GLOBAL ECONOMIC OUTLOOK

BWA Online Roundtable Event

May 27, 2020

Stephen Tapp,
Deputy Chief Economist

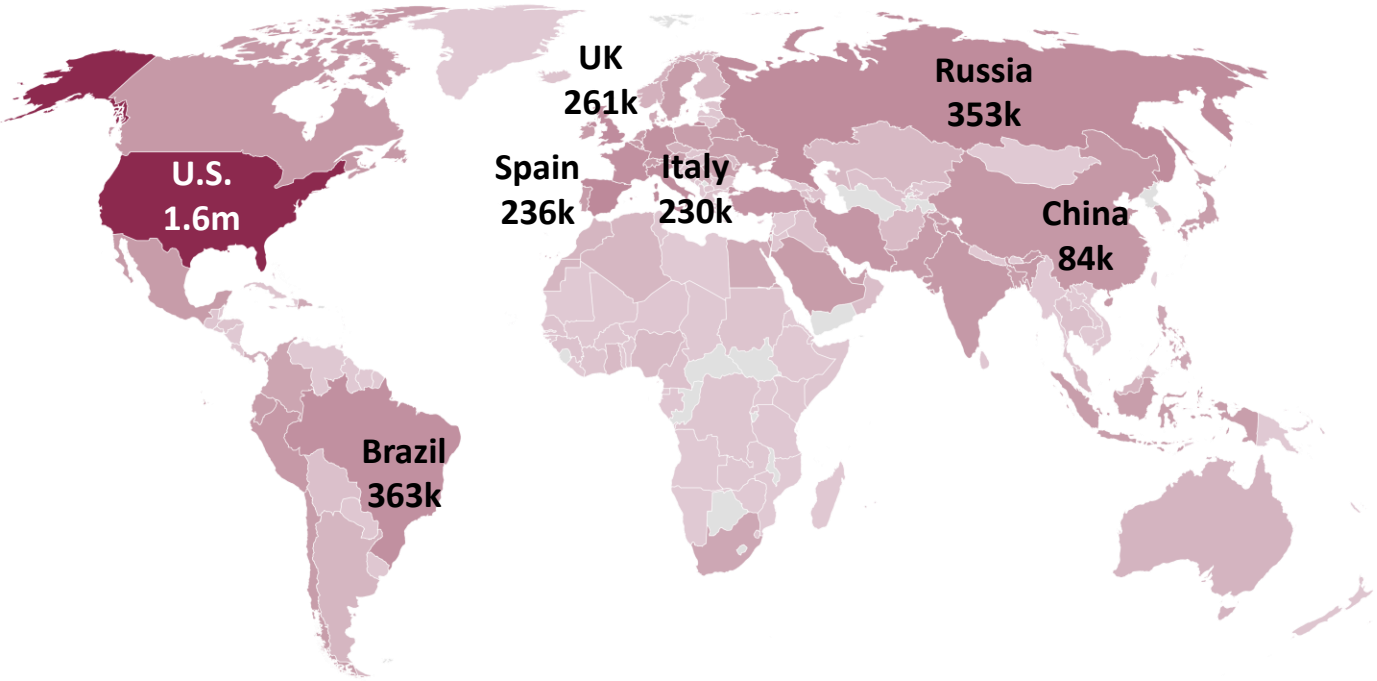
Canada

EDC

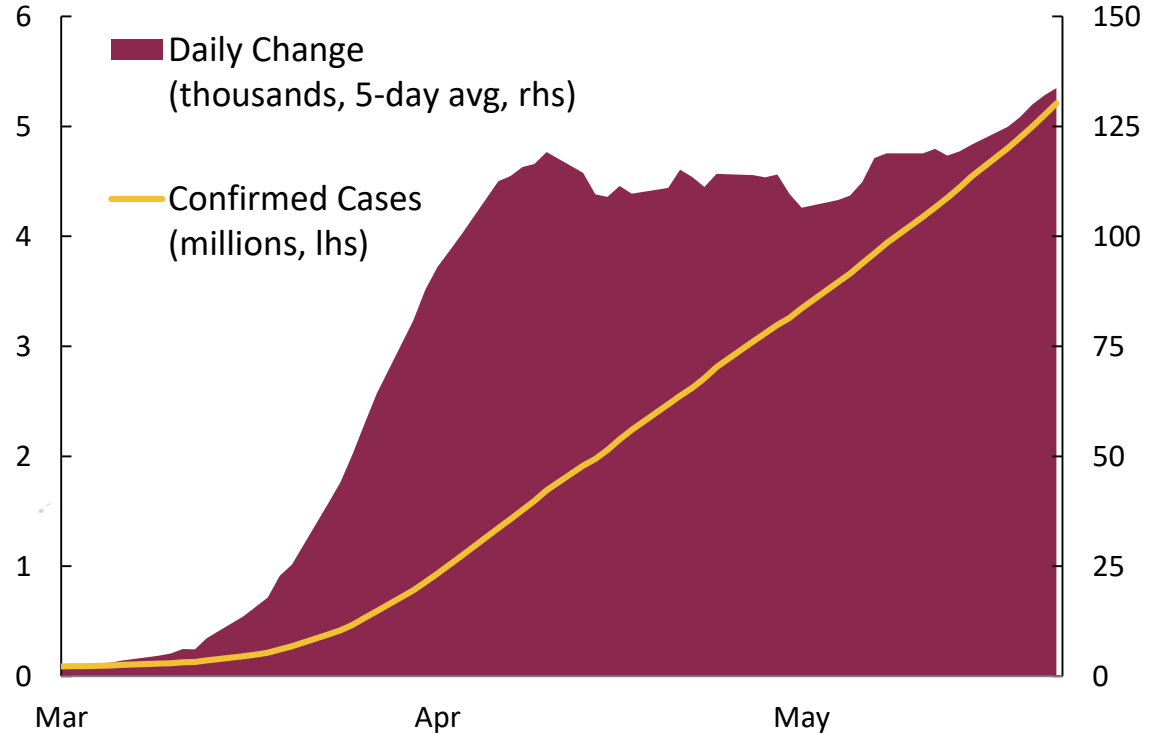
CONFIRMED COVID-19 CASES

As of May 25, 2020

5.4 million



Global Confirmed Cases



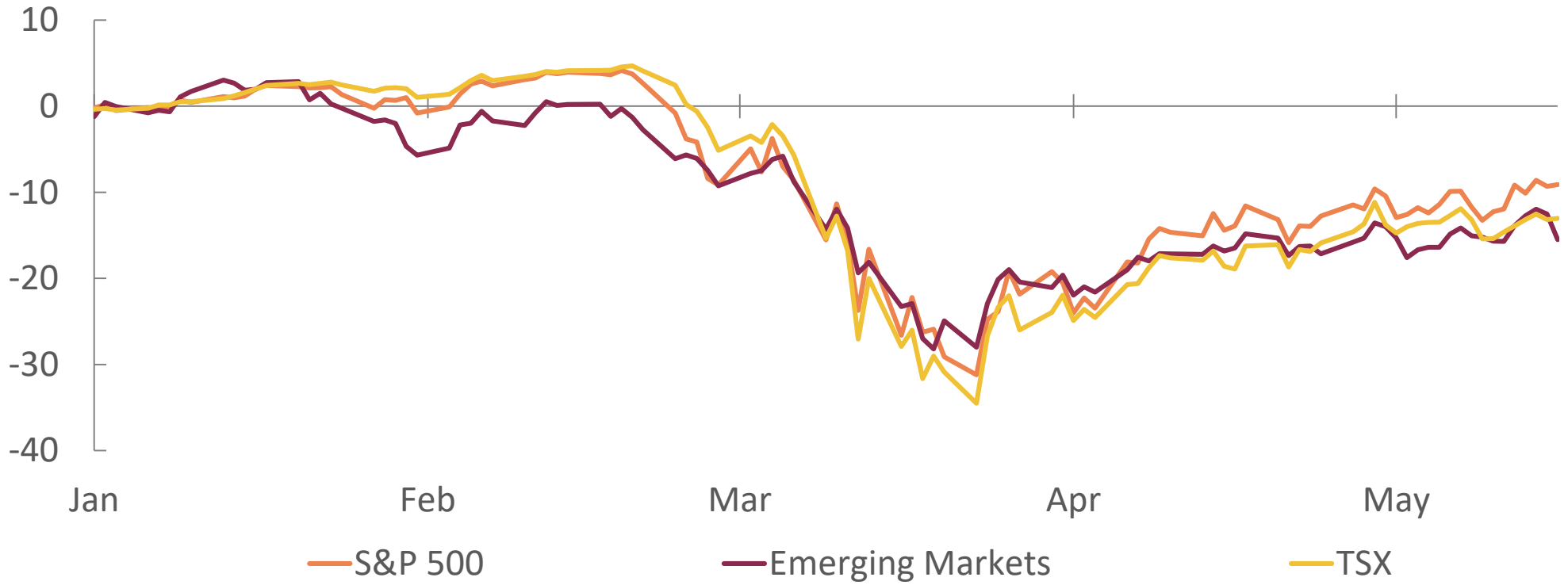
Phase 1: China, Asia › **Phase 2:** Italy, Europe › **Phase 3:** U.S. › **Phase 4:** Brazil, Russia; 2nd waves?

Source: EDC Economics; John's Hopkins Coronavirus Research Center.

EQUITIES RECOVERING, BOND SPREADS WIDENED

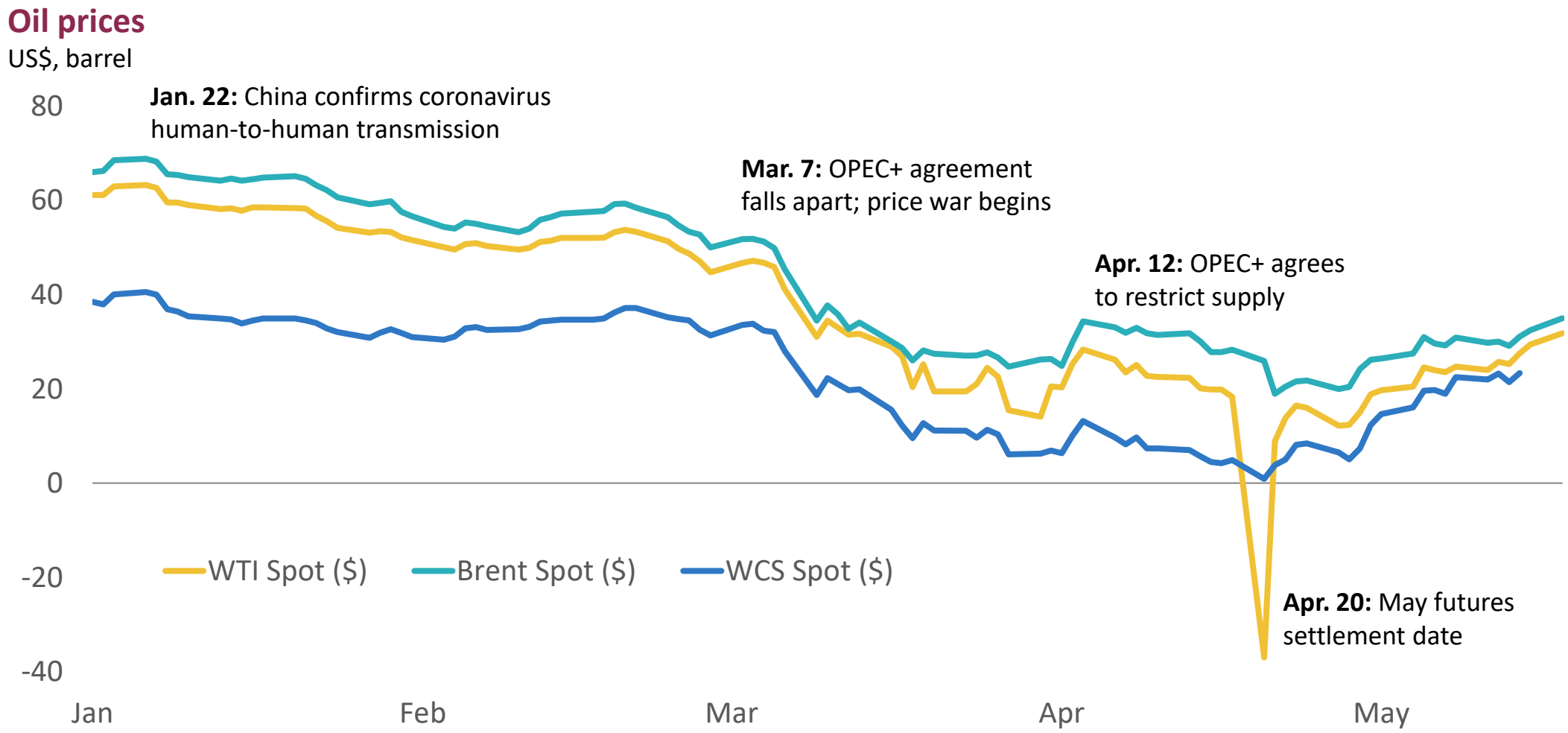
Stock Markets

% change since Jan. 1



Sources: Haver Analytics, EDC Economics; EDC Global Financial Markets.

SIGNIFICANT DECLINE IN OIL PRICES

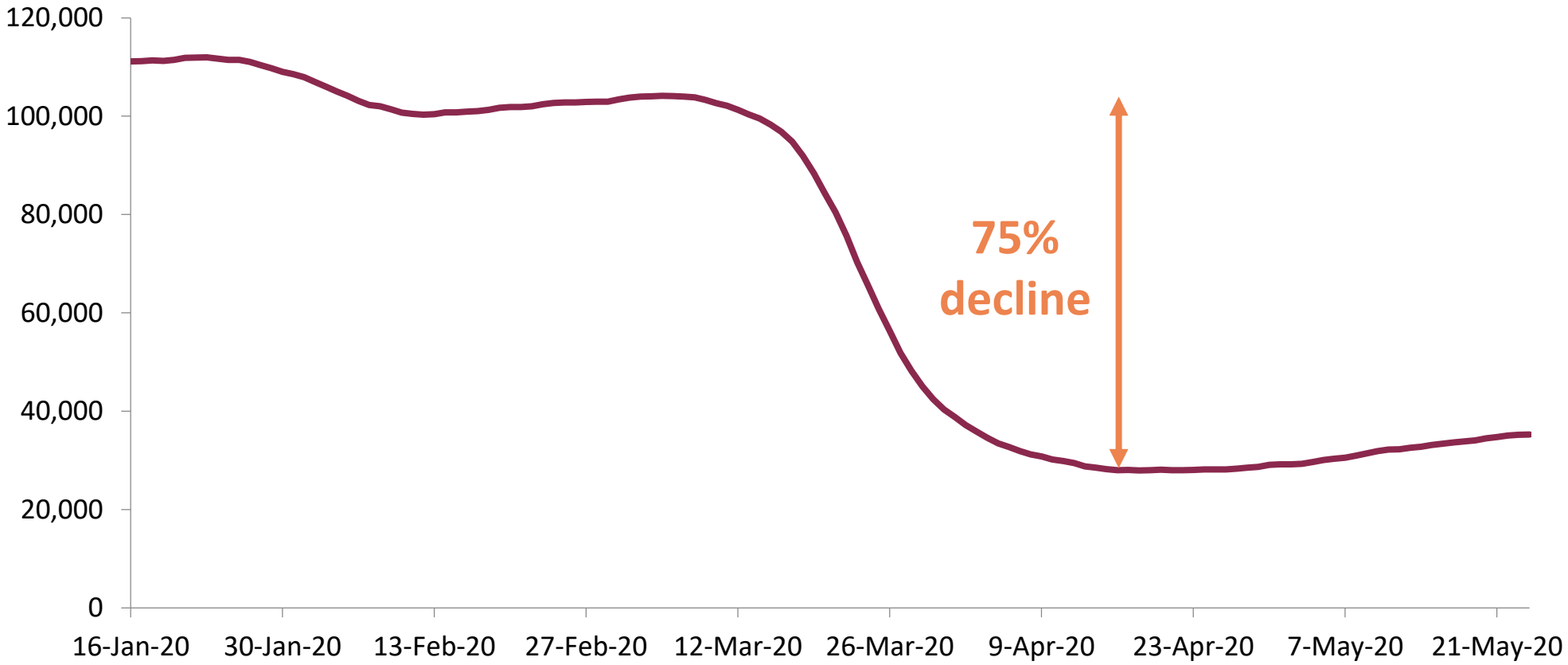


Sources: Haver Analytics, EDC Economics

MOST INTERNATIONAL AIR TRAVEL GROUNDED

Daily commercial flights

Weekly global average

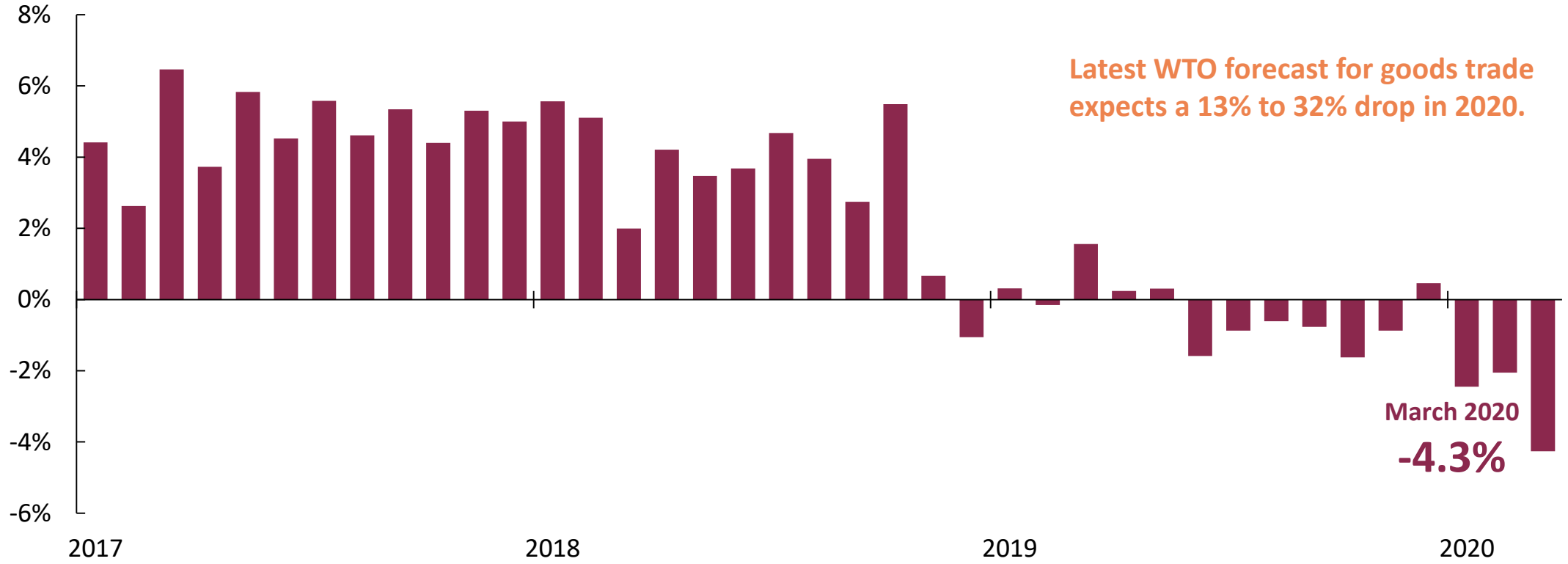


Source: FlightRadar 24

GLOBAL TRADE WAS SHRINKING BEFORE COVID

Global merchandise trade volumes

annual % change

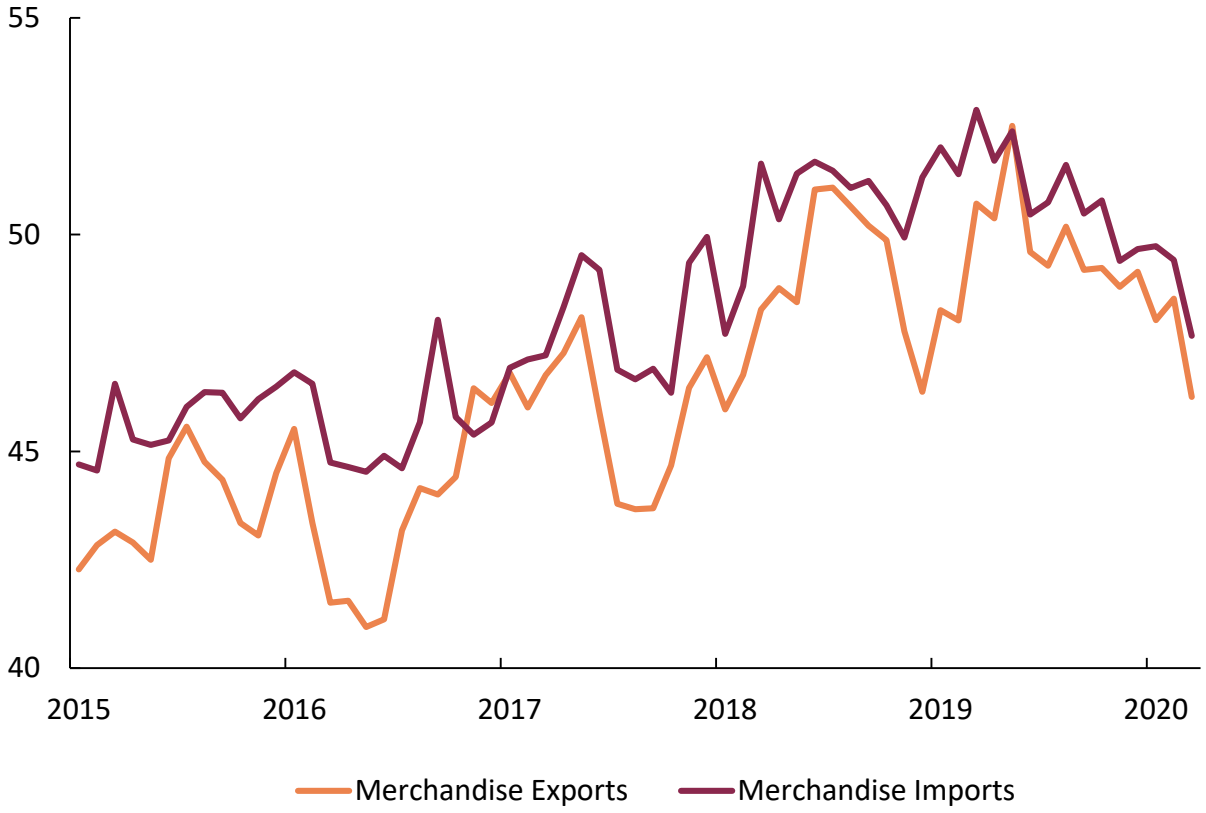


Sources: CPB Netherlands Bureau for Economic Policy Analysis, WTO April 2020 Trade Forecast

CANADA'S TRADE STRUGGLES

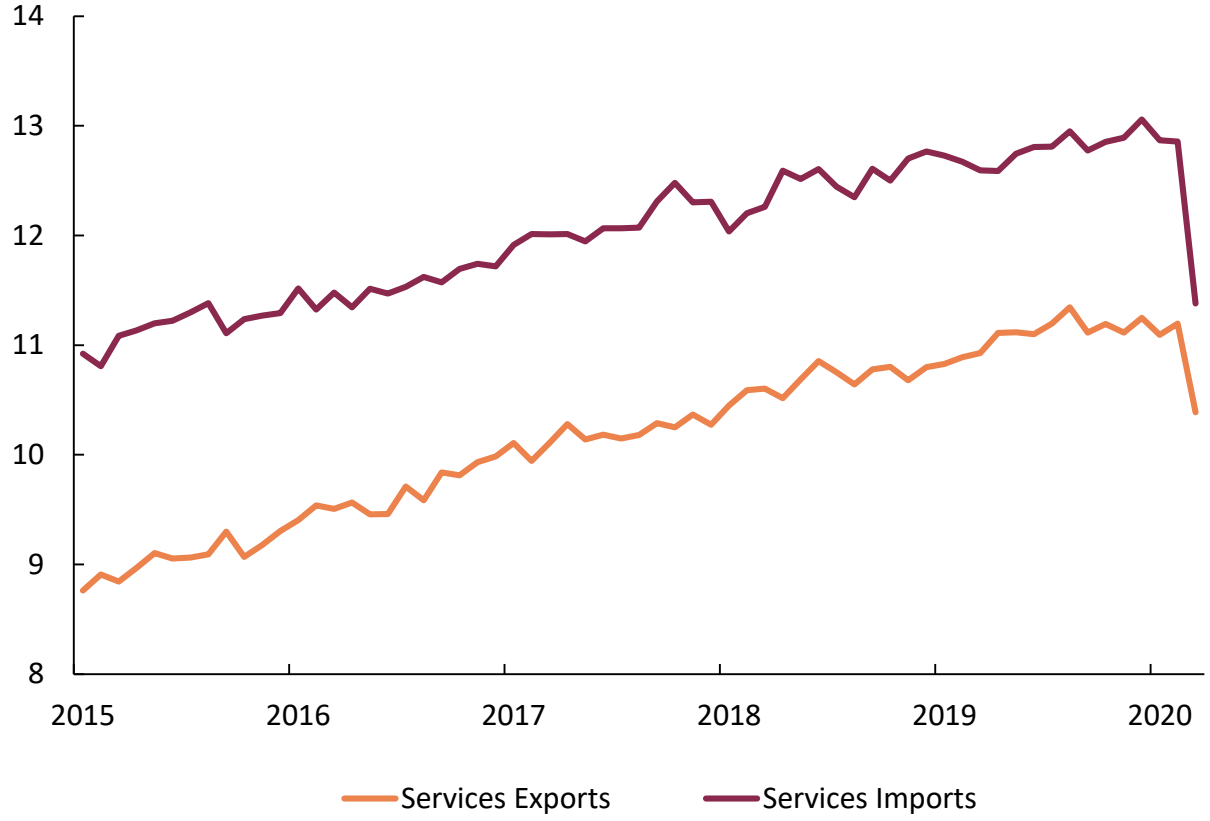
Merchandise trade

Billions of dollars



Services trade

Billions of dollars



Source: Statistics Canada

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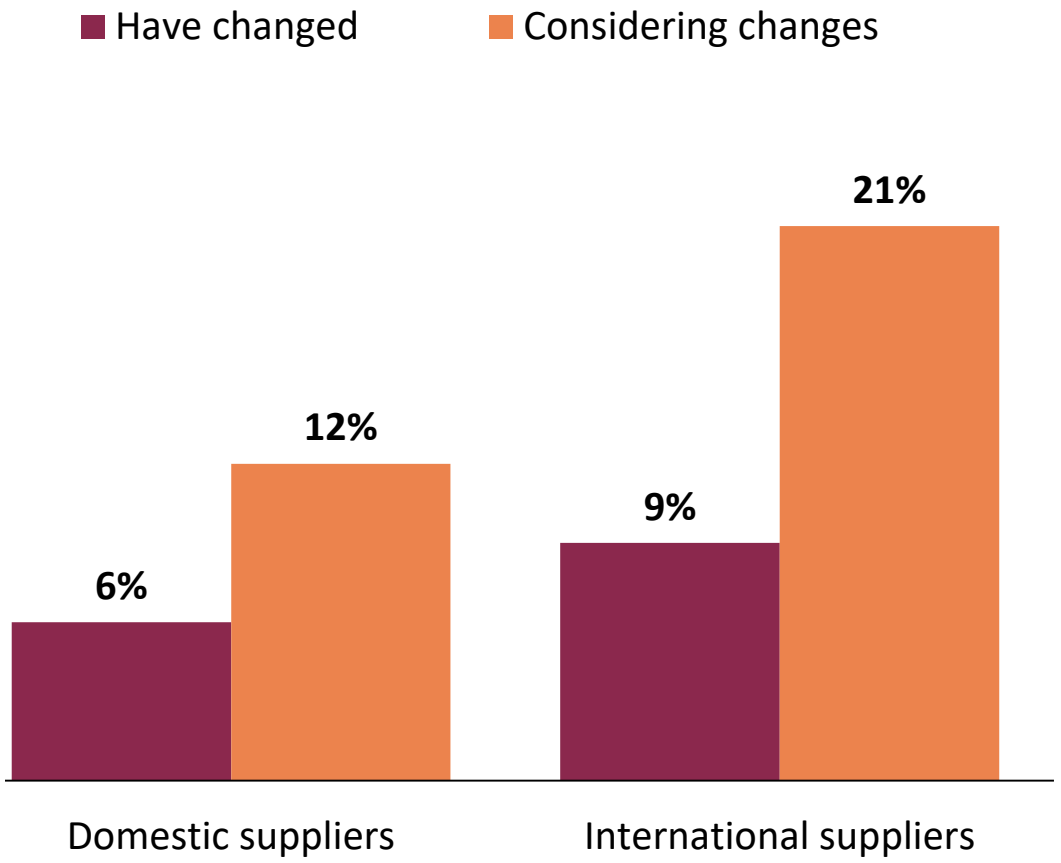
SUPPLY CHAINS ADJUSTING IN REAL TIME

Are you adjusting the countries and/or suppliers you source your inputs from?
(Percent of respondents)



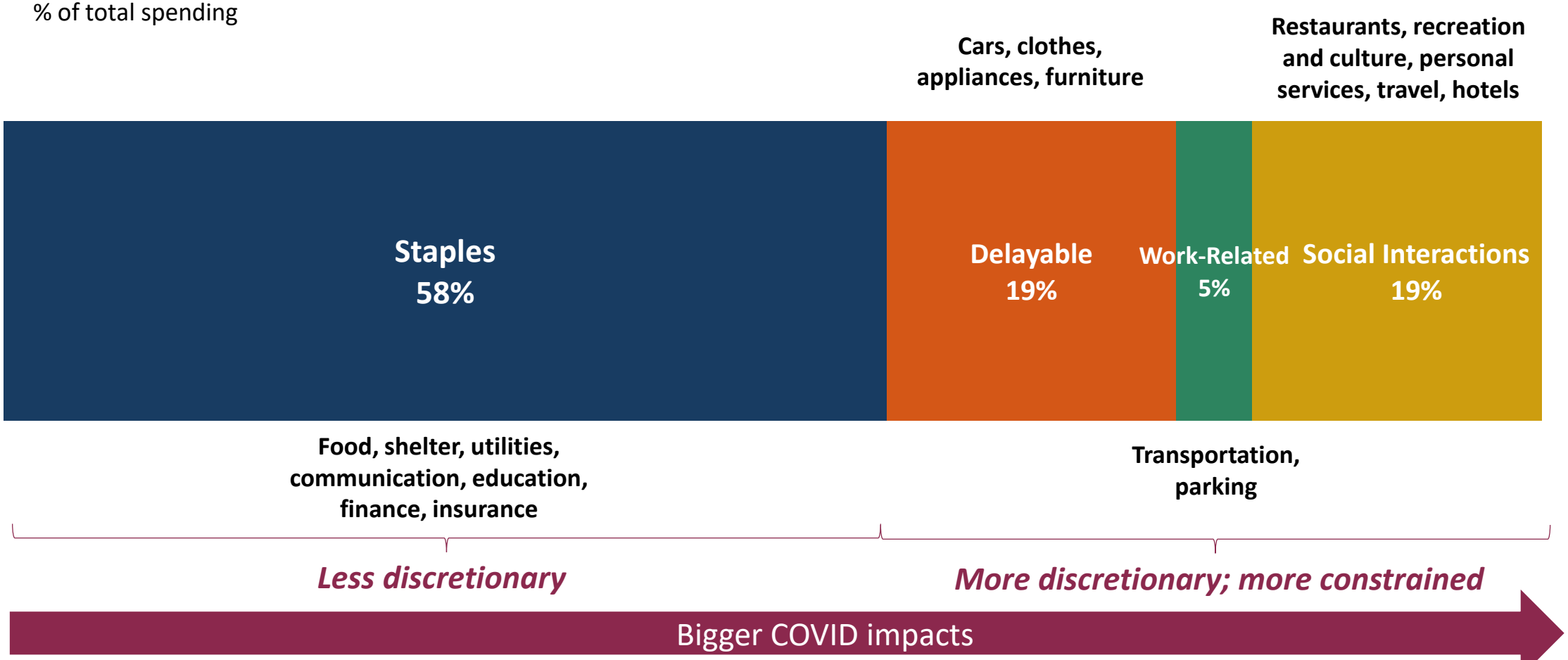
Cite impacts include:

- Delivery date uncertainty
- Suppliers shutdowns
- Production delays

Source: EDC Research Panel Survey, mid-April.

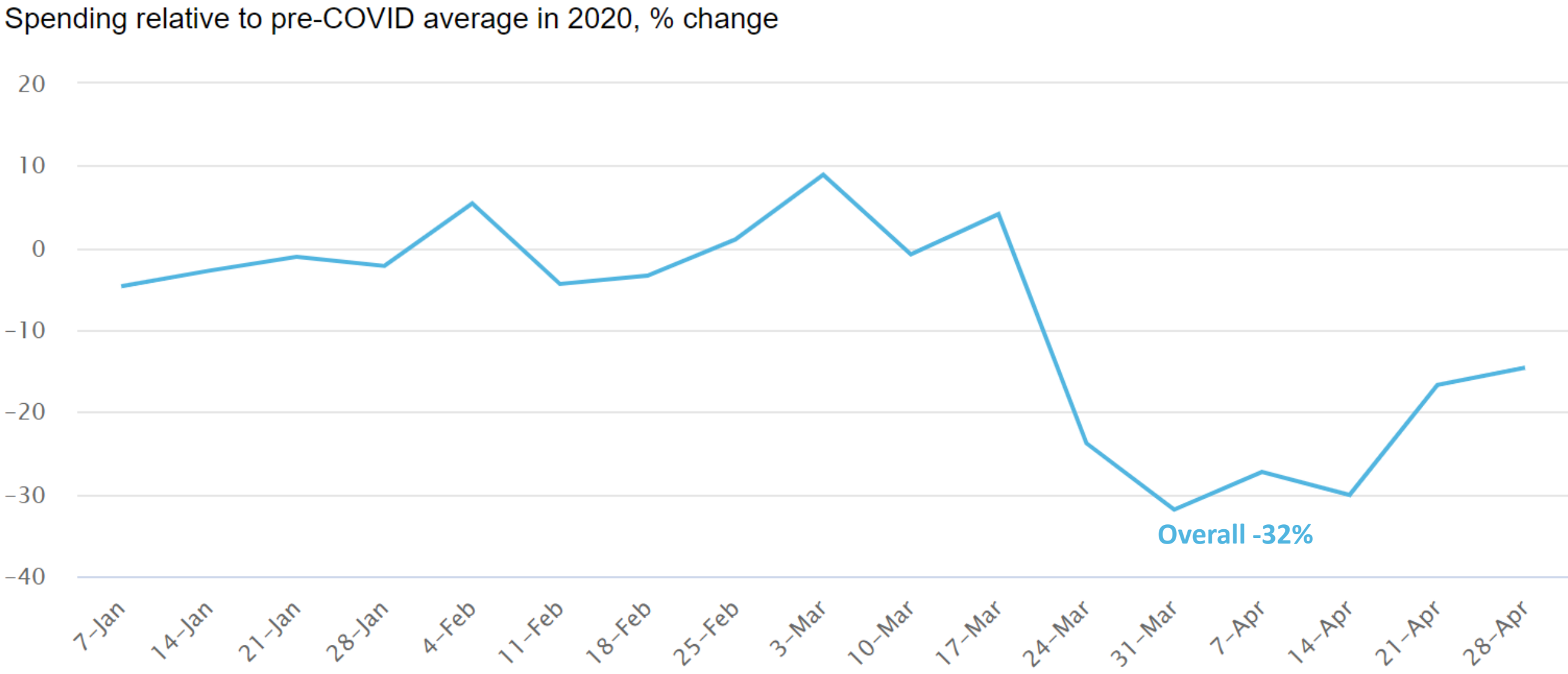
CONSUMPTION: DISCRETION AND CONSTRAINTS

Canada, 2019
% of total spending



Source: EDC Economics; Statistics Canada detailed household final consumption expenditure (Table 36-10-0124-01)

CARD SPENDING DATA



Sources: RBC Economics

HOURS WORKED

% change April vs. Feb 2020, by sector

Total economy	-28

Goods sectors	-31
Agriculture	-11
Forestry, fishing, mining, oil and gas	-17
Utilities	-9
Construction	-42
Manufacturing	-29

Services sectors	-27
Wholesale and retail trade	-31
Transportation and warehousing	-28
Finance, insurance, real estate, rental and leasing	-13
Professional, scientific and technical services	-13
Business, building and other support services	-30
Educational services	-24
Health care and social assistance	-22
Information, culture and recreation	-38
Accommodation and food services	-64
Other services	-48
Public administration	-6

Sources: EDC Economics; Statistics Canada, Labour Force Survey

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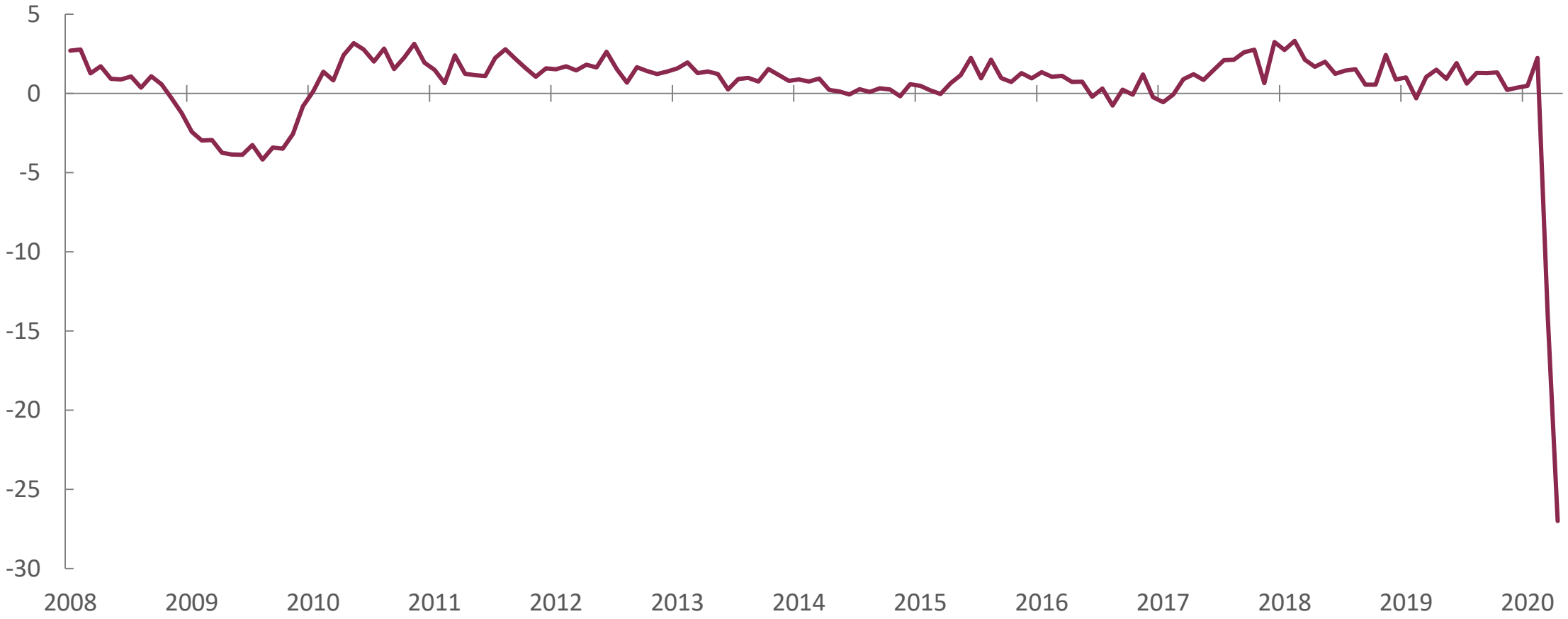
HOURS WORKED IN CONTEXT

Canada: Total hours worked

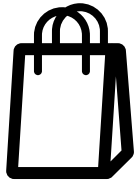
year-over-year % change



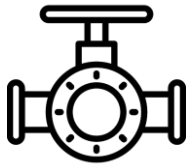
Sources: Haver Analytics; EDC Economics

HARDEST HIT SECTORS
THE UGLY

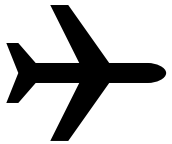
Services: ***Accommodation, food services; arts, entertainment, recreation; personal.***



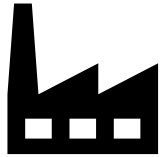
Retail: ***Bricks and mortar; commercial real estate***



Oil: ***COVID + global excess supply***



Transportation: ***Airlines***



Manufacturing: ***Aerospace, autos***

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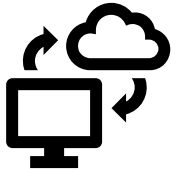
SECTORS WEATHERING THE STORM
THE GOOD AND THE LESS BAD

Finance, insurance

Public admin, health, education



Information, professional services

Food retailing

Utilities

Mining

WOOD MANUFACTURING

SECONDARY WOOD INDUSTRY STATISTICS

Secondary Wood Industry by Geography

Region	# of Companies	Jobs	Payroll ($M)	Revenue ($M)
SW Ontario	1,400	22,500	900	5,200
Ontario	1,800	28,400	1,200	6,600
Canada	5,300	88,000	3,500	17,000
Bluewater Wood Alliance	130	5,000	200	600

Forestry and logging industry employs 27,000

Source: Bluewater Wood Alliance; Conference Board of Canada, Wood Manufacturing Council, 2016

SLOW, STEADY GROWTH ACROSS SECTORS BEFORE COVID

Selected Canadian Advanced Wood Manufacturing Subsectors

NAICS Code	Subsector	# of Companies	Employment	Payroll ($M)	Revenue ($M)
32121CA	**Wood Panelling Manufacturing**	535	18,121	1,080	8,770
32191CA	**Millwork**	1,583	23,015	1,030	4,930
33711CA	**Cabinet & Vanity Manufacturing**	3,209	29,710	1,240	4,400
	Total	5,327	70,846	3,350	18,100

Forestry and logging industry employs 47,200 in Canada, 5,000 in Ontario.

Sources: IBIS World, Statistics Canada

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THE OUTLOOK

UNPRECEDENTED GLOBAL POLICY RESPONSE

Central bank interest rates cuts and various large-scale assets purchase programs, followed by massive expansions in direct support for households and businesses in order to maintain liquidity.

Monetary policy

U.S. Federal Reserve
150 bps rate cuts to effective lower bound (ELB) of 0.0-0.25%

Bank of Canada
150 bps rate cuts to ELB of 0.25%

European Central Bank
Operating at ELB of -0.5%

Bank of England
65 bps rate cuts to ELB at 0.1%

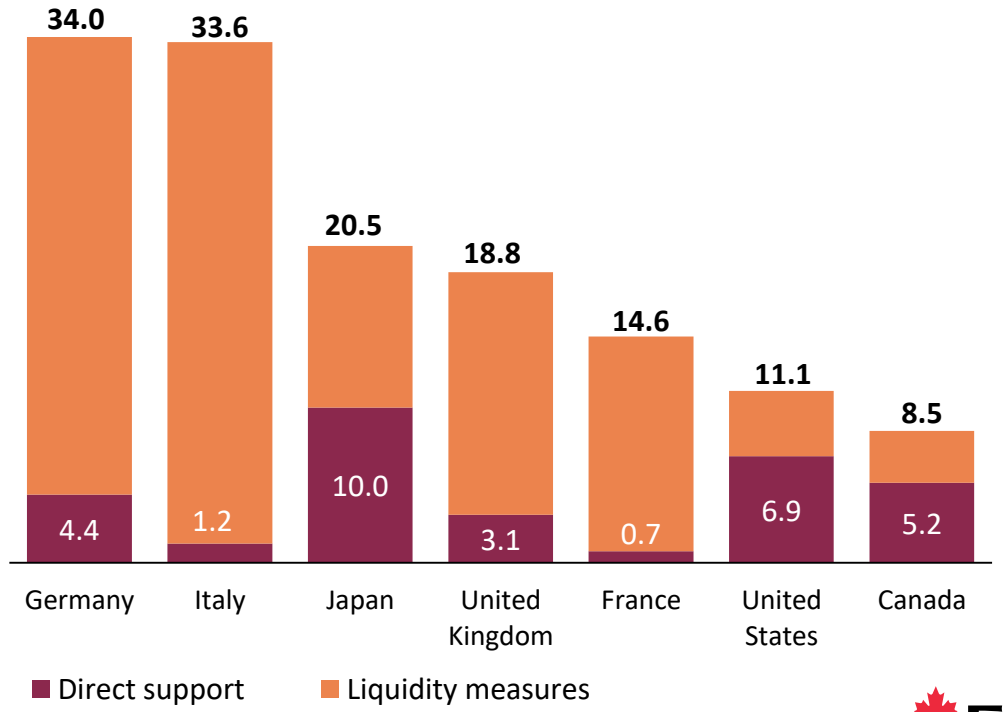
Bank of Japan
Already operating at ELB at -0.1%

People's Bank of China
Various term lending rates cut to ease financial conditions

Central bank asset purchases is approaching US$6 trillion globally–double their scale during the 2008 global financial crisis.

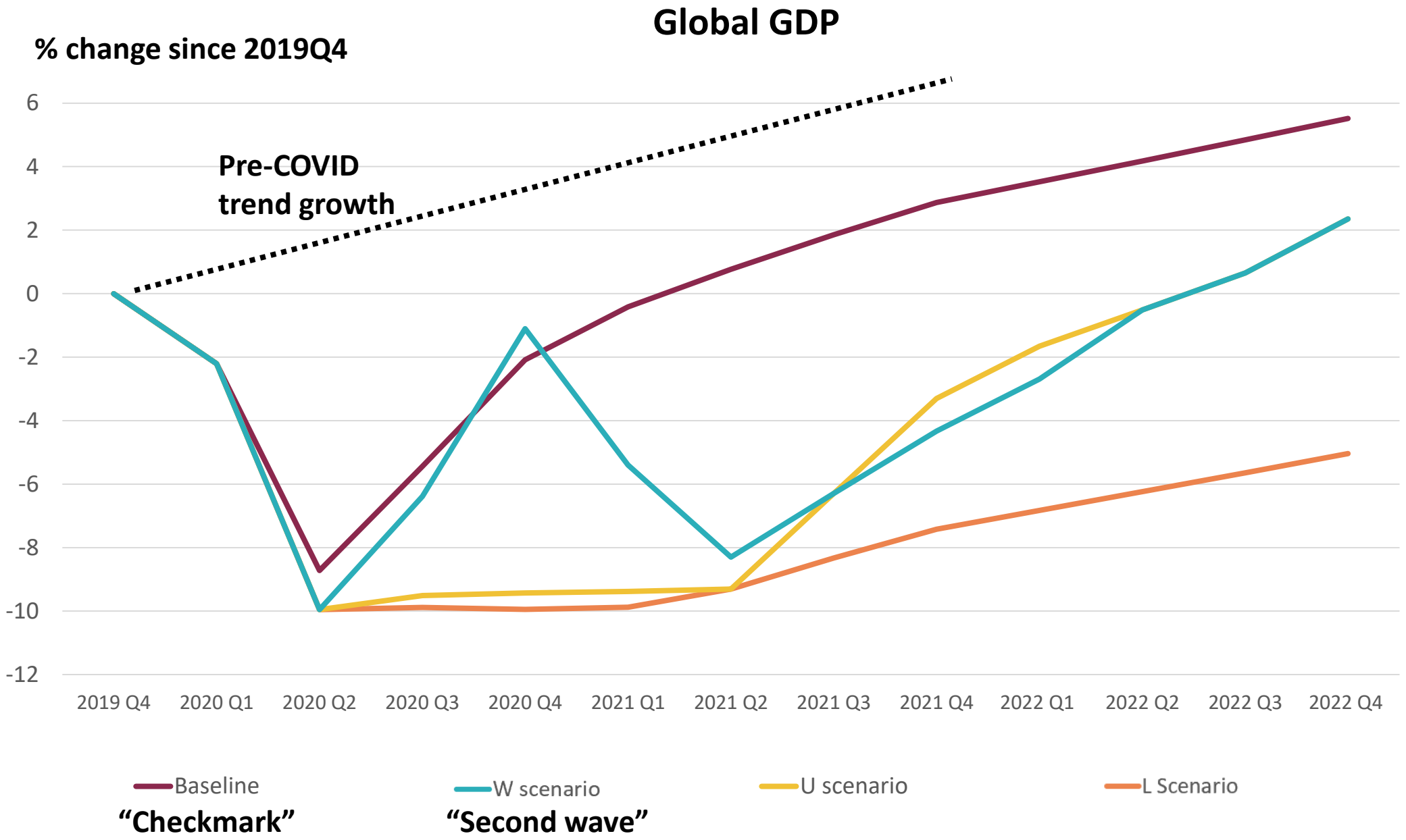
G7 Fiscal Policy Responses to COVID-19

% of GDP, US$ PPP



*Select policy responses, as of April 17, 2020, Sources: IMF COVID-19 policy tracker, IMF April 2020 Fiscal Monitor, EDC Economics

SOME RECOVERY SCENARIOS

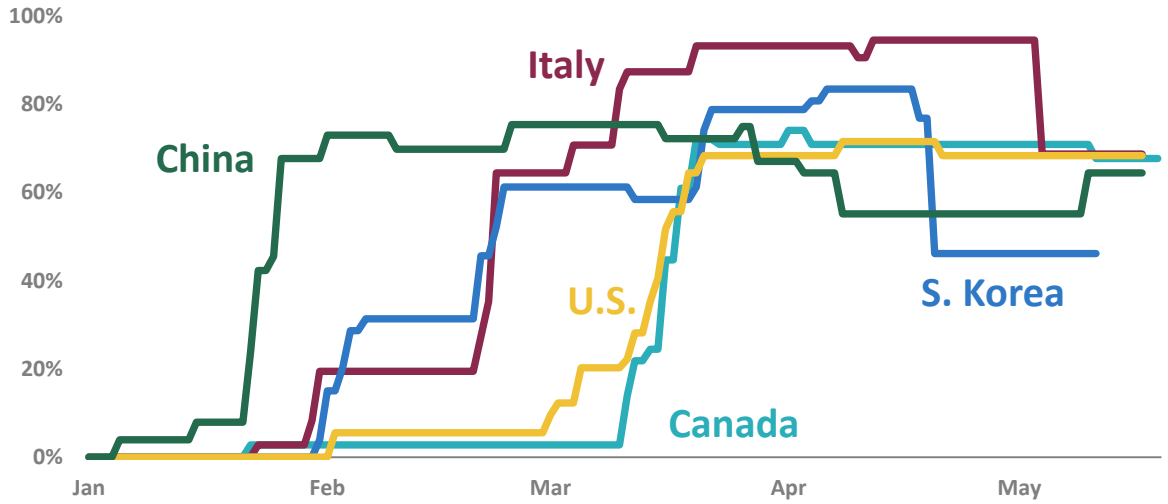


"Checkmark"

"Second wave"

COUNTRY CONSIDERATIONS

COVID Containment measure stringency index



Speed of economic recovery

	Faster	Average	Slower
Timing of COVID outbreaks	China and SE Asia	Europe and North America	Russia, Brazil, India
Oil producers			Saudi Arabia, Iraq, Canada, Mexico
Tourism dependent			Caribbean
Structural weakness pre-COVID			Africa, Middle East

Sources: Oxford Economic, Oxford University; Survey of EPIC analysts, mid-May.

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CONCLUSIONS

1. Historic economic shock:

- **Most households/companies negatively affected**
- **Some winners: COVID puts a premium on size; savings; online skills; agility**

2. Have we hit bottom? Multiple scenarios possible:

- **Containment success (lack thereof), depth/duration will determine household and business scarring and recovery**
  → Business contingency planning

3. Opportunities

- **WFH → Home and office renovations**
- **Cash crunch → Government programs**

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Export Development Canada

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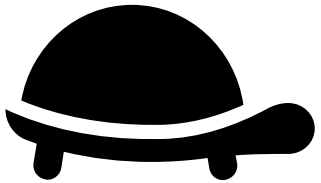
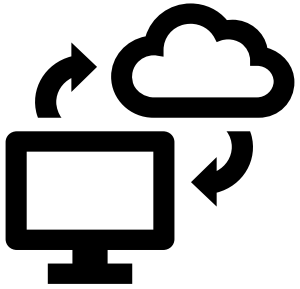
COVID IS ACCELERATING LONGER-RUN TRENDS



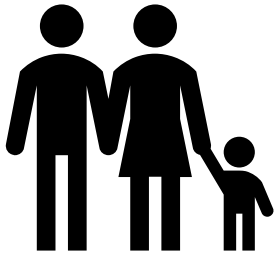
1. Slow growth

2. Low interest rates

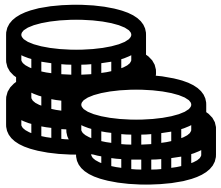


3. Online activity; WFH

4. Globalization retreat



5. Inequality



6. Debt burdens

7. US-China rivalry

8. Industry concentration
"Superstar firms"

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EDC ECONOMICS COVID-19 RESOURCES

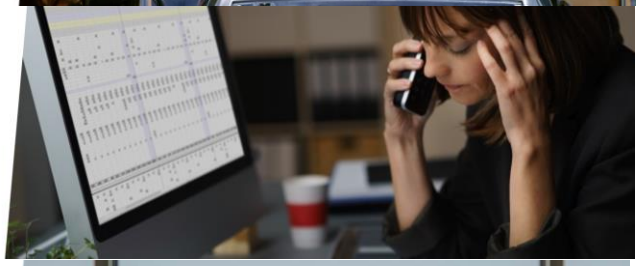
Foundational research, sector reports and survey results available on **EDC.ca**

COVID-19 crisis: Challenges mount for many Canadian sectors

EDC Economics analyzes the potential sectoral fallout in Canada

COVID-19: Insights on the impact on Canadian businesses

EDC Research Panel survey outlines how the pandemic is affecting Canadian companies in domestic and international markets.



COVID-19 grounds aerospace industry

With air traffic at a standstill, this sector is in for a wild ride. Read this EDC Economics overview to discover how it could take years for this industry to recover.

COVID-19: Navigating the turmoil in Canada's energy sector

Read this insightful report by EDC Economics for an overview of the global oil and gas crisis and its ramifications for Canadian producers.

COVID-19 puts the brakes on the auto industry

With assembly operations shut down and supply chains stalled, this sector has been hit hard by the pandemic. Read this EDC Economics overview to find out how it will rebound.

EDC ECONOMICS RESOURCES

- Weekly Commentary, Economic Insights newsletter
- Global Economic Outlook
- Global Export Forecast
- Country Risk Quarterly
- Trade Confidence Index
- Top 10 Global Risks
- Commodity and Global Market trackers
- Research reports

@ExportDevCanada

Export Help Hub
ExportHelp@edc.ca

edc.ca/en/tag/economic-insights.html

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ANNEX

Economic Forecast

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2019	2020*	2021*
Developed countries	**1.7**	**-4.2**	**5.6**
Canada	1.6	-9.4	5.2
United States	2.3	-3.7	6.5
Eurozone	1.2	-4.4	4.6
Germany	0.6	-4.0	5.8
France	1.3	-5.7	5.9
United Kingdom	1.4	-6.5	5.8
Japan	0.7	-4.4	4.0
Emerging countries	**3.6**	**-1.9**	**6.4**
China	6.1	-2.5	9.0
India	4.1	-1.2	8.0
Brazil	1.1	-3.0	4.7
Mexico	-0.1	-3.8	4.5
Total World	**2.9**	**-2.8**	**6.1**

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, April 2020

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2019	2020*	2021*
Currency	**Exchange Rate**			
U.S. dollar	**USD per CAD**	0.75	0.72	0.74
Euro	**CAD per EUR**	1.49	1.49	1.45
Euro	**USD per EUR**	1.12	1.08	1.08
U.K pound	**USD per GBP**	1.28	1.26	1.27
Interest Rates, annual average				
Bank of Canada, *Overnight Target Rate*		1.75	0.44	0.69
U.S. Federal Reserve, *Fed Funds Target Rate (Upper limit)*		2.14	0.46	0.63
Bank of England, *Policy Interest Rate*		0.75	0.68	0.54
European Central Bank, *Policy Interest Rate*		0.00	-0.01	0.14

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, April 2020

COMMODITY PRICES

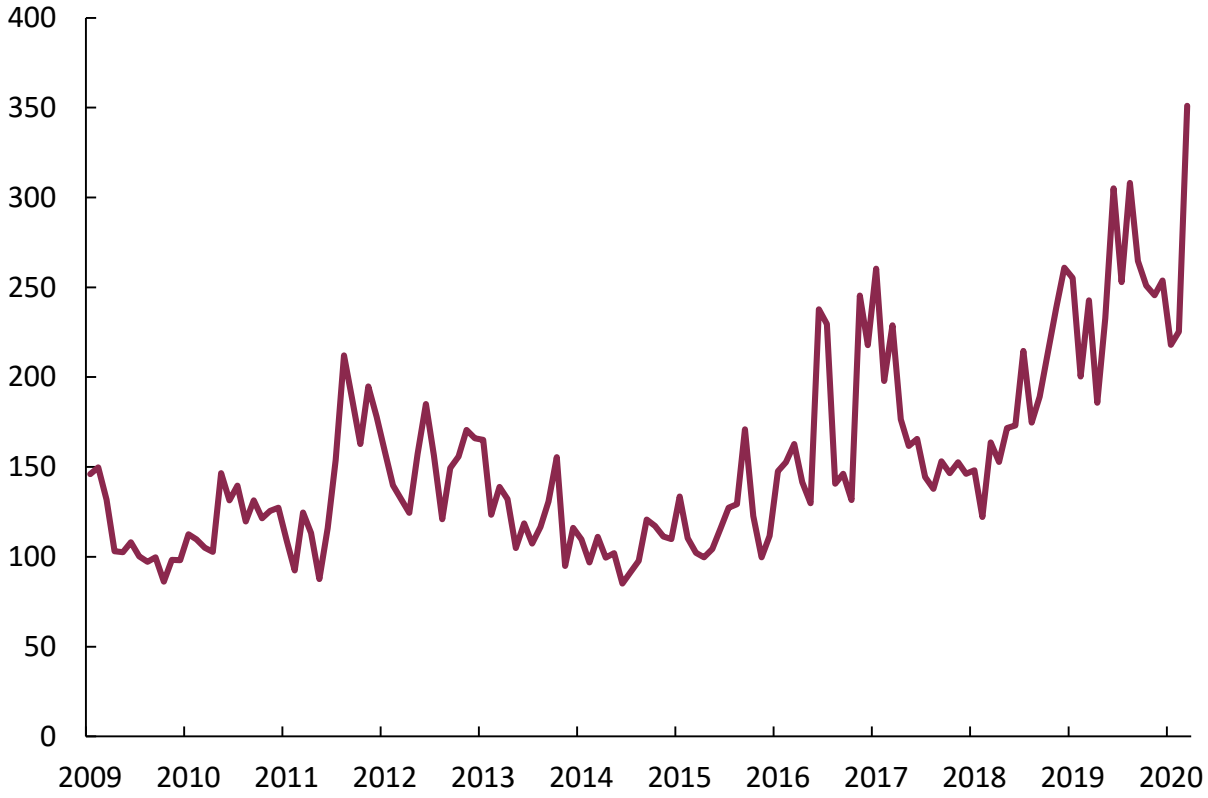
Global Economic Outlook	2019	2020*	2021*
Brent Crude Spot, *USD / bbl*	64.36	36.91	38.47
West Texas Intermediate, *USD / bbl*	56.99	32.20	33.73
Western Canada Select, *USD / bbl*	43.30	19.24	21.34
Natural Gas, *USD / MMBtu*	2.57	1.79	2.21
Gold, *USD / troy ounce*	1,392	1,554	1,482

Note: * denotes the forecast period.
Source: EDC Global Economic Outlook, April 2020

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.
- EDC's base case economic forecast, as of April 21, 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.

Sources: PolicyUncertainty.com, Haver Analytics

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ANNEX

Various EDC Programs

OUR SOLUTIONS

FINANCING

We help Canadian companies get access to capital.

INSURANCE

We offer protection that lowers the risk for Canadian companies doing business beyond our borders.

KNOWLEDGE

We provide expertise that enables our customers to make informed decisions and learn more about international markets.

CONNECTIONS

We connect Canadian and international companies to help both parties grow.

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INTRODUCING THE EDC BUSINESS CREDIT AVAILABILITY PROGRAM (BCAP) GUARANTEE

A financial solution that provides emergency liquidity to help small- and medium-sized Canadian enterprises during COVID-19

WHAT IS THE EDC BUSINESS CREDIT AVAILABILITY PROGRAM (BCAP) GUARANTEE?

- Provides a AAA-rated EDC guarantee to your financial institution on **new loans** in response to COVID-19 funding needs.
- Enables financial institutions to **extend additional credit** to SMEs to meet immediate cashflow needs.
- Open to Canadian businesses in need of **short-term liquidity** to sustain operations through COVID-19.
- Includes companies with **no export sales**.

EDC BCAP GUARANTEE QUALIFICATION CRITERIA

ELIGIBILITY	• Canadian business (does not require export sales) • Proceeds must be used to finance operations **in response to COVID-19 challenges**
MAXIMUM LOAN AMOUNT	• **$6.25 million CAD**
MINIMUM BORROWER RISK RATING	• S&P CCC- (or equivalent rating) as at March 1, 2020 • Or if your institution does not map to S&P ratings, a probability of default not greater than 15%
LOAN TYPE	• New operating loans • New cash flow term loans (cannot be used for existing credit facilities)

EDC BCAP GUARANTEE FEATURES

GUARANTEED PERCENTAGE	**80%**
DURATION	**Up to 5 years** (with annual renewal)
CURRENCY	**CAD**
PRICING	• **Fixed 1.8% EDC guarantee fee** charged to the financial institution on the authorized loan amount • No EDC set-up fee • All clients qualify for a six-month EDC fee payment deferral

EXPORT GUARANTEE PROGRAM (EGP)

1. Consent for up to 10% increase with FI-only increase (EGP does not follow coverage)
2. Approval for FIs to increase operating lines up to 10% of facility amount (EDC to follow coverage)
3. Acknowledgment of or consent for certain non-material changes
4. EGP fee deferrals
5. Extended claims period

EGP continues to be subject exclusively to EDC's traditional export mandate, except for support for companies within the PPE and medical supplies sector.

ACCOUNT PERFORMANCE SECURITY GUARANTEE (APSG)

- Streamlined process to provide up to a 25% increase in support for existing customers in need, with limits up to US/CAD$5 million
- New measures for non-exporting businesses: Government of Canada has broadened EDC's mandate to include support to all Canadian businesses—both exporting and non-exporting until the end of 2021

FOREIGN EXCHANGE FACILITY GUARANTEE (FXG)

Streamlined process for FXG requests on existing and new customers

- Existing customers
  - Limits of up to US/CAD$2 million
  - Increase up to US$50,000 or 25% of the current facility
- New customers
  - FXG requests up to USD/CAD$1 million

New measures for non-exporting businesses: Government of Canada has broadened EDC's mandate to include support to all Canadian businesses—both exporting and non-exporting until the end of 2021

CREDIT INSURANCE

- Payment relief on export receivables policies – deferral will be permitted on an as needed basis
- Increase in risk appetite and flexibility when assessing new buyer coverage requests and in cases of credit deterioration

TRADE FINANCE OBLIGATION (TFO)

EDC continues to provide our FI customers with the ability to mitigate risk and enhance capacity in uncertain times

Demand for TFO Support

- Increased demand since mid-March
- Strong demand in China (tier 1 and tier 2 banks) and across Asia
- TFO policy generally considered Basel compliant by our customers – capital relief enabling banks to allocate capital to other areas of the FI

Changes to Terms of TFO Cover

- No changes to the terms of TFO
- Flexibility on the terms of a number of transactions (extending payment terms)
- Slow payment resolution
- No change to claims waiting period

Foreign Bank Risk Appetite

- Rating changes on foreign banks to date have been manageable
- We continue to support the vast majority of requests with limited turndowns
- 100% program remains in tact (removed 10 transaction cap)
- Credit Insurance vs TFO

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