COVID-19

CANADA'S GOODS EXPORTS AND COVID-19

Despite a decline of $74 billion in 2020, commercial goods exports have recovered at record speed

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EDC Economics

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The economic shock from the COVID-19 pandemic and subsequent travel restrictions and lockdowns has affected all sectors of the Canadian economy, all regions of the country and was an unquestionably difficult time for exporters.

The abrupt halt in global mobility at the outset of the pandemic hit energy exporters hard and led to Canadian goods exports posting a 23% drop in the second quarter of 2020, compared to the beginning of the year.

Despite this tumultuous time, Canadian goods exports has experienced a remarkable and dramatic recovery, with results growing sharply in the third and fourth quarters of 2020. As a result, Canada ended 2020 with a 12.3% decline in goods exports—far lower than the 24.6% drop during the economic crisis in 2009. The fact that non-energy goods exports led Canada's recovery in 2020 is especially important and is a result of the ongoing efforts by Canadian exporters to diversify and expand their global footprint over the past two decades.

KEY TAKEAWAYS

- In 2020, Canadian goods exports in nominal terms, were down by nearly $74 billion—12.3% compared to 2019. Despite these losses—especially for energy exports—the size and speed of Canada's goods exports recovery in 2020 set it apart from previous economic downturns in this century.

- Canada's goods exports in 2020 didn't face a protracted depression and they recovered on par with, or faster than, most advanced economies.

CANADIAN GOODS EXPORTS DEMONSTRATED A SURPRISING DEGREE OF RESILIENCE IN 2020, BUCKING EXPECTATIONS OF A DEEP AND DRAWN-OUT COLLAPSE. THIS RESULT WAS LIKELY RELATED TO FOUR MAIN FACTORS:

1. After a dramatic decline in Q2 2020, consumer and industrial spending started recovering quickly across Canada's key export markets in Q3, as the initial lockdowns were relaxed.

2. Prompt monetary and fiscal policy actions stemmed the hemorrhage caused by the pandemic and helped to ensure access to short-term finance and trade credit continued for most exporters.

3. The United States and China are Canada's two most important export markets. China emerged from its first wave of COVID-19 cases just as North American and European countries started going into lockdowns. China's ability to restart its economic activity proved to be critical for Canadian trade.

4. U.S. and Chinese demand for agricultural and mining products fuelled growth for Canadian non-energy goods exports and counteracted the damage inflicted by the deep initial slump in demand for Canadian energy.

THE PANDEMIC AMPLIFIED SOME EXISTING TRENDS WHILE DISRUPTING OTHERS.

- Canadian agricultural and mining sectors stood out, and as star performers further strengthened the case for Canada to invest in these sectors' longer-term export capacity

- Canada's increasing share of exports to China was timely. Despite divergent views, Canada continues to prioritize its relationship with China, however, with the following imperatives in mind:

1. Continue to seek avenues to expand and enhance trade for Canadian companies looking to grow their business in China.

2. Supporting Canadian companies in their broader diversification efforts.

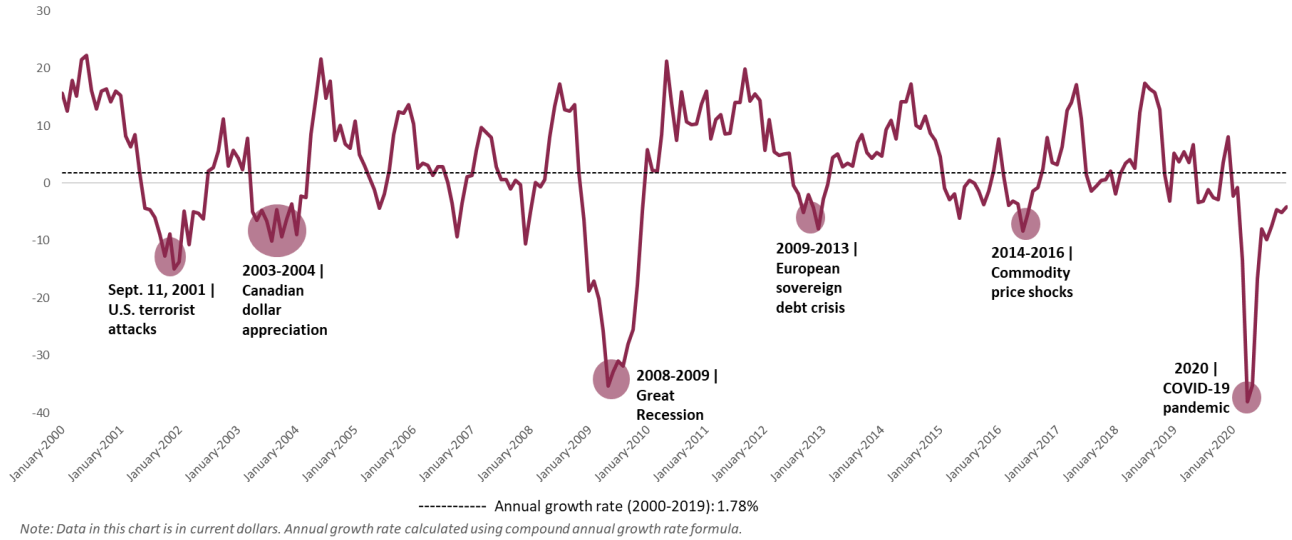
Between February and April 2020, in the initial phase of the COVID-19 lockdowns, the value of Canada's goods exports fell by $26.6 billion[1] (an 18% decline compared to the same period in 2019). However, by the end of the year, goods exports had bounced back strongly, and were only 12.3% below pre-COVID-19 levels.

In 2020, Canadian goods exports in nominal terms, were down by nearly $74 billion, or 12.3% compared to 2019. In chained-dollar values (i.e., when exports are adjusted for inflation and other currency changes to enable better comparison of values over years), Canadian exports dropped by $42 billion[2] or 7.8% relative to 2019 levels. This steep drop in goods exports reversed a decade-long trend of gains. Despite these losses, the size and speed of Canada's goods export recovery in 2020 set it apart from previous economic downturns in this century. What makes it remarkable is the fact that non-energy goods led this recovery, even as oil and gas exports posted a deep decline for the year.

In order to truly appreciate the dramatic fall and recovery of Canada's goods exports over the past year, it's useful to place this in a historical context.

A quick overview of exports data over the past 20 years reveals that Canada's goods exports have had an uneven and choppy growth. **(Figure 1)** They've also had a very sluggish growth path overall: Between 2000 and 2019, Canadian goods exports averaged 1.8%[3] in annual growth rates.

Figure 1. Canada's monthly goods exports: 2000-2020
(Year-to-year % change, seasonally adjusted)



Note: Data in this chart is in current dollars. Annual growth rate calculated using compound annual growth rate formula.

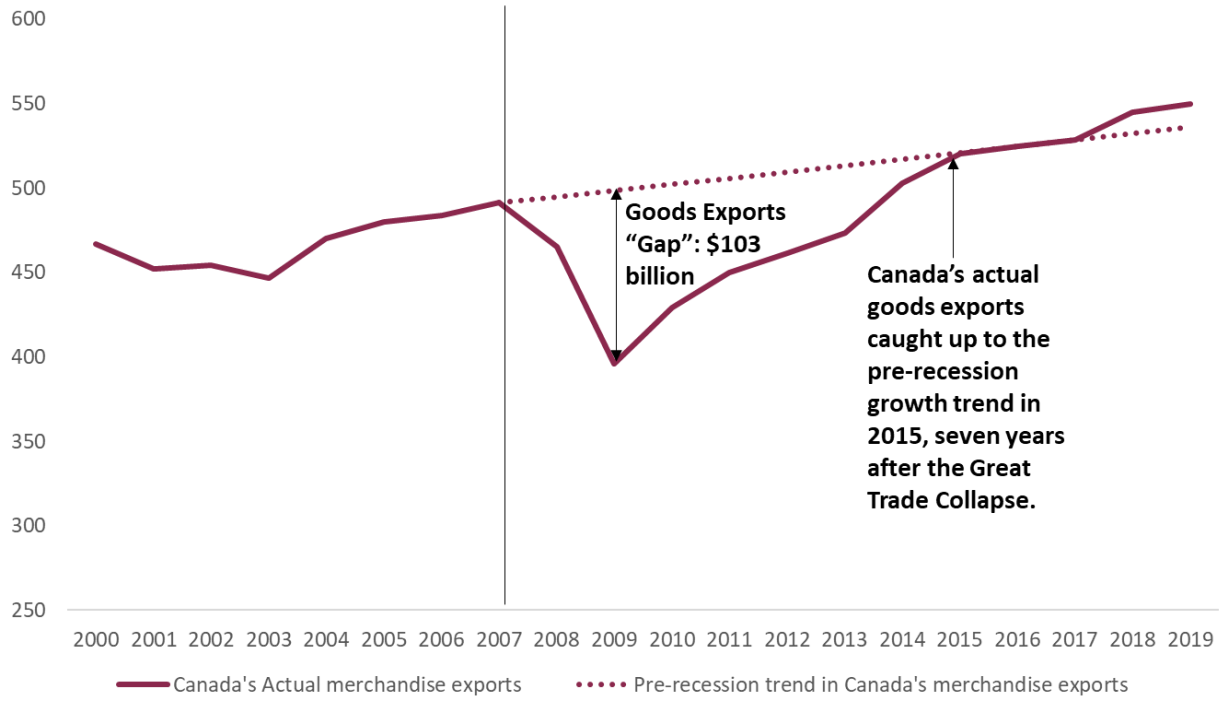
Sources for Figure 1: EDC Economics, Statistics Canada, Haver Analytics

Given Canada's reliance on energy exports, oil price fluctuations have significantly contributed to the volatility of Canadian goods exports. Despite these regular fluctuations, three periods over the past 20 years stand out in terms of their impact:

1. The 2001 recession and subsequent Canadian dollar appreciation during a time of rising global commodity prices;
2. 2008-2009 Great Recession; and
3. the 2020 COVID-19 pandemic.

Of these three, the Great Trade Collapse of 2008-2009 was particularly poignant as it set Canada's goods trade back by several years. Between 2000 and 2007, Canada's goods exports grew at an average annual rate of 1.6%[4]. The 2008 recession significantly dampened this growth. A simple calculation comparing Canada's actual merchandise exports against the pre-recession growth path **(the dotted line in Figure 2)** suggests that it took nearly seven years for Canadian goods exports to catch up to pre-recessionary trends.

Figure 2. Canada's real goods exports – actual versus pre-recession trend: 2000-2019
(CAD billions)



Note: Pre-recession trend exports estimation is based on a simple compound annual growth rate (CAGR) calculation. We estimate the growth path for Canadian goods exports from 2008-2019 using 2000-2007 CAGR.

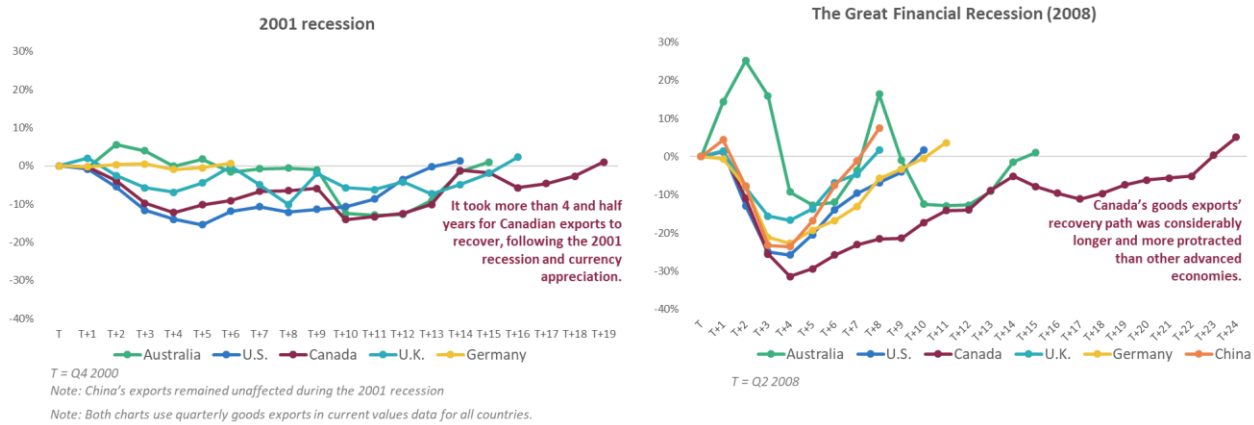
Sources for Figure 2: EDC Economics, Statistics Canada, Haver Analytics

Canada's goods exports recoveries in the aftermath of the 2001 and 2008 recessions were even more drawn out when compared to other advanced economies' goods exports during the same period. **(Figure 3)** Following the 2001 recession, it took nearly five years for Canadian goods exports to fully recover, much longer than other advanced economies—though this may have been partially exacerbated by a significant Canadian dollar appreciation during a period of rapidly rising global commodity prices. The 2008 Great Recession presents an even more grim picture of the differences in recovery times between Canada and other advanced economies. It took nearly six years after

2008 for Canadian goods exports to fully recover to pre-recession export levels. This is three years longer than Germany and the U.S., two countries that had arguably borne the brunt of the recession.

During both times, Canadian goods exports were held back by weak global oil prices and aggregate foreign demand. Germany and the U.S., on the other hand, had access to more diversified export markets and product mix, which aided their faster export recoveries.

Figure 3. Quarterly goods export growth following each recession
(Change from start of recession, seasonally adjusted)

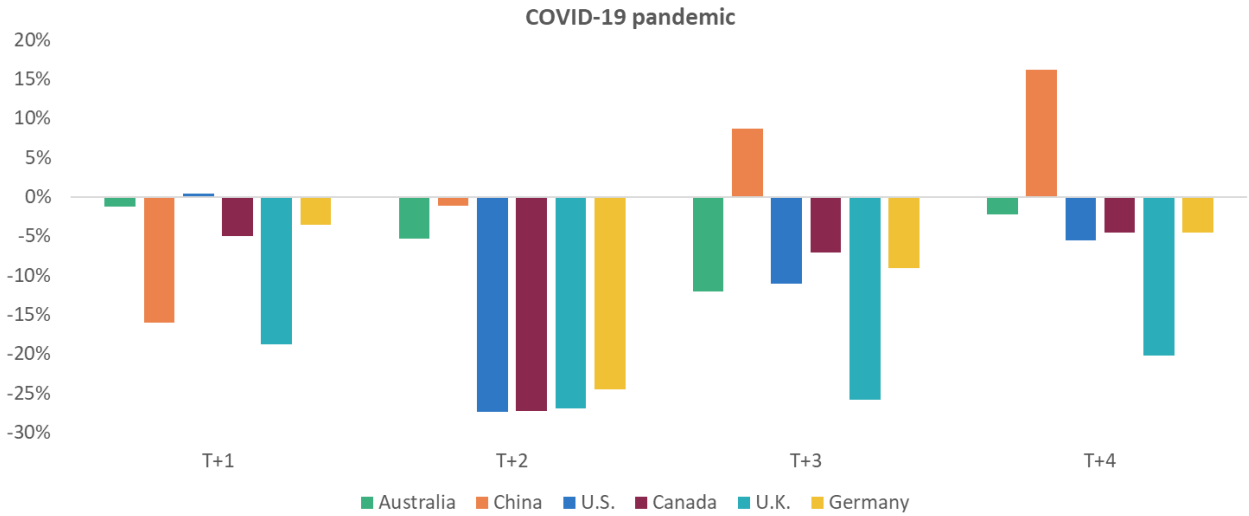


Sources for Figure 3: EDC Economics, General Administration of Customs (China), Australian Bureau of Statistics, Deutsche Bundesbank, Office for National Statistics (U.K.), Census Bureau (U.S.), Statistics Canada, Haver Analytics

Given these trends, it was natural to expect that Canadian goods exports were in for a deep and continued decline in 2020. Yet, reality bucked expectation.

Canadian goods exports did drop precipitously in the second quarter of 2020—a 27% decline compared to the fourth quarter of 2019. Yet, by the third quarter of 2020, goods exports had posted a partial recovery and registered only a 7% decline compared to the fourth quarter of 2019. **(Figure 4)** By the end of 2020, Canadian goods exports had dropped 12.3% compared to 2019.

Figure 4. Quarterly goods export growth
(Change from Q4 2019, seasonally adjusted)



T = Q4 2019

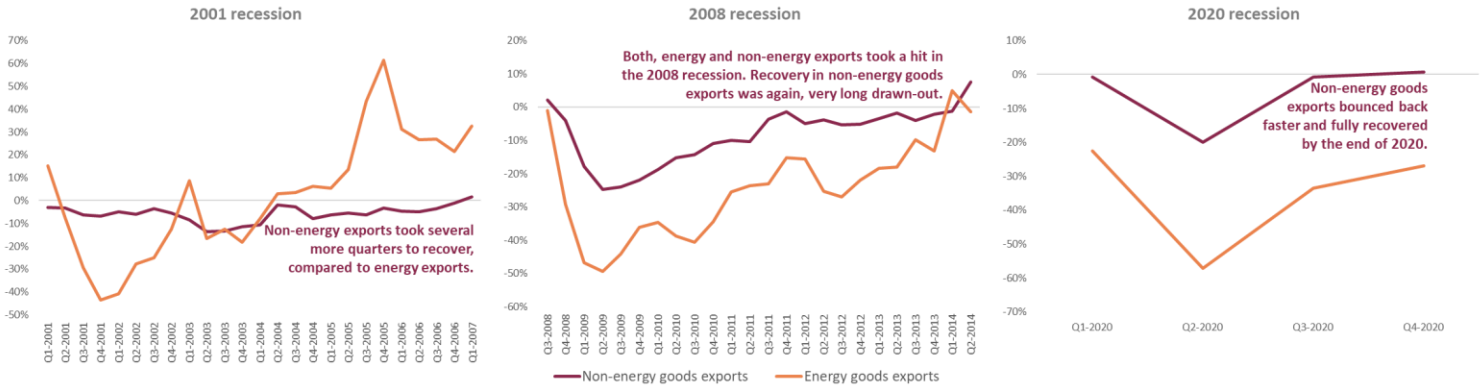
Note: The chart uses quarterly goods exports in current values data for all countries.

Sources for Figure 4: EDC Economics, General Administration of Customs (China), Australian Bureau of Statistics, Deutsche Bundesbank, Office for National Statistics (U.K.), Census Bureau (U.S.), Statistics Canada, Haver Analytics

This trajectory is remarkable in a few ways:

1. Goods exports began their recovery quickly: Within two months in 2020, compared with four quarters following the 2001 and 2008 recessions.
2. The third-quarter recovery of goods exports was orders of magnitude larger than previous recessions—fuelled by pent-up spending that released after being suppressed in the initial lockdowns. In 2001 and 2008, in the first quarter following the deepest point of decline, goods exports recovered by a mere two percentage points. In 2020, by the third quarter, goods exports had recovered by nearly 20 percentage points.
3. Typically, during recessions, Canadian goods exports tend to experience the deepest declines and the slowest recoveries, when compared to other advanced economies. Yet, in 2020, Canadian goods exports didn't face a protracted depression and recovered faster or at par with most advanced economies.
4. Canadian goods exports recovered despite the deep and sustained decline in international oil markets. By all accounts, 2020 was a dismal year for Canadian energy exports, but overall, Canadian goods exports were buoyed by non-energy exports and held up remarkably well in 2020. **(Figure 5)**

Figure 5. Quarterly energy and non-energy goods export growth
(Change from start of each recession, seasonally adjusted)



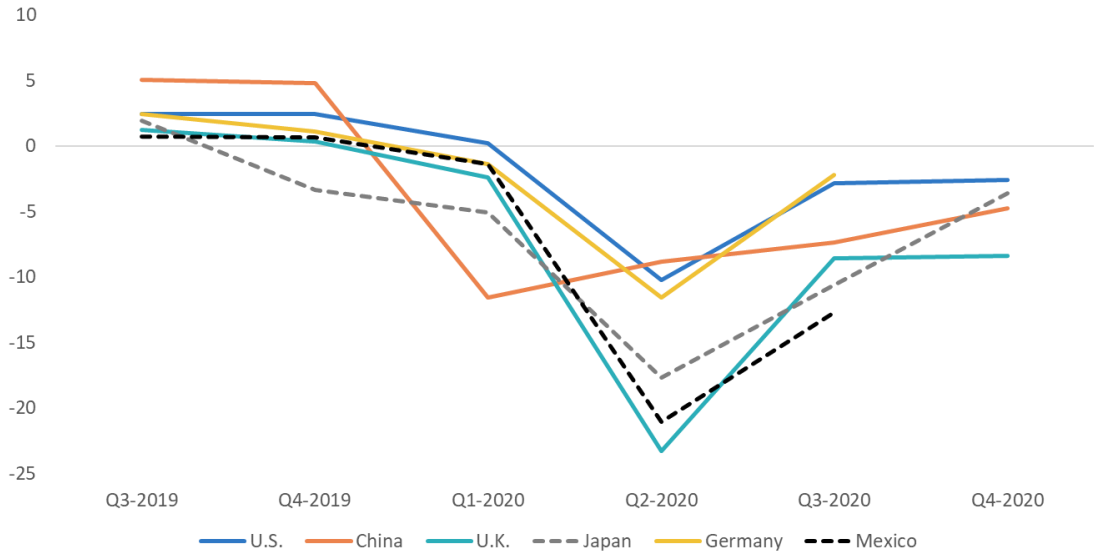
Note: All three charts use quarterly energy and non- energy goods exports in current values data.

Sources for Figure 5: EDC Economics, Statistics Canada, Haver Analytics

At the start of the pandemic, economists and policy-makers feared the worst, expecting a repeat of the 2008-2009 Great Trade Collapse. Why did Canadian goods exports demonstrate such a surprising degree of resilience?

There are four major differences between 2008 and 2020. First, a broad-based fall in aggregate demand[5] was one of the main contributors to the Great Trade Collapse of 2008-2009. In 2020, the economic losses were concentrated within "high-contact" sectors such as restaurants, brick-and-mortar retail, energy and travel segments. Other sectors of the economy were less affected, benefiting from unprecedented and broad policy support; while others such as high-tech grew rapidly during the pandemic. As a result, following an initial drop in the second quarter of 2020, there was a distinct uptick in consumer spending across Canada's key export markets. **(Figure 6)**

Figure 6. Real consumer expenditures across Canada's key export markets
(Year-to-year % change, seasonally adjusted)

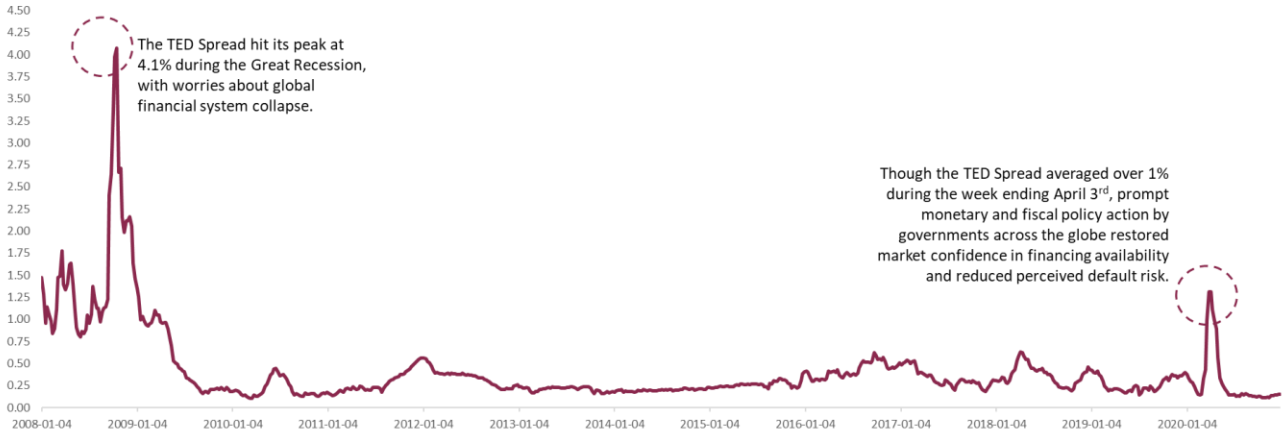


Sources for Figure 6: EDC Economics, Bureau of Economic Analysis (U.S.), China National Bureau of Statistics, Office for National Statistics (U.K.), Bank of Japan, Federal Statistical Office (Germany), Instituto Nacional de Estadística Geografía e Informática, Haver Analytics

A sudden drop in trade finance activity was a key contributing factor to the Great Trade Collapse in 2008[6]. In mid-March, immediately following the World Health Organization (WHO) declaring a global pandemic, businesses were fraught with concerns about a sudden halt in economic activity, especially international trade. But unlike the 2008 recession—or perhaps, learning lessons from the deeply scarring impacts of the freeze in credit markets—governments and central banks sprang into action, enacting a series of monetary and fiscal policy measures to stem the hemorrhage caused by the pandemic.

These supports prevented a complete collapse in business and consumer confidence in the global economy, as evidenced by the relatively low Treasury-Eurodollar rate spread (TED spread)[7] —a key measure of short-term financing availability and credit default risk. **(Figure 7)** This allowed exporters to continue accessing finance to service their orders and, in some cases, make necessary capital investments to adjust operations.

Figure 7. Treasury-Eurodollar rate (TED spread): 2008-2020
(Weekly average %, week ending Friday)



Sources for **Figure 7:** Federal Reserve Bank of St. Louis, TED Spread [TEDRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/TEDRATE, January 4, 2021

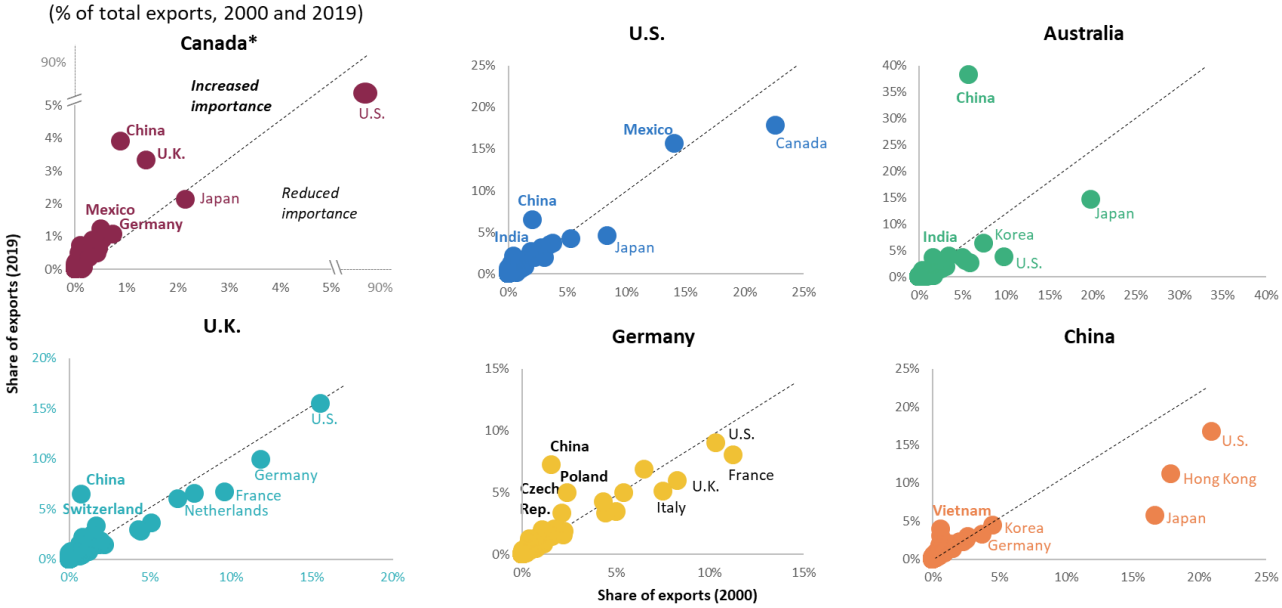
The third critical factor was the asynchronous timing of waves of COVID-19 caseloads across countries. While the pandemic is certainly a global phenomenon, countries went through different trajectories in controlling COVID-19 outbreaks. For instance, by the time much of North America was in a deep lockdown (late March to May 2020), China had already gone through its first wave of COVID-19 cases. China's ability to restart its economic activity proved to be critical in limiting the damage to global trade wrought by the pandemic.

As the global manufacturing powerhouse, China sources goods imports from many countries across the world. With China's growing prominence in global trade in recent decades, advanced economies have increasingly found a greater share of their goods exports destined to Chinese consumers and producers.

For Canada, the U.S. remains its biggest export market, however, the share of Canadian goods exports to the U.S. dropped by 12 percentage points between 2000 and 2019. **(Figure 8)** The U.S.'s declining share can be partly attributed to the growing importance of other markets, mainly China, for Canadian goods exports. In 2000, less than 1% of Canada's goods exports were shipped to China. In 2019, Canadian goods exports to China grew sevenfold in terms of absolute export values. As a result, China has now become Canada's second-most important goods export market.

This trend holds broadly for all other advanced economies. Between 2000 and 2019, China became a Top 5 goods export market for the U.S., Australia, the United Kingdom, and Germany. For its part, China has diversified its goods export markets, decoupling from its traditional export destinations such as the U.S., Japan and Hong Kong, and instead increasing its presence in other south and Southeast Asian countries such as Singapore, Vietnam, Thailand and Malaysia.

Figure 8. Share of select countries' goods exports to export destinations
(% of total exports, 2000 and 2019)

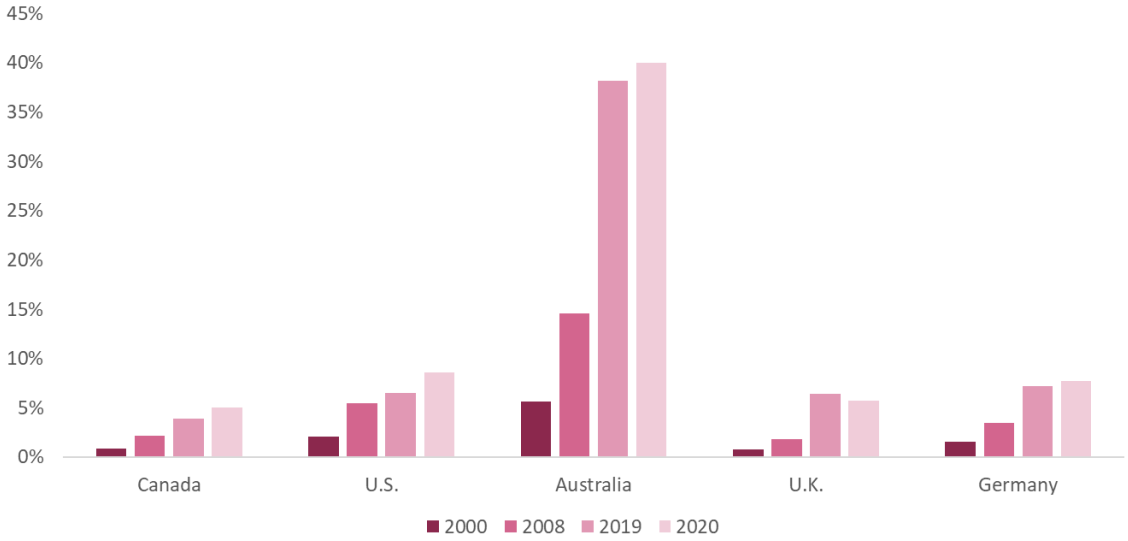


Note: The U.S. as Canada's principal trading partner accounts for more than 70% of Canada's exports. In order to display how Canada's export markets have changed between 2000 to 2019, we use a line-break on the horizontal and vertical axis. In 2000, 87.4% of Canada's exports were shipped to the U.S; in 2019, 75.7% of Canada's exports were shipped to the U.S.

Sources for **Figure 8:** EDC Economics, IMF, Haver Analytics

In 2020, China's importance as a goods export destination became further entrenched, as most advanced economies saw shares of their goods exports headed to China either stay the same or further increase. **(Figure 9)**

Figure 9. Goods exports to China
(% of total exports)

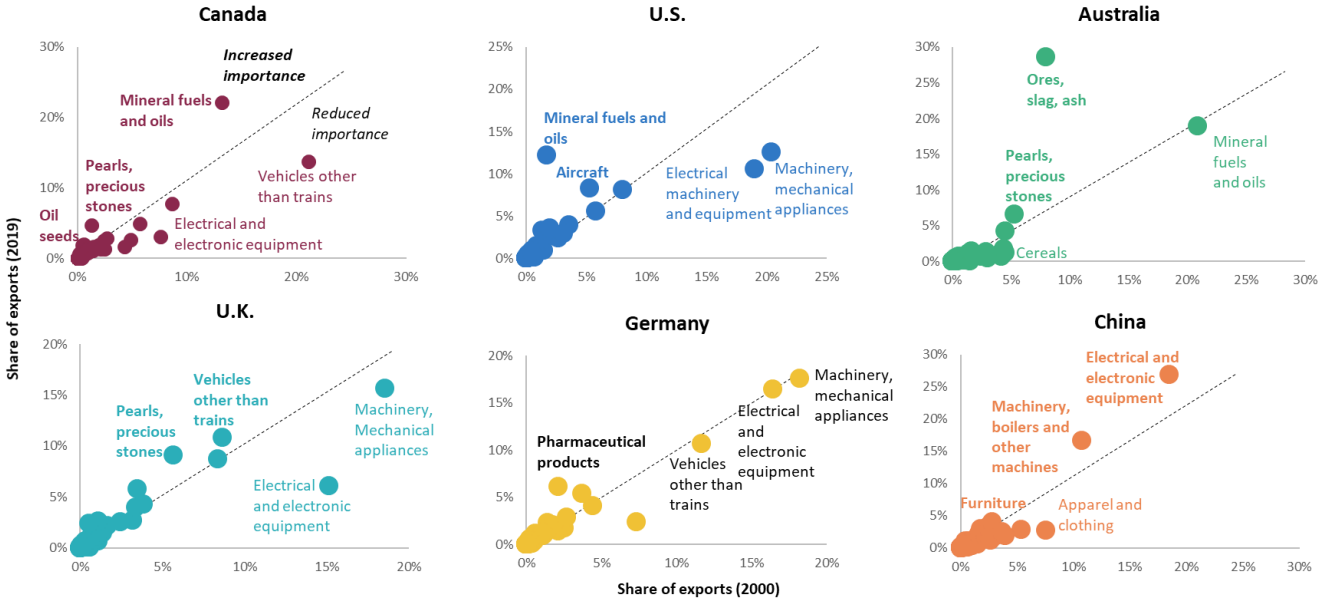


Note: For 2020, calculations based on current values of monthly goods exports, seasonally adjusted.

Sources for Figure 9: EDC Economics, IMF, Australian Bureau of Statistics, Census Bureau (U.S.), Statistics Canada, General Administration of Customs (China), Deutsche Bundesbank, Office for National Statistics (U.K.), Haver Analytics

The fourth factor enabling the Canadian goods trade recovery is the export basket mix. Between 2000 and 2019, energy goods—specifically oil—became a larger part of Canada's overall goods exports. **(Figure 10)** Other products that gained in prominence include mining such as precious stones and ores, and agricultural products, including oil seeds.

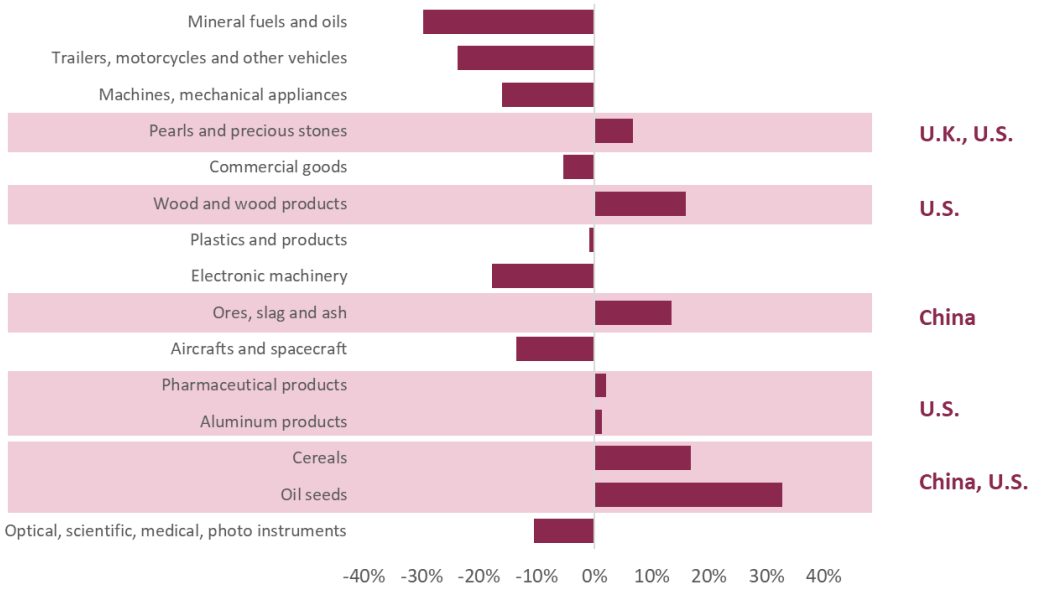
Figure 10. Composition of countries' goods exports
(% of total exports, 2000 and 2019)



Sources for **Figure 10:** EDC Economics, UN Comtrade

This export basket composition proved to be helpful in 2020. While energy exports suffered from the sudden halt in mobility, demand for agricultural products grew substantially—largely fuelled by the U.S. and China. **(Figure 11)** Similarly, the continued rise in U.S. housing starts[8] (as American households sought additional space in single-family homes) provided a major boost in demand for the Canadian forestry sector, particularly wood and wood products and lumber prices. Aluminum exports recovered as well, toward the end of the year after being hit by earlier U.S. tariffs.

Figure 11. Canada's Top 15 goods exports (Arranged in descending order, by share of total goods exports in 2020)
(2020 growth rate| Goods with positive growth rates highlighted in pink)



Note: Based on monthly goods exports data in current prices and seasonally adjusted.

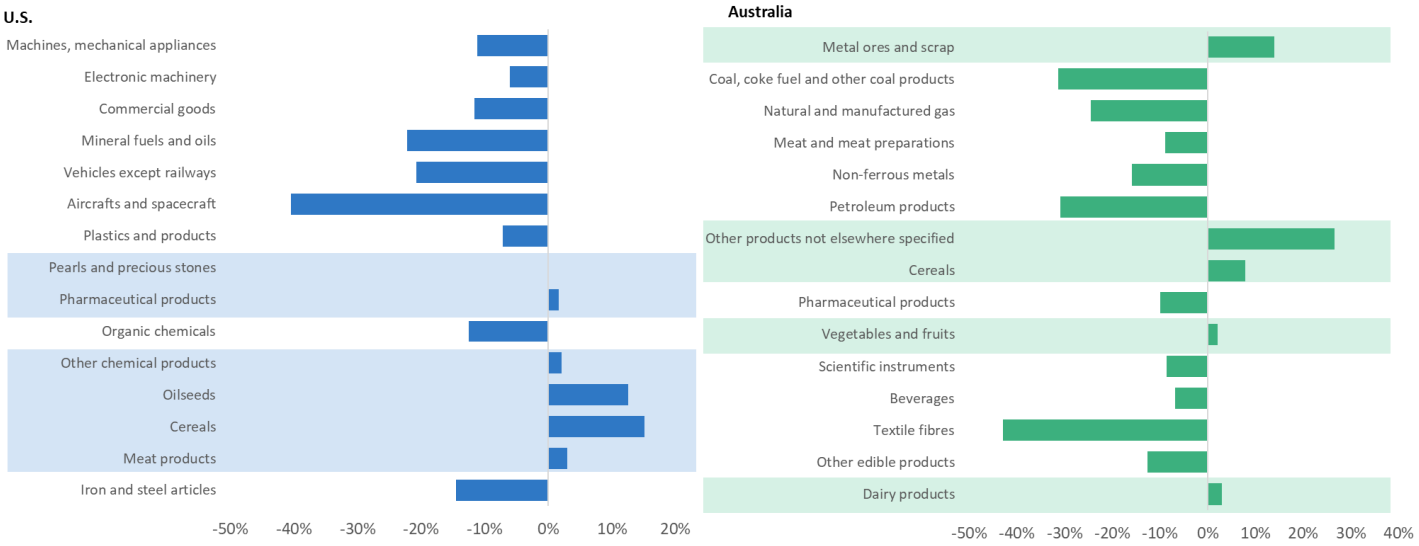
Sources for Figure 11: EDC Economics, Statistics Canada, Haver Analytics

In 2020, the composition of other countries' export baskets also played an important role in determining their overall goods export performance**. (Figures 12 and 13)** Some agricultural commodities—especially cereals and meat products—contributed to goods exports growth in the U.S., driven by increased demand from China. On the other hand, fuels, aircraft and transport vehicle exports suffered from a significant slowdown in the global travel industry, which was especially true for Germany, the U.S. and Canada.

Most countries exporting pharmaceutical products experienced growth in this sector, primarily on account of rising COVID-19 cases. China, already one of the major global suppliers of personal protective equipment (PPE), dramatically ramped up its production to meet spiking demand—with a whopping 152% year-on-year increase in export values for ready-made textiles (primarily masks and other PPE). **(Figure 14)** China's customs administration reports that China exported the equivalent of 40 masks per person in 2020[9].

Similarly, China's existing strengths in manufacturing electronics, furniture and toys were well-suited for the sudden spurt in demand for these items, driven by a work-from-home lifestyle across much of the world. These export sectors experienced double digit year-on-year growth in 2020. As a result, China ended the year being one of the very few economies with an overall growth in its goods exports, compared to 2019.

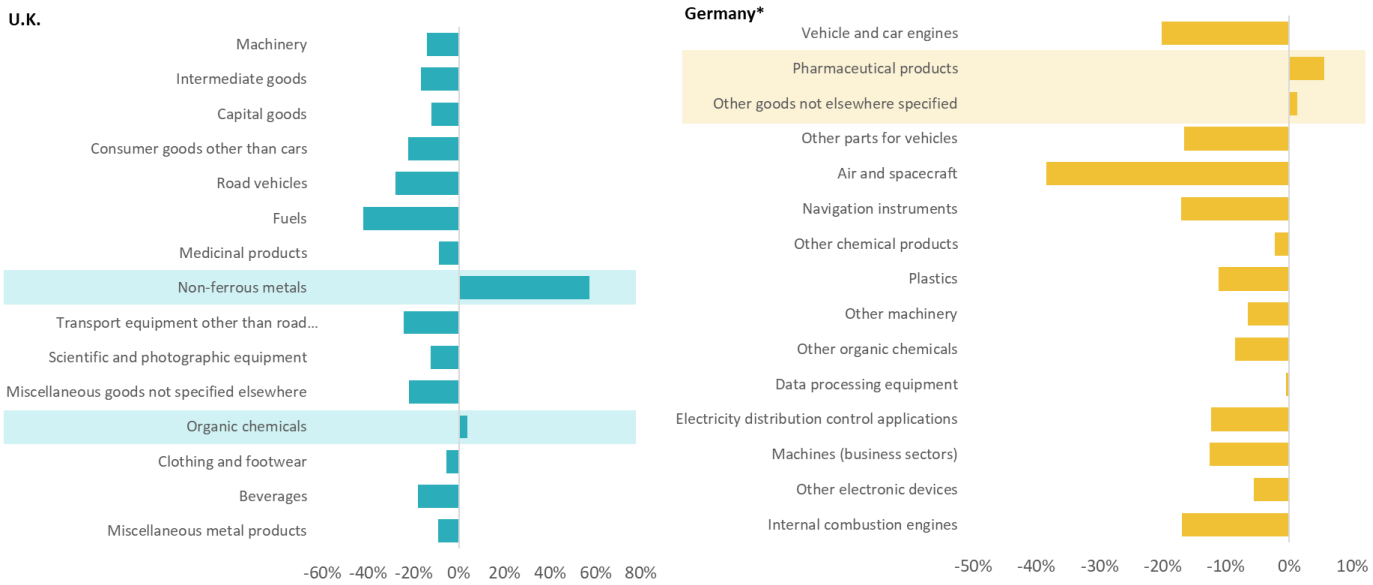
Figure 12. Top 15 goods exports (Arranged in descending order, by share of total goods exports in 2020)
(2020 growth rate | Goods with positive growth rates highlighted in light blue for U.S. and light green for Australia)



Note: Both charts are based on monthly goods exports data in current prices and seasonally adjusted.

Sources for Figure 12: EDC Economics, Census Bureau (U.S.), World Customs Organization, Australian Bureau of Statistics, Haver Analytics

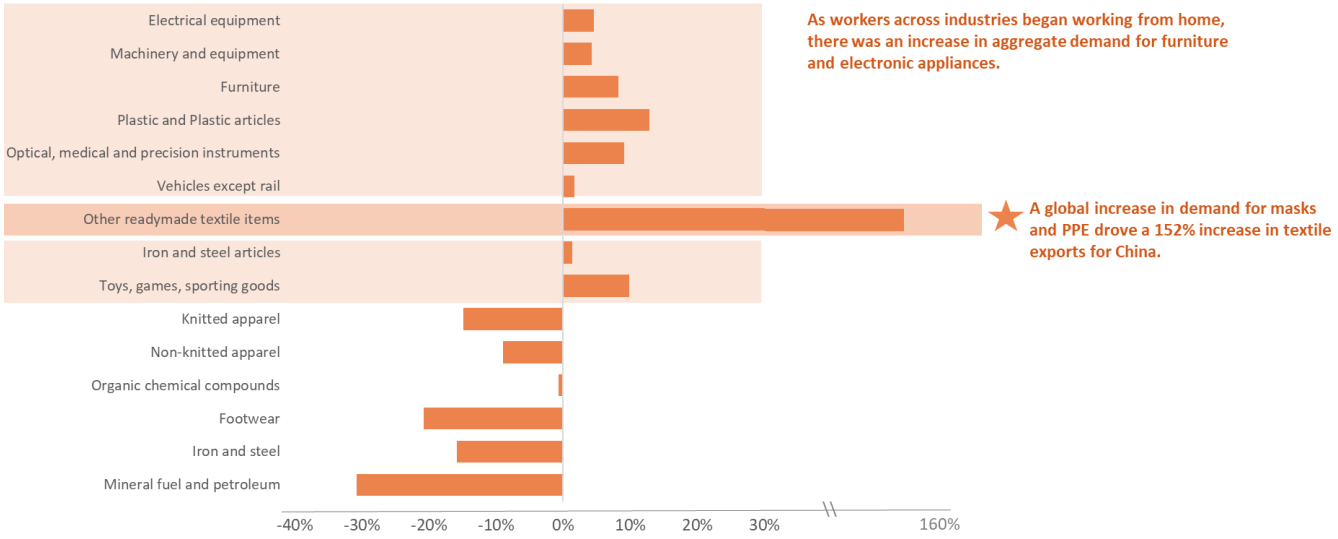
Figure 13. Top 15 goods exports (Arranged in descending order, by share of total goods exports in 2020)
(2020 growth rate | Goods with positive growth rates highlighted in light teal for U.K. and light yellow for Germany)



** Germany's data is up-to-date until November 2019 and November 2020.*
Note: Calculations for both charts based on monthly goods exports data in current prices and seasonally adjusted.

Sources for Figure 13: EDC Economics, Office for National Statistics (U.K.), Deutsche Bundesbank, Haver Analytics

Figure 14. China - Top 15 goods exports (Arranged in descending order, by share of total goods exports in 2020)
(2020 growth rate| Goods with positive growth rates highlighted in light orange)

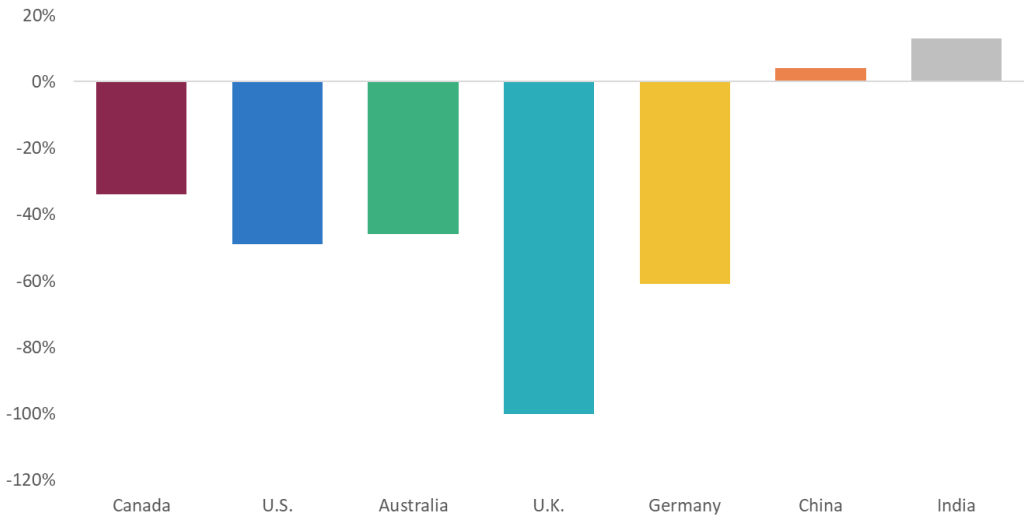


Note: China's textile exports grew exponentially in 2020, buoyed by global demand for masks and PPE. In order to display how China's readymade textile goods exports grew in 2020, we use a line-break on the horizontal axis. The chart is based on monthly goods exports data in current prices and seasonally adjusted.

Sources for Figure 14: EDC Economics, General Administration of Customs (China), Haver Analytics

These broad trends in goods trade were mirrored by foreign direct investment (FDI) flows. In 2020, China and India were the only two top economies to see growth in FDI inflows. **(Figure 15)** The pandemic further reinforced the trend of developed economies attracting a smaller share of global FDI inflows. While preliminary estimates indicate that FDI inflows to Canada fell by 34% in 2020, this decline was relatively modest compared to the U.S., U.K., and Germany.

Figure 15. Foreign direct investment (FDI) Inflows
(% change in 2020 compared to 2019)



Sources for Figure 15: EDC Economics, UNCTAD Global Investment Trends Monitor (Preliminary FDI Estimates for 2020)

The pandemic amplified some existing trends while disrupting others, shedding light on crucial decisions awaiting Canada's goods exporters.

Building and nourishing a global network of goods trade is an exercise in patience, grit and consistency. Given the relatively high fixed costs of producing goods—be it agricultural, mining, energy or manufacturing—trends in goods exports tend to stay anchored until they're forced to change on account of technology or other extenuating circumstances. Even then, these changes tend to be relatively slow as factories retool, governments hammer out trade agreements, exporters build the necessary knowledge to enter new markets and financial institutions channel the right resources to the right sectors.

Given all this, the sudden arrival of the pandemic in 2020 gave exporters little warning and time to adjust. As a result, most countries' pre-pandemic goods export product and market compositions determined their fates. The volatility in oil prices has been impacting Canadian energy exports for the past few years. However, during this time, non-energy goods gained ground as Canadian exporters found and grew new export markets.

While Canadian goods exports suffered a 12.3% decline on account of a steep and sustained fall in energy exports, its existing strengths in agricultural, mining and forestry sectors limited the extent of the damage. Agricultural and mining sectors were star performers—further highlighting the need for Canada to invest and grow these sectors.

An increase in Chinese demand for agricultural and mining commodities also helped Canadian goods exports to a large degree. As the U.S. has accounted for a declining share of Canadian exports, other markets have become more important. Canadian exporters' pre-existing trade networks in China served them well in 2020. However, due to ongoing geopolitical tensions between the West and China, Canada's efforts to seek new avenues to expand and enhance trade there, while also supporting Canadian companies in their broader diversification efforts, will be imperative.

Exports have long been the bedrock of Canadian economic growth. As an open economy with a relatively small domestic market, exports will continue to play a critical role in powering Canada's economy well into the future. The pandemic demonstrated the inherent resilience in our goods exports, but also highlighted that sustained growth requires a careful pivot toward sectors and markets of tomorrow.

ENDNOTES

[1] Based on Canada's monthly goods exports, in nominal terms and seasonally adjusted.
[2] Compared to 2019—Based on Canada's real merchandise exports, chained to 2012 CAD. Sources: EDC Economics, Statistics Canada, Haver Analytics
[3] Growth rate calculations based on goods exports in current values and compound annual growth rate formula.
[4] Based on compound annual growth rate (CAGR) formula

[5] Crowley, M.A., and Luo, X. (2011) *Understanding the Great Trade Collapse of 2008-2009 and the Subsequent Trade Recovery.* Economic Perspectives, Federal Reserve Bank of Chicago.
[6] Crowley, M.A., and Luo, X. (2011) *Understanding the Great Trade Collapse of 2008-2009 and the Subsequent Trade Recovery.* Economic Perspectives, Federal Reserve Bank of Chicago.
[7] TED Spread—or the Treasury-Eurodollar Rate—is calculated as the difference between the three-month London Inter-Bank Offer Rate (LIBOR) and the three-month U.S. Treasury Bill Rate. Simply put, TED Spread expresses the difference in the short-term interest rates at which global banks lend to each other and the interest rate at which the U.S. government can borrow. U.S. Treasury Bills (T-Bills) are typically considered to be risk-free investments. Comparing the T-bill rate to any other interest rate provides a sense of perceived credit risk in global financial markets. During times of crisis, TED Spread is usually high, signalling that investors lack confidence in banks' ability to pay back their loans.
[8] After a brief decline in the summer, U.S. housing activity resumed in earnest. By November 2020, housing starts in the U.S. had increased by nearly 13% year-on-year.
[9] Wang, O. (2021) *China's Trade Surplus Hits Record in December to End Year in which it Exported 40 Masks Per Person Around the World. South China Morning Post*. Retrieved on Jan. 15, 2021, from https://www.scmp.com/economy/china-economy/article/3117785/chinas-trade-surplus-hits-record-december-end-year-which-it

ABOUT THIS REPORT

This *Economic Insights* report is part of a publication series of concise reports written by EDC Economics staff on the impact of COVID-19 on Canadian international trade and investment. The views expressed in this report are those of the author and shouldn't be attributed to Export Development Canada or its Board of Directors. This report was written by Meena Aier, reviewed by Stephen Tapp and Michael Borish, copy-edited by Janet Wilson.
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