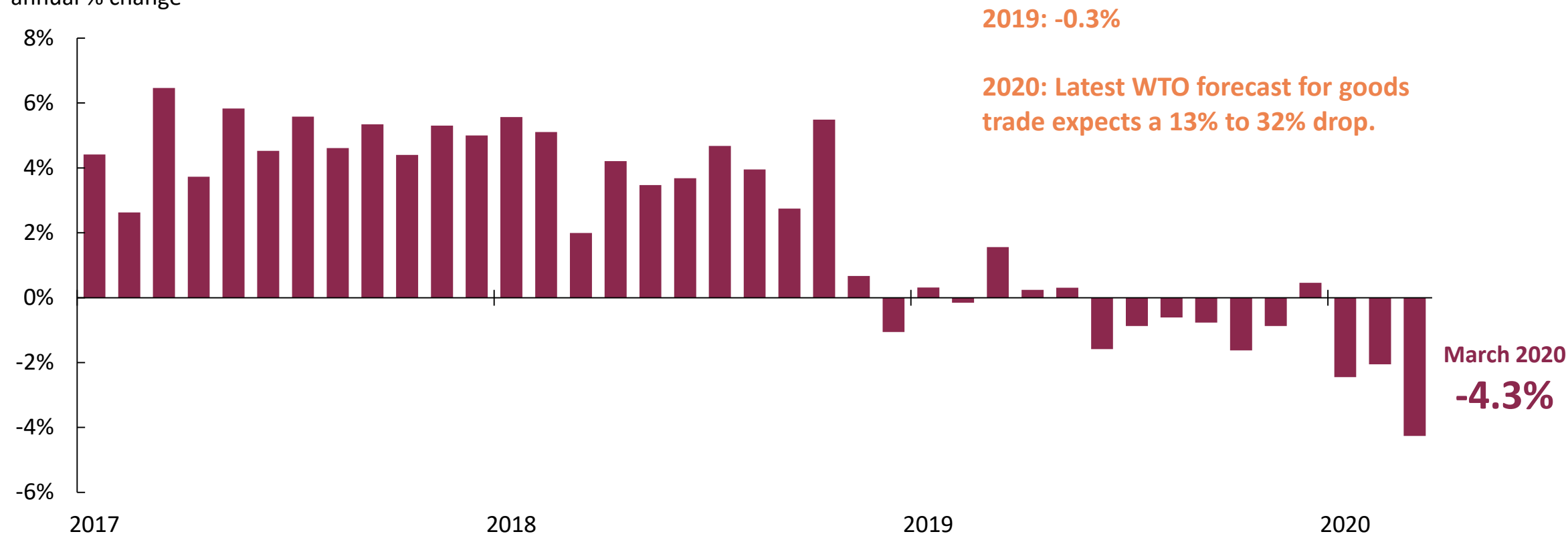
# GLOBAL TRADE CONTEXT



# GLOBAL TRADE WAS SHRINKING BEFORE COVID-19

## Global merchandise trade volumes

annual % change

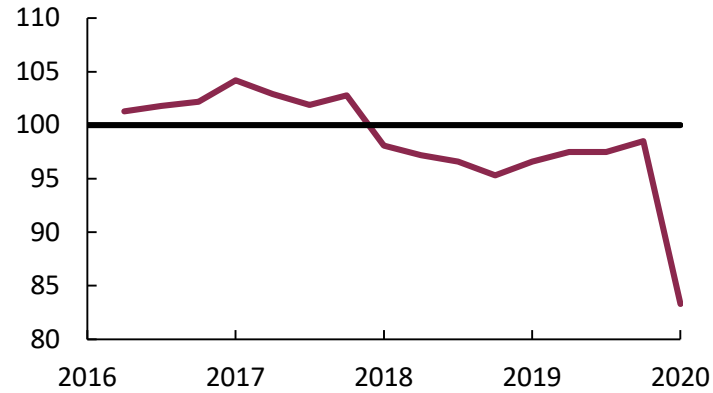


# ALL WTO GOODS TRADE BAROMETER SUB-COMPONENTS ARE BELOW TREND



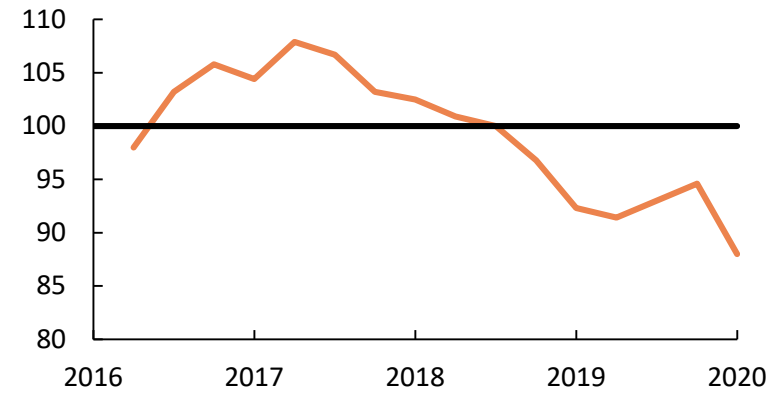
## Export orders

Index, trend=100



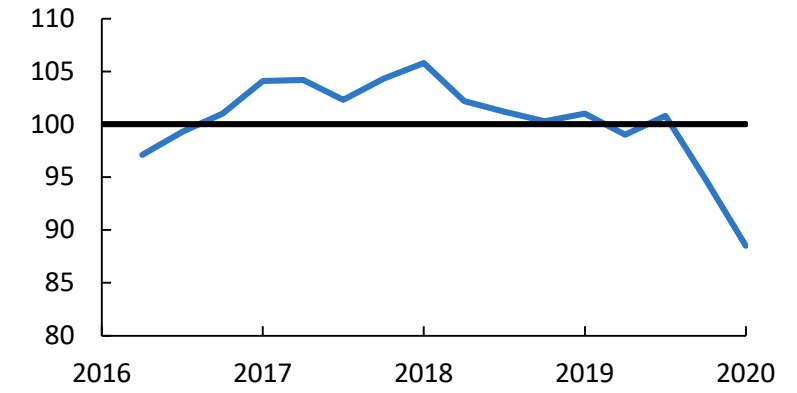
## International air freight

Index, trend=100



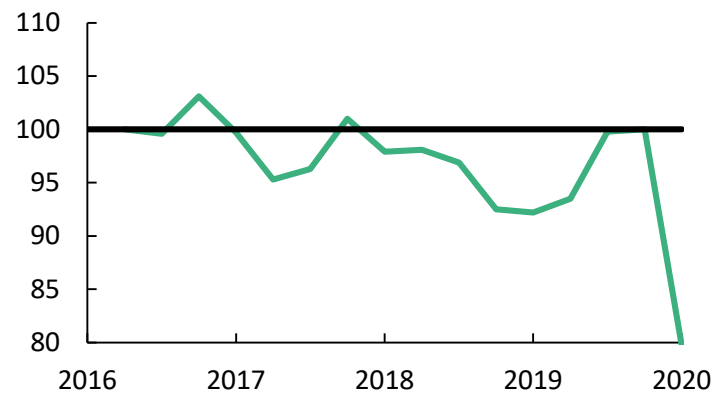
## Container port throughput

Index, trend=100



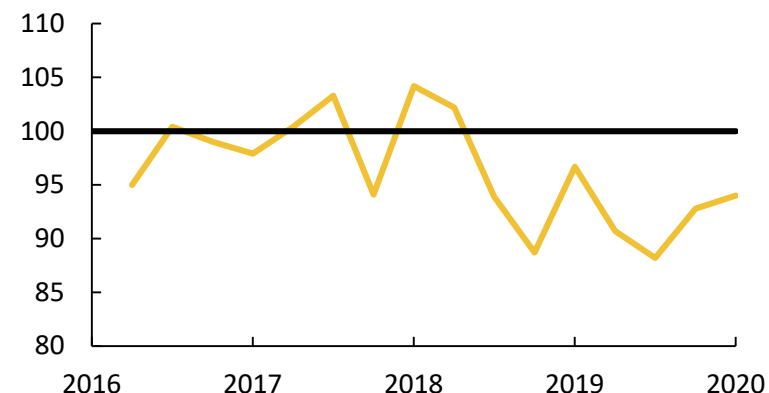
## Automobile production and sales

Index, trend=100



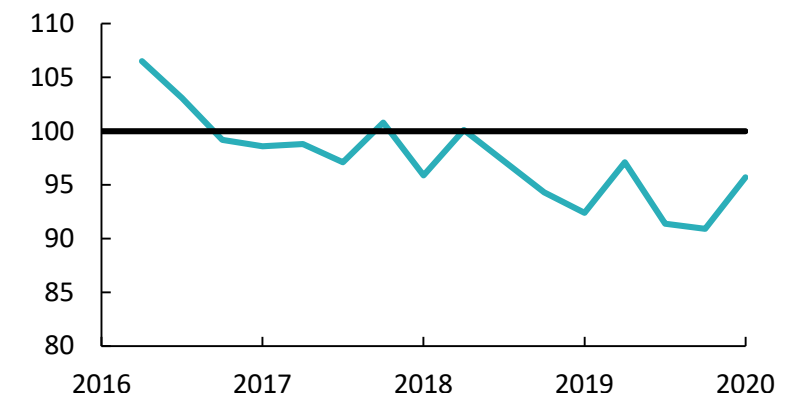
## Electronic components

Index, trend=100



## Agricultural raw materials

Index, trend=100



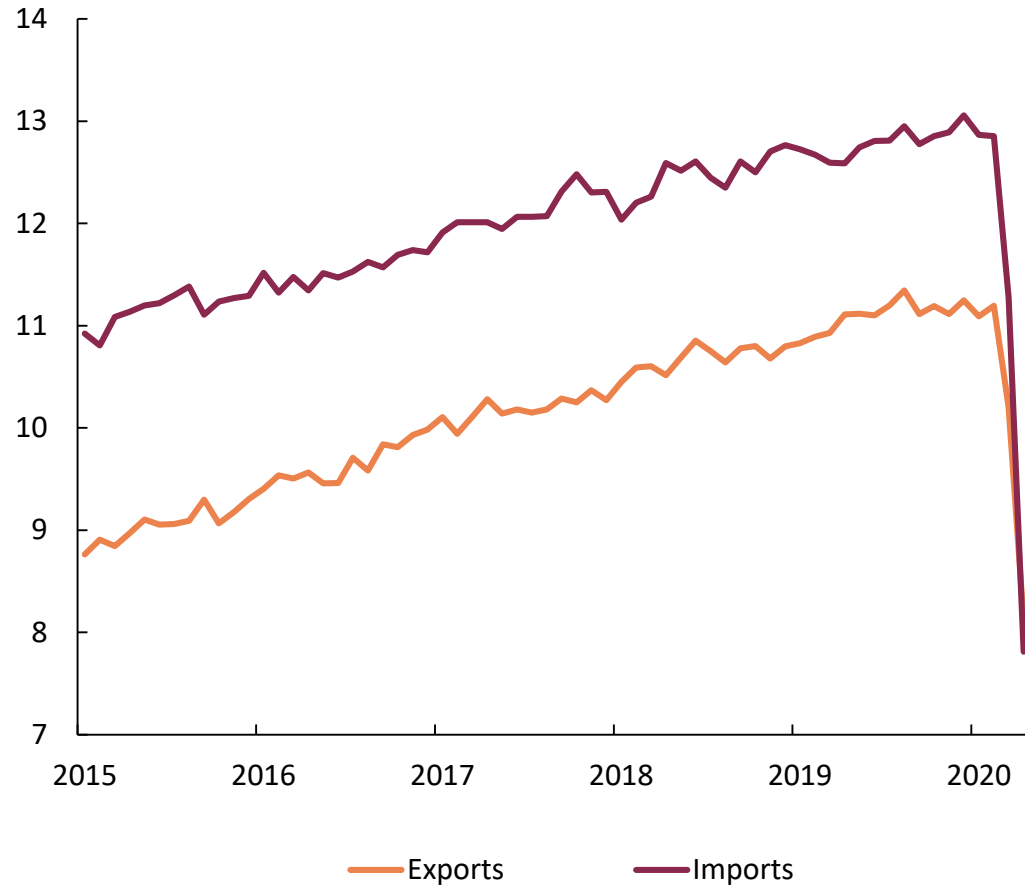
# CANADIAN TRADE CONTEXT



# CANADA'S RECENT TRADE CHALLENGES

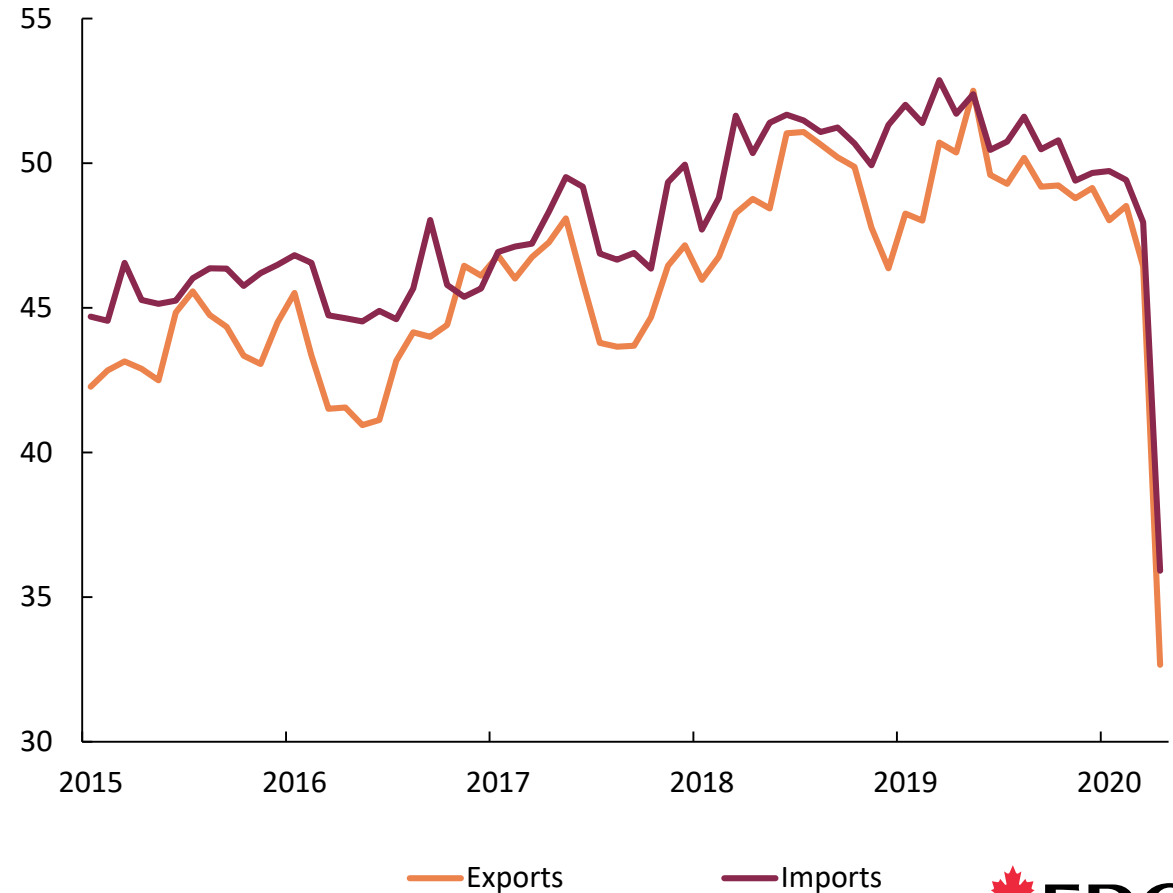
## Services trade

Billions of dollars



## Merchandise trade

Billions of dollars

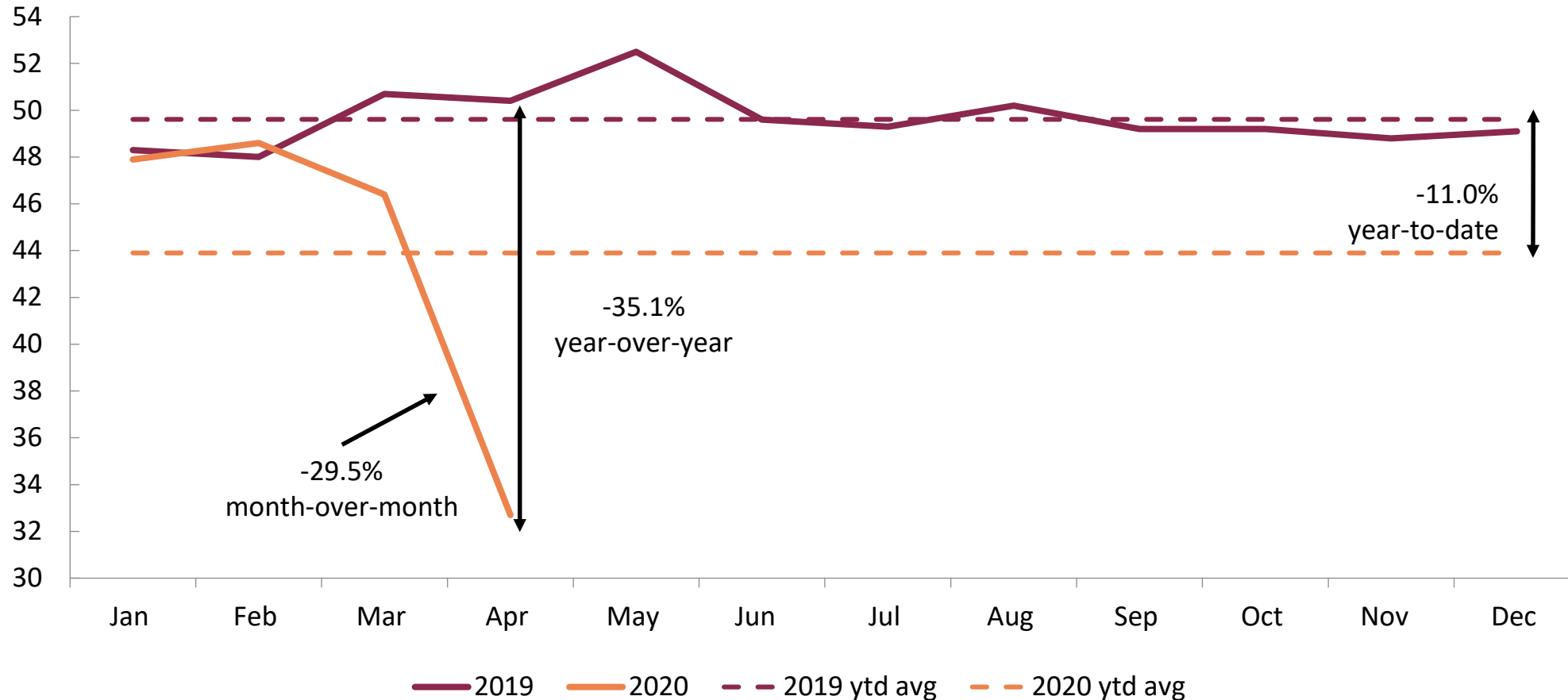




# YEAR-TO-DATE PERFORMANCE, APRIL 2020 DATA

Canada's merchandise exports, year-to-date performance 2020 versus 2019

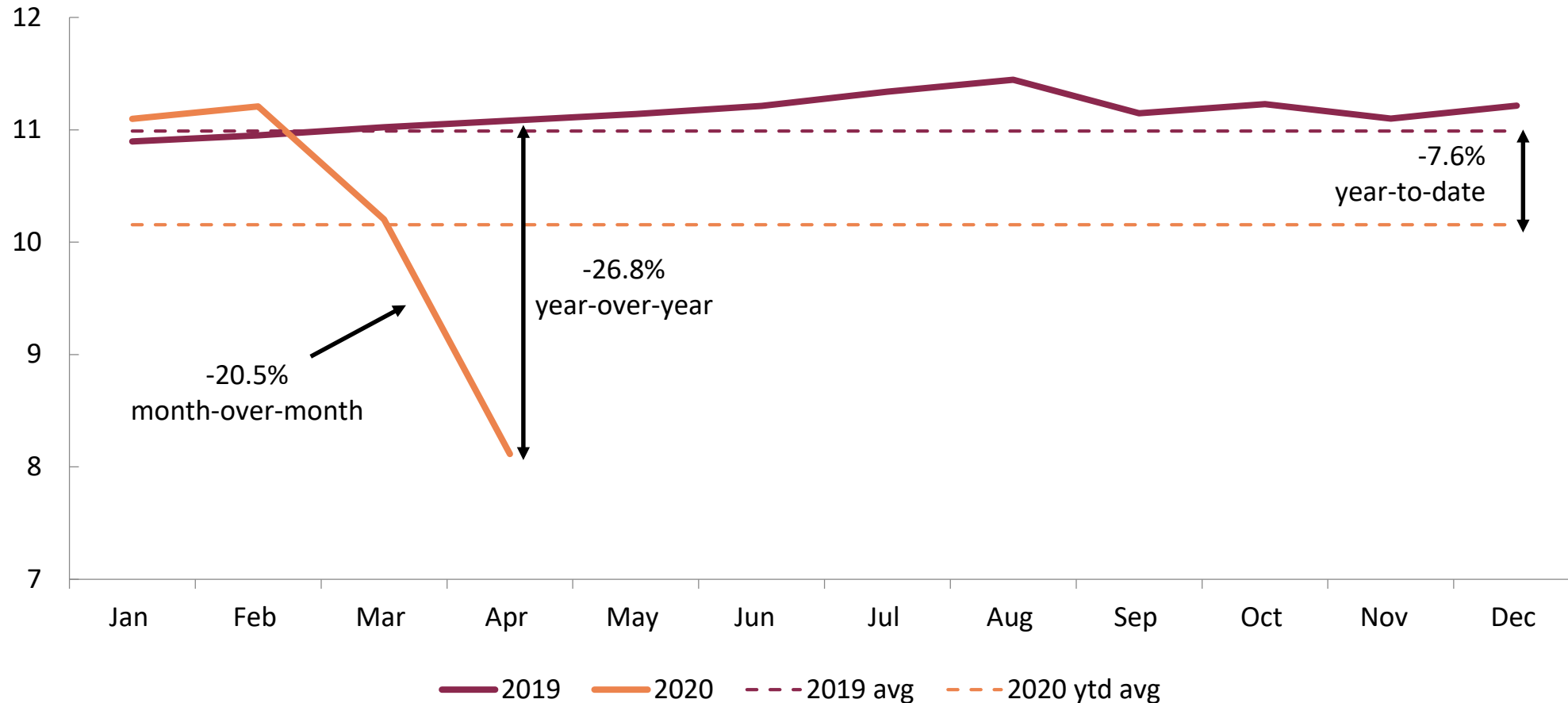
Billions of current dollars



# YEAR-TO-DATE PERFORMANCE, APRIL 2020 DATA

Canada's services exports, year-to-date performance 2020 versus 2019

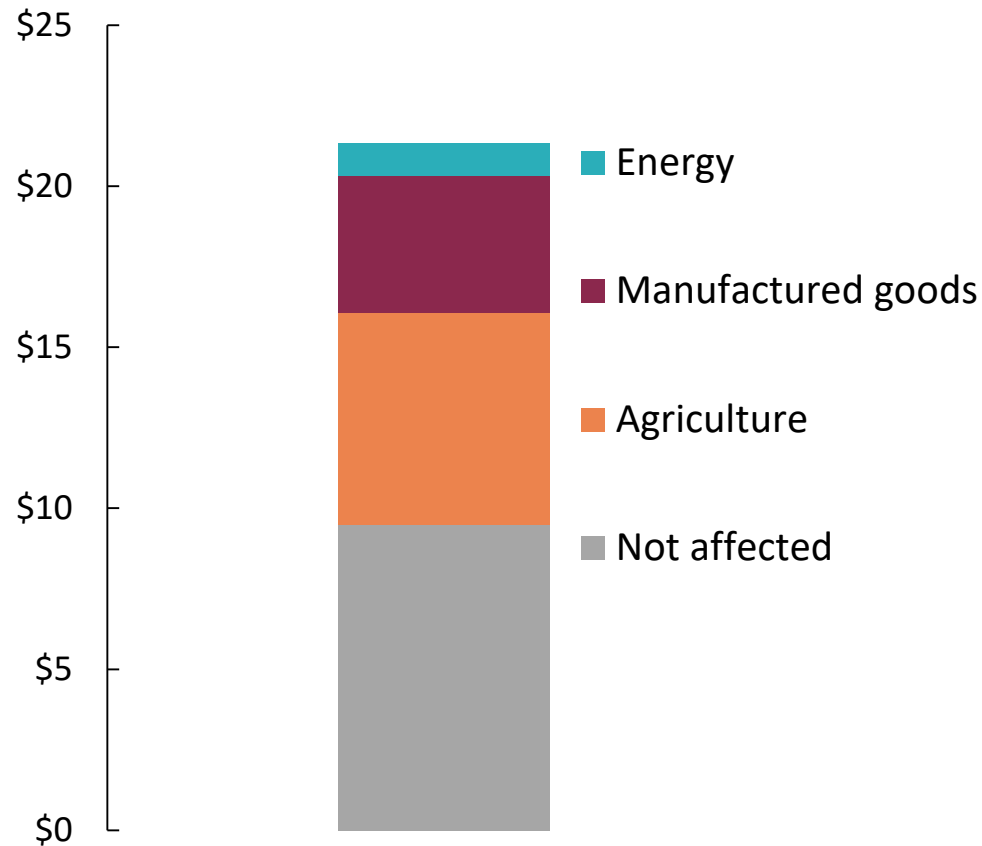
Billions of current dollars



# U.S.-CHINA PHASE 1 DEAL PUTS SOME CANADIAN EXPORTS AT RISK

Canadian goods exports to China, overlap with Phase One Deal

2018, \$ Billions, USD



**\$12B=56% of Canada's goods exports to China fall under Phase 1 deal.**

**Categories most at risk: soybeans, seafood, wood, meat.**

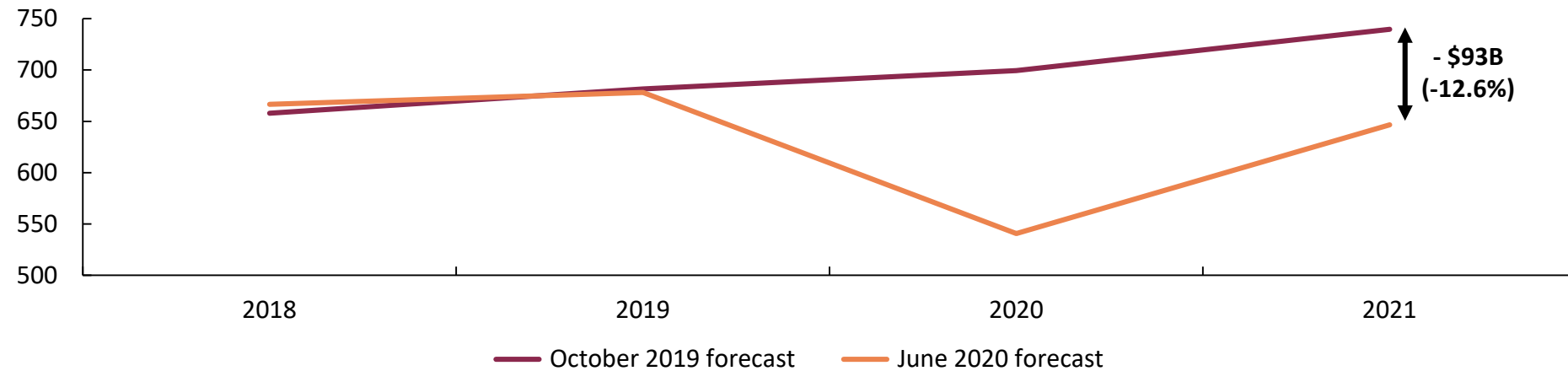
# FORECAST NUMBERS



# EDC'S CANADIAN EXPORT FORECAST

## Canadian export forecast, comparison before COVID-19

Goods and services, billions of current dollars



Nominal, annual % change	2019	2020*	2021*
June 2020 forecast	1.7	-20.3	19.0
October 2019 forecast	3.6	2.6	5.7
Change since last forecast (ppts)	-1.9	-22.9	13.3

Note: \* denotes the forecast period.

Source: EDC Global Export Forecast, June 2020

# CANADIAN EXPORT FORECAST, BY SECTOR

	\$Billions, CAD	Share of Canadian Exports (% of total)	Export Growth (nominal annual % change)		
	2019	2019	2019	2020*	2021*
<b>TOTAL EXPORTS</b>	<b>678</b>	<b>100%</b>	<b>2%</b>	<b>-20%</b>	<b>19%</b>
<b>Total services</b>	<b>133</b>	<b>20%</b>	<b>4%</b>	<b>-18%</b>	<b>23%</b>
<b>Total goods</b>	<b>545</b>	<b>80%</b>	<b>1%</b>	<b>-21%</b>	<b>18%</b>
Advanced technology	21	3%	6%	-16%	22%
Aerospace	19	3%	5%	-35%	6%
Agri-food	75	11%	1%	-8%	6%
Automotive	86	13%	4%	-30%	22%
Chemicals and plastics	47	7%	0%	-11%	8%
Consumer goods	22	3%	3%	-9%	10%
Energy	124	18%	1%	-33%	31%
Forestry products	31	6%	-15%	-16%	12%
Industrial machinery and equipment	32	5%	6%	-17%	18%
Ores and metals	81	12%	3%	-10%	9%
<b>Total goods (excluding energy)</b>	<b>400</b>	<b>59%</b>	<b>1%</b>	<b>-17%</b>	<b>15%</b>
<b>Total goods (excluding energy and autos)</b>	<b>314</b>	<b>46%</b>	<b>1%</b>	<b>-14%</b>	<b>13%</b>

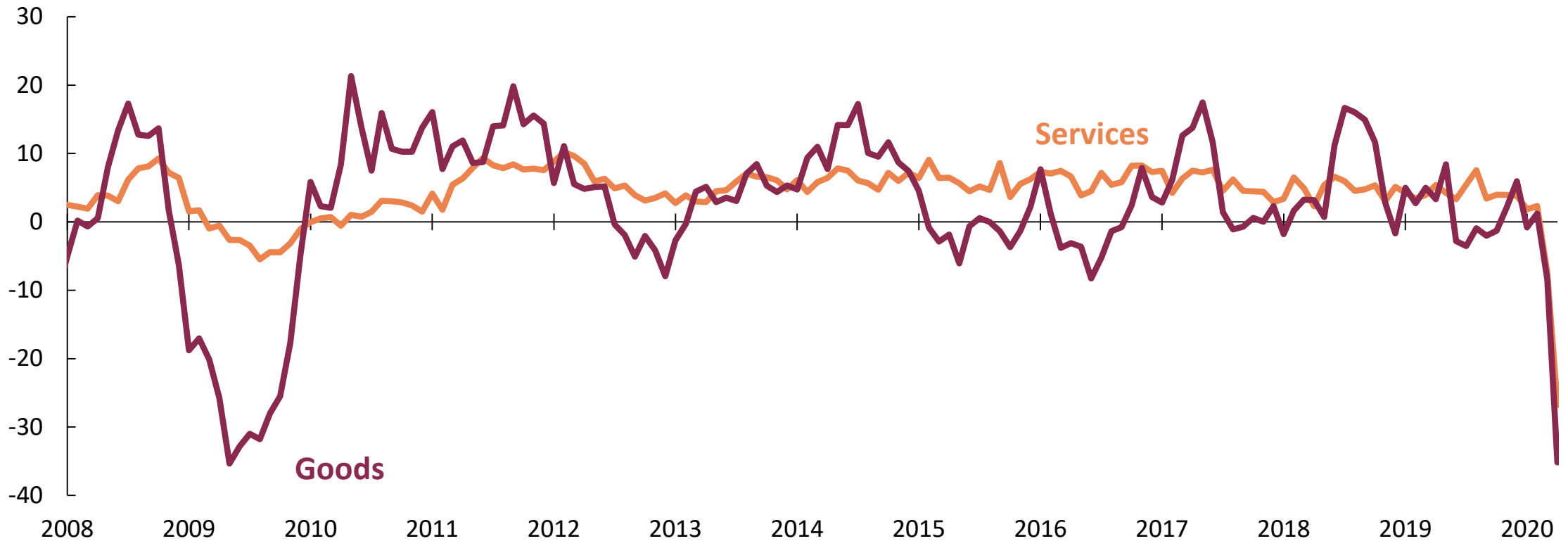
# HISTORICAL CONTEXT



# SERVICES EXPORTS HAVE BEEN HIT MUCH HARDER THAN IN THE GLOBAL FINANCIAL CRISIS

## Goods and services exports

year-over-year % change, nominal monthly data

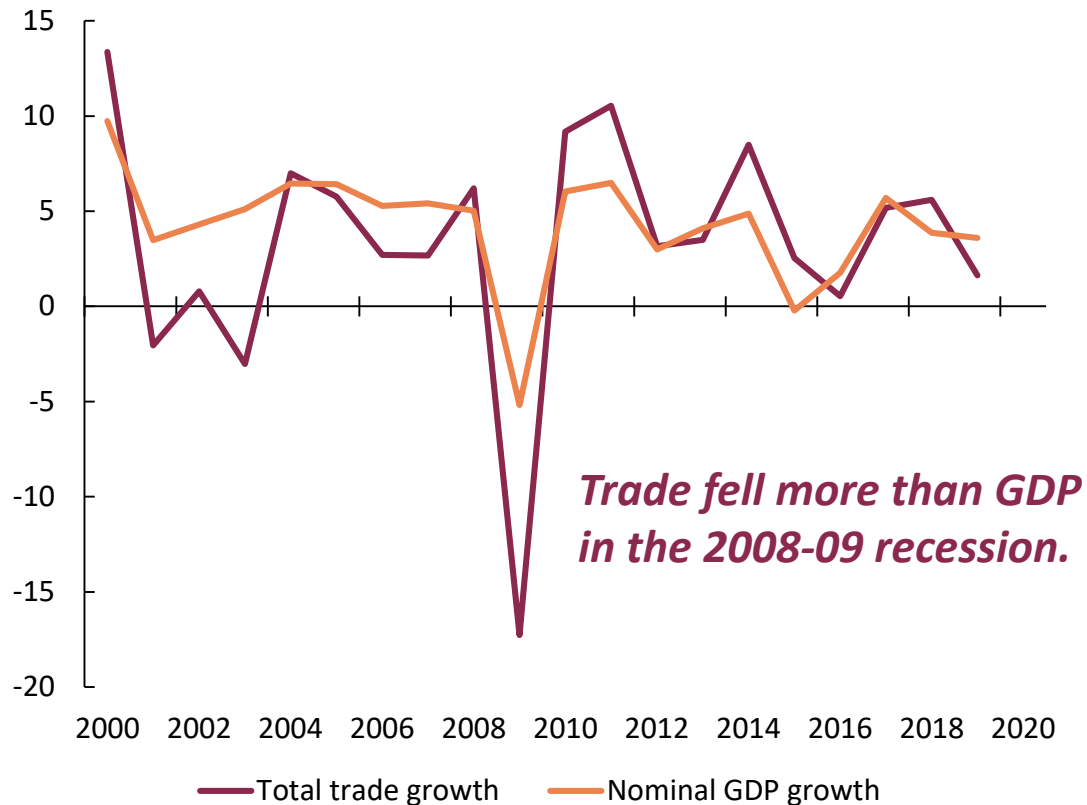




# TRADE AND GDP IMPACTS DURING THE 2008-2009 RECESSION

## Trade and GDP growth

Trade = exports + imports, year-over-year % change, nominal quarterly data



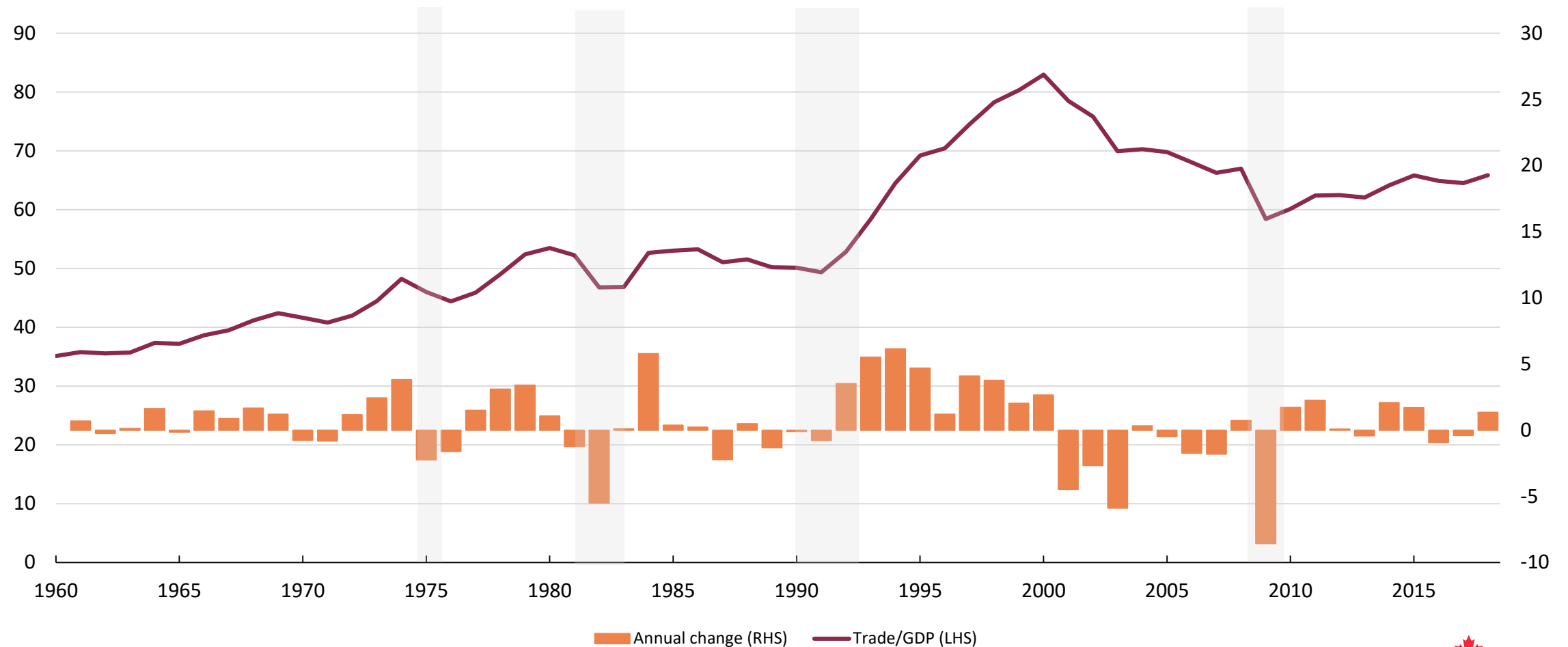
## Trade as a share of GDP

Trade = exports + imports, nominal annual data



# CANADA'S TRADE-TO-GDP RATIO FELL IN THE LAST FOUR RECESSIONS

Canada's trade as a share of GDP, 1960-2018



# SECTOR OUTLOOKS



# EXPORT SECTORS HARDEST HIT BY COVID



**Aerospace**



**Oil**

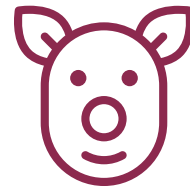


**Autos**



**Travel & transportation  
services**

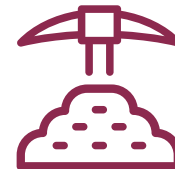
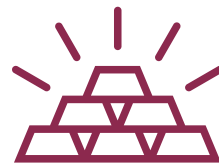
# EXPORT SECTORS WEATHERING THE STORM BEST



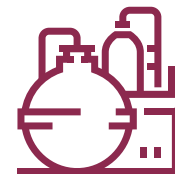
**Agriculture**



**Consumer  
goods**



**Ores and  
metals**



**Chemicals  
and plastics**



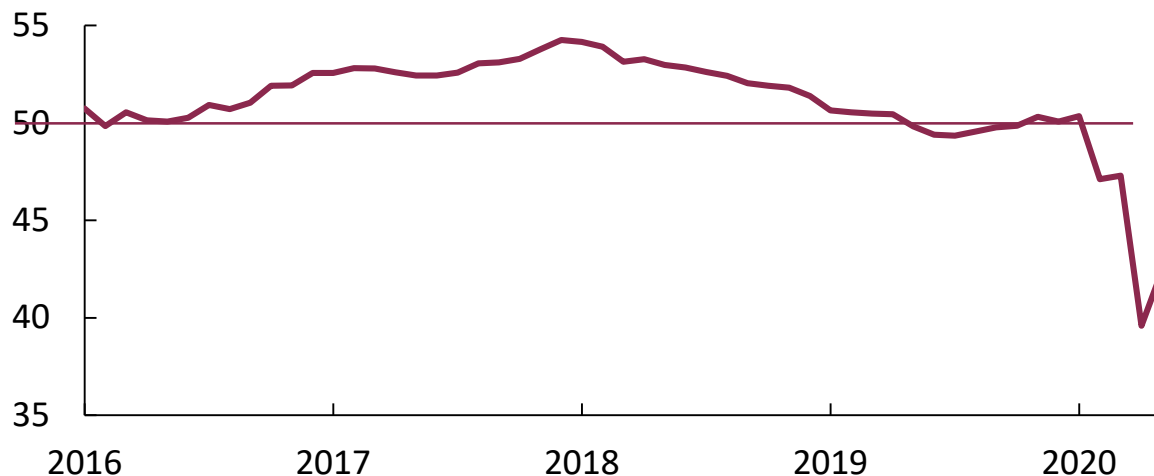
# ADVANCED TECHNOLOGY

Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
6%	-16%	22%	3%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Global purchasing managers are pumping the breaks

JP Morgan Global PMI, 50+ = Expansion



- Much like the rest of the economy, Canada's advanced technology exports will face significant pressure in the short-term, with growth forecast at -16% in 2020, before rebounding by 22% in 2021.
- Growth in advanced technology exports has been historically driven by demand of electronic and electrical equipment and parts. However, reduced global demand due to lockdowns and temporary factory closure in many countries due to COVID-19 has severely reduced demand for products in the advanced technology sector.
- With many countries relaxing containment measures and a broader rebound in economic activity, growth in Canada's advanced technology exports is expected to pick up in the medium-term.

# AEROSPACE

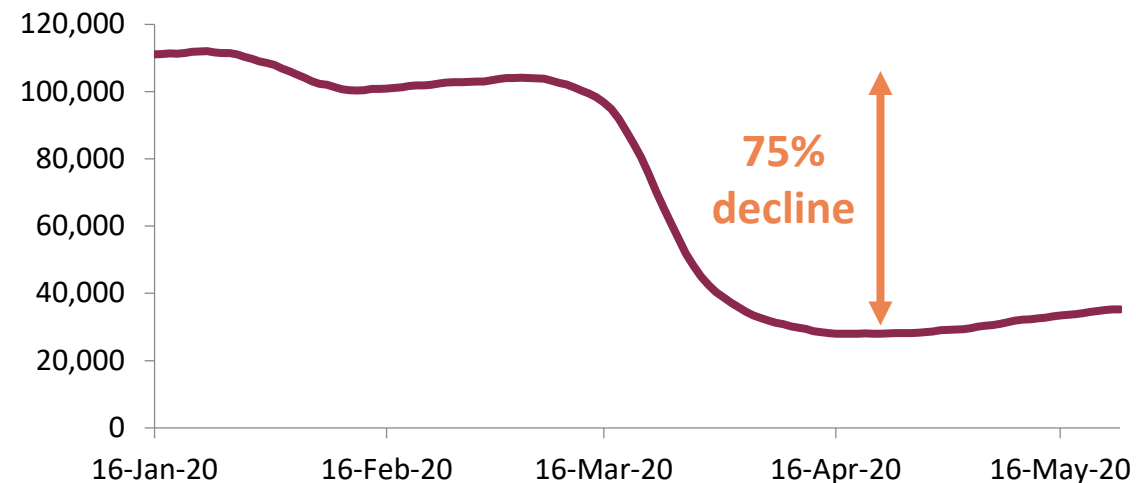


Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
5%	-35%	6%	3%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## International air travel grounded

Weekly global average, active commercial flights



- **Aerospace is expected to be one of the hardest hit export sectors with a contraction of 35% forecast in 2020, with only a very modest pick up of 6% in 2021 from a depressed level of activity.**
- Due to COVID-19, air travel has largely stopped internationally due to border restrictions, and domestically has been reduced to only essential trips.
- Airlines and leasing companies are the key demand driver for commercial aircraft manufacturers and parts suppliers. Roughly two-thirds of the aircraft in service before the crisis are now parked as airlines have sharply reduced capacity.
- Recovery for this sector depends critically on the resumption of air travel, which will be driven by passenger safety concerns around virus containment for leisure travel. A significant portion of international and domestic businesses have adapted to web-based conferencing which may limit future demand for business travel.
- Airlines have the opportunity to re-activate parked fleet or buy used aircraft at auction, rather than take delivery of new aircraft. As such, we anticipate some price discounting by manufacturers to help entice new orders.



# AGRI-FOOD

Nominal export growth			Share of total exports, %	Relative performance**
2019	2020*	2021*		
1%	-8%	6%	10%	<span style="color: green;">●</span>

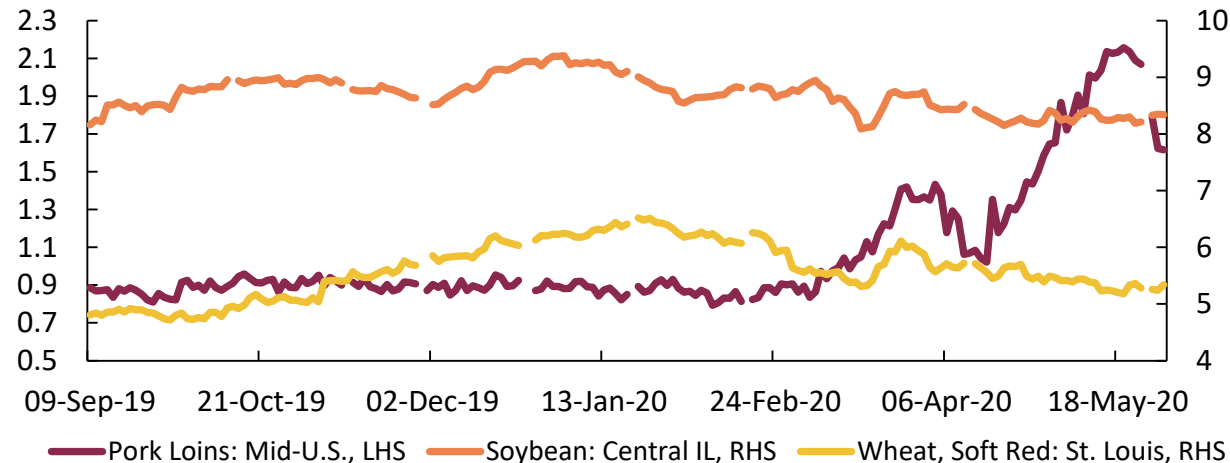
\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Pork prices up, while wheat and soybeans drop

Select cash commodity prices

\$/pound

\$/bushel



- Agri-food exports have endured some disruptions due to COVID-19, but are generally faring better than other sectors.
- The sector has been affected by the reduced economic activity, logistics disruptions affecting retail supply and restaurant closures. Labour shortages are a concern for most primary producers. Localization of consumer spending will allow farms to shift some supply towards domestic consumption.
- While certain products such as processed pork are experiencing an upsurge in prices, in general, prices of agriculture products, including seafood and fertilizers will remain under stress as economies slowly reopen.



# AUTOMOTIVE

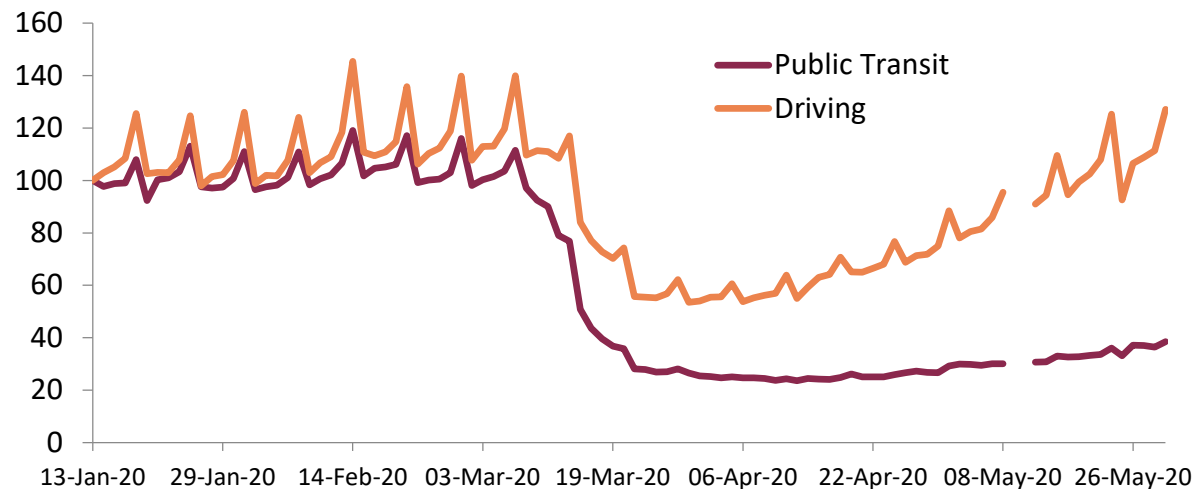


Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
4%	-30%	22%	13%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

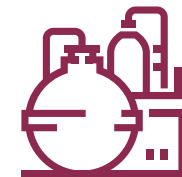
## Driving has started to rebound, but public transit use hasn't

U.S. Apple mobility trends, Index = January 2020



- Auto exports will hit the breaks this year as COVID-19 weighs on consumers' mobility and finances, and challenges manufacturers' balance sheets and complex supply chains. EDC Economics expects a sharp drop, followed by a relatively quick rebound from low levels as economies gradually reopen and contagion fears subside, but a full recovery to the pre-crisis trend will take time.
- If the crisis remains relatively short-lived, non-discretionary vehicle purchases will mostly be delayed, resulting in some pent-up demand. A likely shift in consumer mobility preferences favouring driving over public transit, as well as low borrowing costs and attractive manufacturer incentives—aimed at clearing swelling inventories to make room for new product—may support the recovery.
- Nonetheless, a more robust recovery to the pre-crisis trend is unlikely before at least 2022. Many consumers will remain cautious to buy big-ticket items, even as the labour market recovers, and lower prices for more affordable used cars are a further headwind. Longstanding challenges facing Canada's automotive sector are likely to be compounded by the pandemic, given increased uncertainty and heightened risks regarding the location of future production.

# CHEMICALS AND PLASTICS

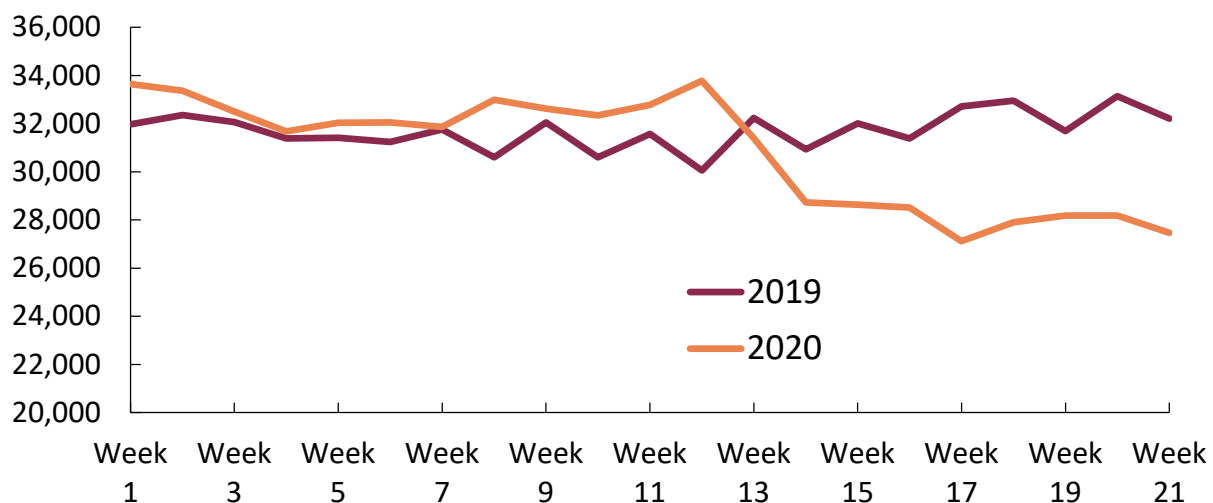


Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
0%	-11%	8%	7%	<span style="color: green;">●</span>

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## U.S. shipments of chemical products have fallen

Weeks following Jan. 5, 2020, units



- Demand for chemicals, petrochemicals, plastics and rubbers is expected to be weak in the near term as the pandemic has severely impacted some key demand drivers, namely the automotive and construction sectors. The speed of recovery in the U.S. market is a key determinant of the outlook for this sector.
- On the supply side, feedstock prices fell significantly due to plunging oil prices. Producers are adjusting to market turbulence by cutting investment, which will have a medium-term impact.
- Packaging materials are potential bright spot, which have seen volume increases as contamination prevention raises demands for plastic packaging for food, personal care and medical products.
- Another potential boost comes from pharmaceuticals and medicinal products where demand for over-the-counter drugs increased in the lockdowns due to stockpiling. However, this growth is tapered by postponements of non-urgent treatments, and delays in both research and development as well as new product launches.



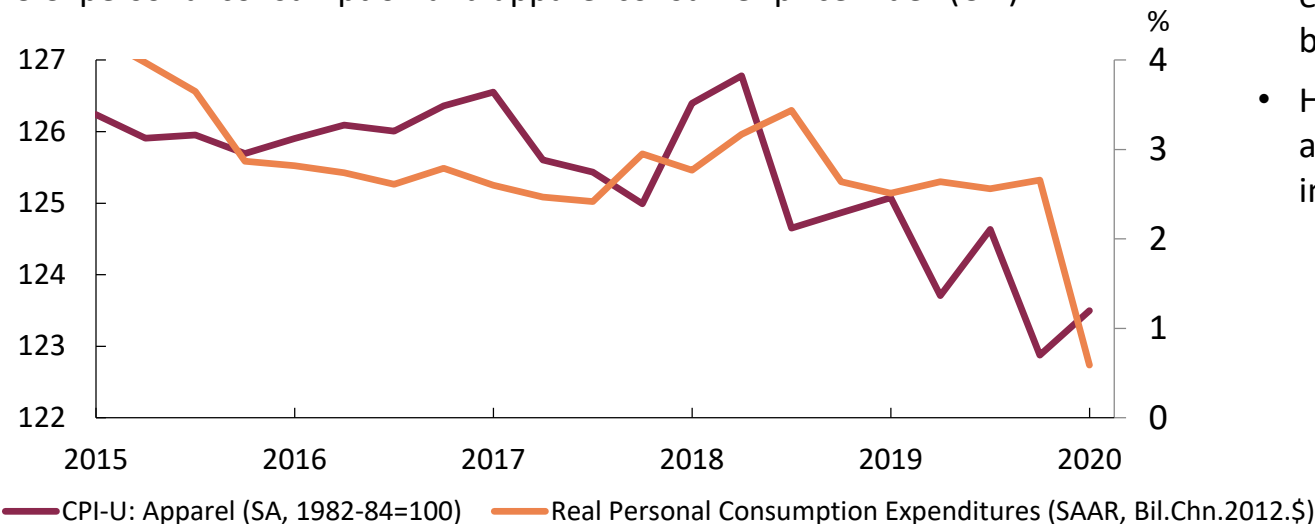
# CONSUMER GOODS

Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
3%	-9%	10%	3%	<span style="color: green;">●</span>

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Personal consumption drops; clothes prices may follow

U.S. personal consumption and apparel consumer price index (CPI)



- In recent years, consumer goods exports have posted moderate gains, supported by strong U.S. housing starts, U.S. consumer spending and a competitive Canadian dollar. Consumer goods exports are forecast to hold up better than overall exports, falling by roughly 10% this year, but enjoying a similar rebound next year.
- The impact of COVID-19 has restrained both supply and demand. With more than 80% of consumer goods exports headed to the U.S., supply chain disruptions, contracting U.S. GDP growth alongside weakened consumer confidence, will result in lower exports in 2020. Luxury apparel and jewelry exports are expected to be hardest hit.
- Housing-related exports, such as furniture, fixtures and appliances are expected to see a strong recovery in 2021 driven by a rebound in U.S. housing starts and the broader economy.

# ENERGY

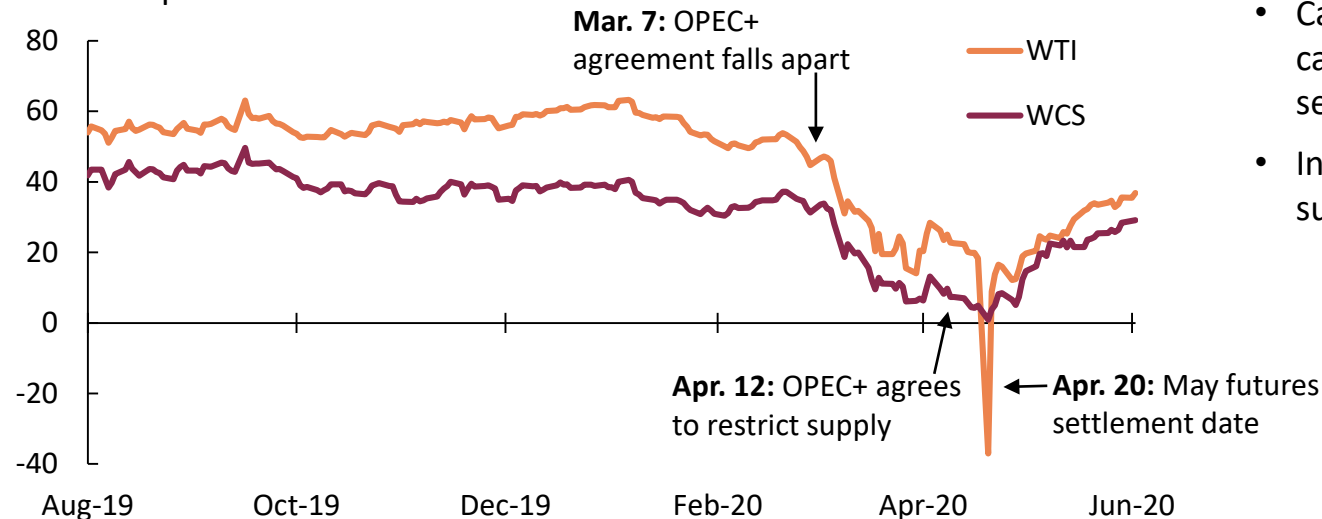


Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
1%	-33%	31%	18%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Global oil prices on the rebound, but expected to remain weak

Crude oil prices and select events



- COVID-19 has resulted in a historic collapse in energy demand at the same time as a price war temporary broke out in March and April, which further sank global prices. EDC Economics forecasts a significant decline in Canada's energy exports in 2020, falling by roughly one-third. As demand recovers, exports are expected to rebound smartly by more than 30% in 2021.
- Due to weak demand and low energy prices, Canadian energy production has fallen by more than one million barrels per day, or roughly one-quarter of Canadian output.
- Canadian energy companies have already announced significant capital spending cuts for 2020, which will negatively impact the sector's future capacity.
- In the medium-term, additional pipeline capacity is expected to support stronger energy sector growth.

# FORESTRY

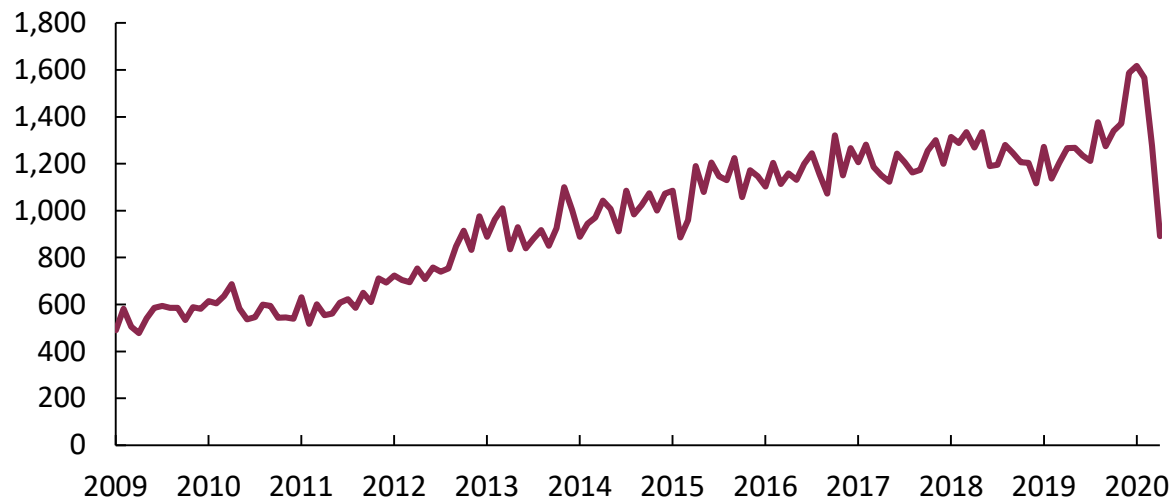


Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
-15%	-16%	12%	5%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## U.S housing starts have slumped during COVID-19

Thousands



- The forestry sector relies heavily on the U.S housing market, which has been negatively impacted by the pandemic. Growth in forestry exports is forecasted to continue to fall, by an additional 16% in 2020, before improving by 12% in 2021.
- Although lumber exports will fall this year as a result of weak U.S. demand and depressed supplier prices, low interest rates and demographic trends should see housing starts begin to recover next year.
- The outlook for pulp and paper is mixed: Greater demand for tissue, e-commerce packaging and medical supplies will partly offset the slump in demand for paper.

# INDUSTRIAL MACHINERY AND EQUIPMENT

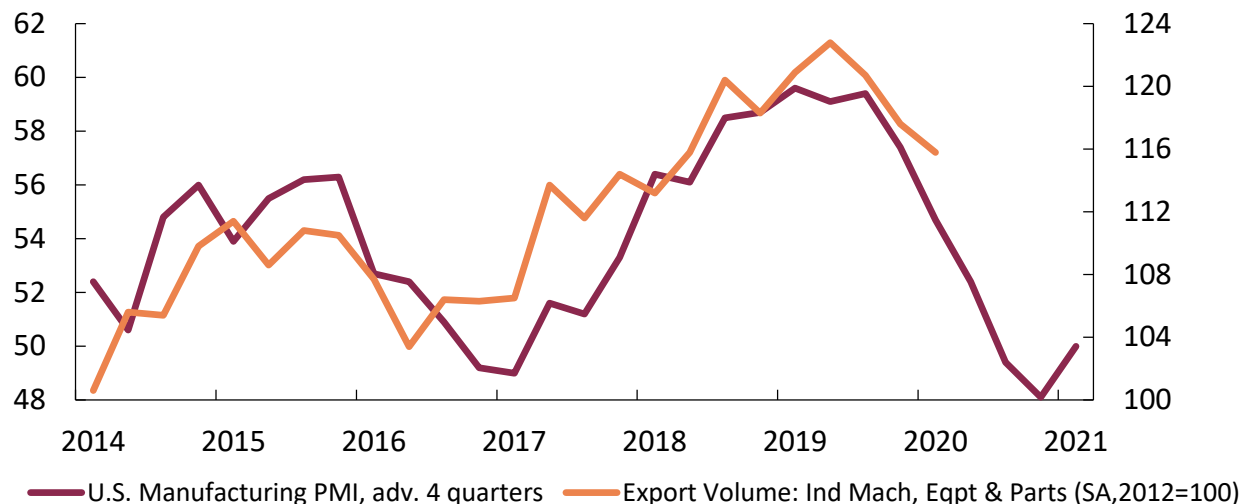


Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
6%	-17%	18%	5%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Machinery and equipment exports likely to dive

Based on purchasing manager index trends



- Industrial machinery and equipment (M&E) is closely tied to the fortunes of the U.S. and global business investment cycle. As such, the COVID-19 pandemic will hit M&E exports this year, but a recovery is expected for 2021.
- Following three years of solid growth, M&E exports will fall in 2020 as the COVID-19 pandemic severely reduces demand and profitability. As employee health concerns take centre stage in the production process, businesses are facing higher operating costs and staffing challenges. As a result, many businesses will be delaying large capital spending as they're pushed into capital conservation mode.
- As economies gradually reopen and demand bounces back, a sharp recovery is expected to boost non-residential investment spending back to pre-crisis levels in 2021. In part, the recovery will be fuelled by pent-up capital spending needs. As consumption and work patterns are shifting in profound ways, companies will also need to adapt quickly and are likely to increase capital investments in new technologies, automation, and related infrastructure to remain competitive in the new economy.

# ORES AND METALS



Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
3%	-10%	9%	12%	<span style="color: green;">●</span>

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Reaching new high amid increased global uncertainty

Gold-to-copper price ratio



- Canadian exports of ores and metals are expected to be negatively impacted by the COVID-19 outbreak, which is creating downward pressures on activity.
- Global manufacturing is a key driver of demand for ores and metals. The sharp deterioration in economic conditions triggered by COVID has reduced demand for ores and metals. Isolated supply disruptions for various metals are unlikely to totally offset the fall in global demand.
- On the contrary, gold exports are benefitting from the extremely high uncertainty and risk aversion that is driving investors to this safe-haven asset, which will help offset part of the sector's deterioration.
- The path of recovery depends on the speed at which mitigation measures are lifted and manufacturing activity restarts.

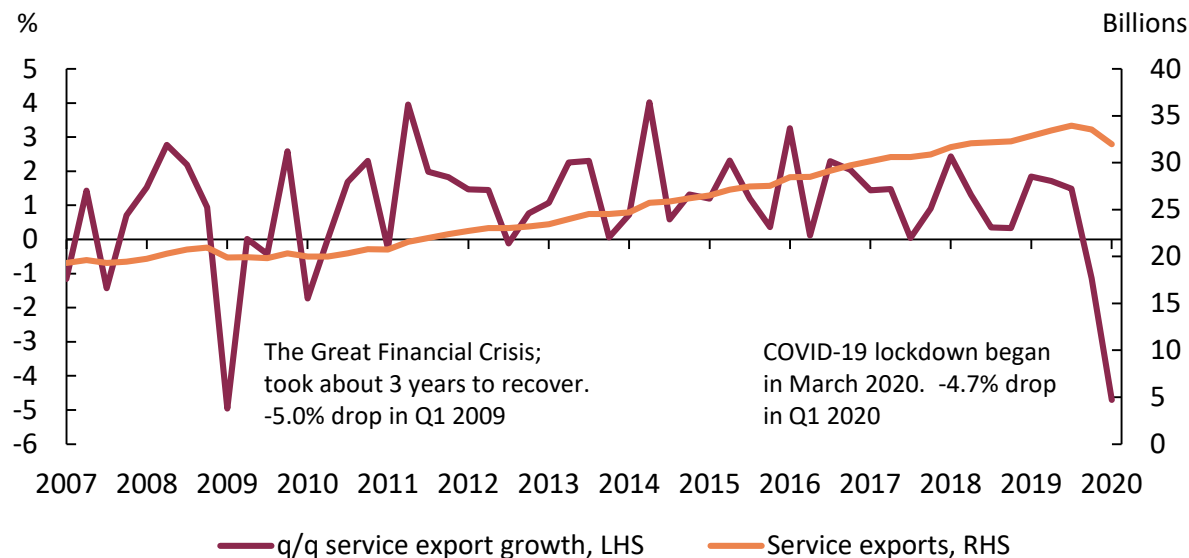


# SERVICES

Nominal export growth				
2019	2020*	2021*	Share of total exports, %	Relative performance**
4%	-18%	23%	20%	●

\*forecast; \*\*relative to Canada's overall exports: green=better; yellow= similar; red= worse.

## Service exports plunge in first-quarter



- For decades, service exports have been resilient and outpacing goods exports, however, the pandemic poses the biggest threat in a long time.
- Travel and transportation will be the hardest hit components, due to the border closings. The U.S. is Canada's largest trading partner and the border is not yet open for non-essential trips. Demand from Asia and Europe will not return quickly as people are less likely to take long-haul flights due to concern about the coronavirus. Reopening of the U.S. economy will help a partial recovery of transportation services for goods shipments.
- Financial services exports maybe impacted by market turbulence in trading and investment, but have generally held up well.
- Professional services will see mix results; some service providers will see increased demand, especially for information and technology services. Meanwhile, services providers for mass entertainment, concerts, and movie productions will be impacted due to delay in demands or project cancelation.
- The recovery trajectory for service exports may mimic the path post-2008, with substantial uncertainty lingering due to the potential second-wave of infections.



# KEY ASSUMPTIONS

**Given rapidly changing global events, there's a much higher-than-usual degree of uncertainty around this forecast, which incorporates information available as of June 5, 2020.**

## COVID-19

The base case forecast assumes that necessary social distancing measures currently being taken by affected countries will be effective at curtailing the spread of the virus. As such, the forecast assumes strict containment measures will begin to ease gradually in a phased-in approach by most countries throughout the remainder of 2020.

## China-United States trade dispute

The forecast assumes the Phase One trade agreement signed in January 2020 remains in place over the near-term. Moreover, given the accumulating negative economic impacts of the tariffs, both parties are assumed to reach a more meaningful resolution after the U.S. election, which by mid-2021, removes a significant percentage of the tariffs imposed since 2017.

## Oil

Despite an unprecedented agreement on April 12 among 23 countries to restrict OPEC+ production, supply will greatly exceed global oil demand through the first half of 2020. The forecast incorporates a gradual rebalancing of the market, but has a lower global oil price relative to our previous forecasts due to the buildup of oil in storage during the first half of 2020 as economies entered lockdown periods.

## Brexit

The forecast assumes the United Kingdom and European Union eventually agree on an orderly transition, based upon a comprehensive trade agreement, which includes essentially “free trade” on most goods and services traded between the EU and U.K. However, we assume that COVID-19 will result in the current “status quo” persisting into the medium-term.

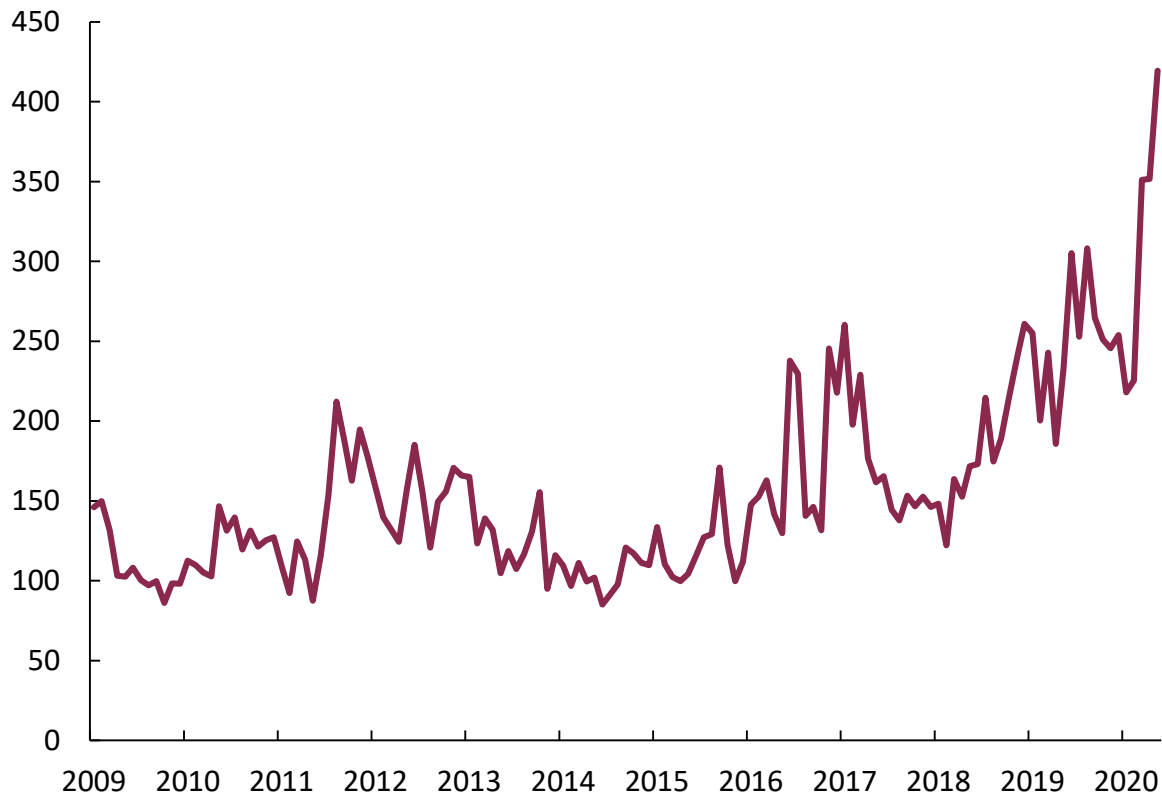
## U.S. 2020 election

The forecast for the U.S. economy is based on long-term fundamentals and policies currently in place. Any updated policies coming from the presidential election, to be held in November 2020, will be incorporated after enacting legislation is passed.

# UNCERTAINTY AND RISKS

## Economic Policy Uncertainty Index

Mean = 100



**Measures of global economic uncertainty have reached all-time highs during the COVID-19 pandemic.**

- There's an exceptionally-high degree of uncertainty around this forecast, due to the severity and spread of the pandemic, its interdependence on containment efforts (which have had sudden, widespread economic impacts), as well as the scale and efficacy of unprecedented policy responses.
- This report represents EDC's base case economic forecast, as of June 5, 2020, and is based on assumptions described above. There are significant risks to this base case, both to the upside and the downside. Future forecast updates will present alternative plausible scenarios.

# DISCLOSURE

Ce document est également disponible en français.

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