OPINION

Canada's economy need not fear the third wave of COVID-19

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PUBLISHED 2 HOURS AGO

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GM workers use human assistance automation to weld vehicle doors at the General Motors assembly plant in Oshawa, Ont., on March 19, 2021.

NATHAN DENETTE/THE CANADIAN PRESS

The emerging possibility of a third wave of COVID-19 in Canada – and another bout of shutdowns and stay-at-home orders to go with it – is something that none of us relish. It's disappointing. It's dispiriting. After a year of this, it's exhausting.

But for the economy, a third wave would pose little more than an unwelcome yet navigable bump on the road to recovery.

After all, recent economic data attest to just how remarkably little damage the second wave inflicted, and how quickly our pandemic-hardened economy has bounced back. With some important growth forces falling into place, there's good reason to believe the economy can weather a third wave even better than it did the second.

First, let's consider those economic indicators. Last week – with reports from Statistics Canada on manufacturing, retail sales and inflation – was particularly informative on that front.

The retail report, released Friday, showed that sales dipped 1.1 per cent in January, a month hit particularly hard by second-wave shutdown orders. Yet the decline was much smaller than Statscan’s preliminary estimate of 3.3 per cent, and the statistical agency estimated that sales rebounded a brisk 4 per cent in February – despite still-tight restrictions in many regions.

The manufacturing sector, meanwhile, barely skipped a beat in the second wave. Manufacturing sales jumped 3.1 per cent in January – again, exceeding Statscan’s preliminary estimate – delivering the strongest growth since last July.

The February inflation data showed that while the second wave may have weighed on prices for consumer services – which were most disrupted by closings – prices for goods gained steam, indicative of continued improving demand. Over all, inflation remains muted, but has bounced back from weakness associated with the arrival of the second wave in December.

Those encouraging signals add to previous data that suggested the economy had ridden out the second wave surprisingly well – including February employment figures showing that the labour market quickly recouped the massive second-wave job losses. Canadian real gross domestic product is on track for first-quarter growth at close to a 4-per-cent annualized pace, despite the second-wave shutdowns – far better than the GDP decline that most economists had anticipated at the start of the quarter. That comes on top of the nearly 10-per-cent annualized growth in the fourth quarter, which also shattered expectations that the rise of the second wave would stall growth.

It’s increasingly apparent that we’ve learned over the past year how to roll with COVID-19 restrictions and carry on our economic activities. Businesses have adjusted their supply chains, production and delivery systems; consumers have become adept at online shopping and curbside pick-up. We’ve shifted consumption patterns and preferences, but continued consuming. While closings still hit some businesses and sectors hard, the overall economic impact has become much more manageable.

It certainly helps that we can now see the light at the end of the pandemic tunnel, thanks to vaccines, which have provided a sense of optimism in the second wave of the pandemic that has continued to grow as the third wave approaches.

Nevertheless, the Canadian delays in getting vaccine supplies over the winter have left our country more exposed to a third wave than some others, most conspicuously our neighbour and major trading partner to the south. After this weekend, about

9 per cent of Canadians have received at least one vaccine shot, compared with roughly one-quarter of U.S. residents. In Canada, there is a race on between the steadily increasing number of vaccinations and the rising rate of infections and hospitalizations with troubling COVID-19 variants – and the virus, for the moment, may be winning.

But even if the third wave temporarily slows Canada’s domestic economic activity, Canada stands to benefit from the spillover from U.S. growth, which looks less likely to be slowed by third-wave effects. In addition to its much more advanced vaccination situation, the U.S. economy is about to receive a massive lift from the U.S. government’s recently approved US$1.9-trillion stimulus package.

The Organization for Economic Co-operation and Development recently estimated that the U.S. stimulus could deliver about a 1-per-cent boost in Canadian GDP over the next 12 months, bringing a surge in demand from Canada’s biggest export market that could more than make up for any third-wave lag in domestic demand.

None of this is likely to make you particularly happy about the possibility that we’ll have to shut down businesses, or stay holed up in our homes, or avoid our friends and relatives, for a few more weeks in order to quell a third wave of this deadly virus. But at least we have plenty of reason for hope that we have the economic fortitude to overcome it.

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