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OFFICE OF
THE CHIEF
ECONOMIST

QUARTERLY ECONOMIC AND TRADE REPORT

Q1 2021

FIRST QUARTER 2021

	% change vs Q4 2020	% change, YTD
Global real GDP*	2.1	2.4
Global merchandise trade volume	3.5	6.7
Canadian real GDP*	5.6	0.3
Canadian employment	0.2	-1.3
Canadian exports	7.0	6.0
Canadian imports	0.5	-5.5

HIGHLIGHTS

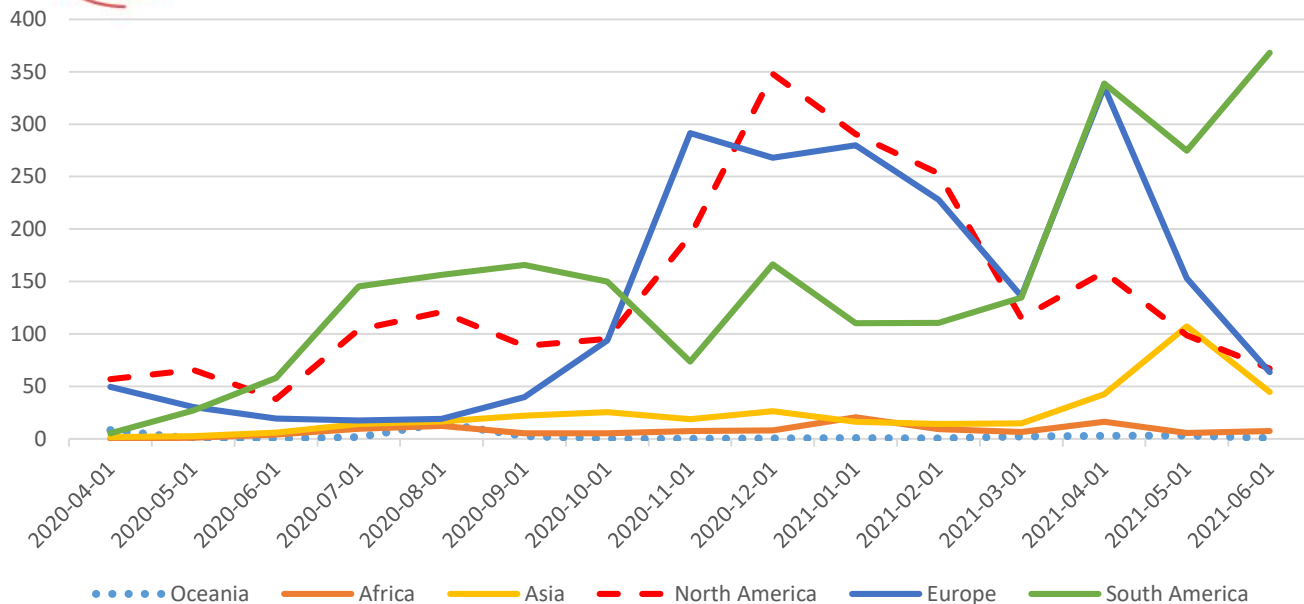
- Globally, the pace of economic recovery remains relatively strong and growth has been revised upward for 2021 and over the medium-term. Year-to-date (Q1 2021), global trade volumes expanded 6.7% compared to Q1 2020.
- In Canada, annualized real GDP growth in the first quarter was 5.6%, and is now 0.3% greater than the first quarter of 2020 (pre-pandemic), supported by generous fiscal stimulus and high commodity prices.
- Canadian goods exports remained above pre-pandemic levels through the 1st quarter of 2021, increasing 9.8% relative to the 1st quarter of 2020. Goods export growth was mainly driven by energy products, aircraft and other transportation, and forestry products.
- Canadian services trade remain deeply affected by the pandemic impacts. In the 1st quarter of the year, exports remained 10.8% below the same period of last year, and imports were 31.1% lower. Recovery in services trade remains limited while travel restrictions are in place.

Notes:

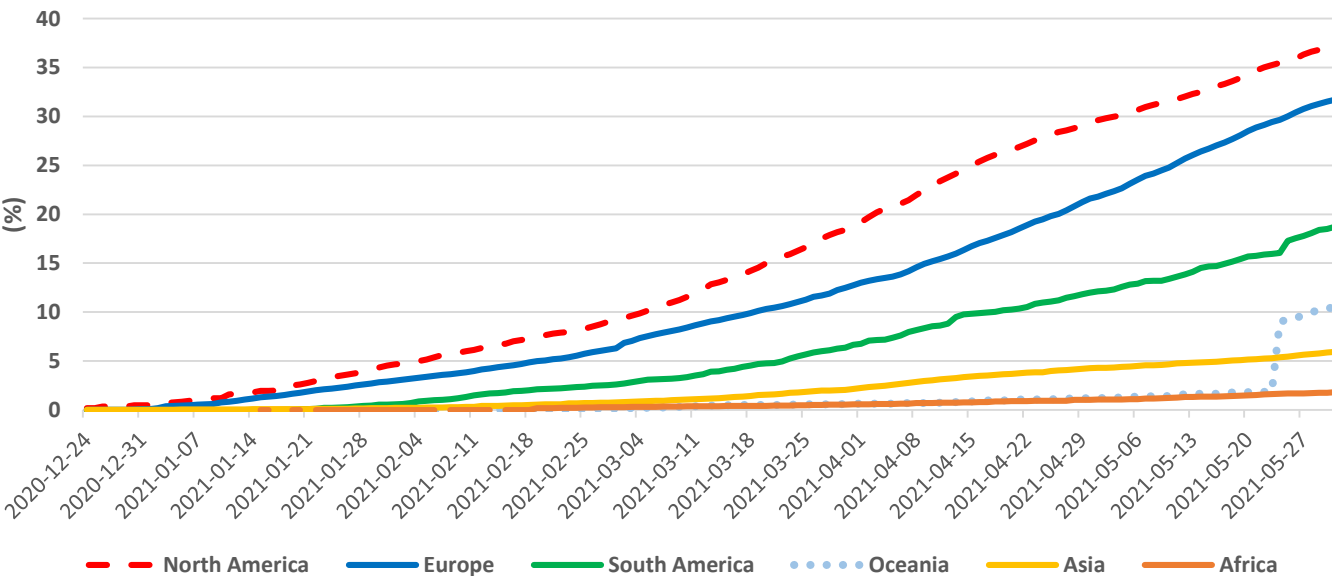
*GDP is quarterly changes at annualized rates. "YTD %" is the year-to-date change compared to the same period in the previous year.

Source: Oxford Economics, Netherland Bureau for Economic Analysis, Statistics Canada.

Daily new confirmed cases of COVID-19 per million



Share of people who received at least one dose of COVID-19 vaccine



GLOBAL COVID-19 CASES AND VACCINATION ROLL-OUT

COVID-19 UPDATE

- As we awaited the massive production of vaccines, Q1 2021 saw the emergence of coronavirus variants that forced governments into new lockdowns.
- Vaccination began modestly in the first quarter and accelerated thereafter. As of June 1st, global cases and deaths had continuously decreased for 5 and 4 consecutive weeks, respectively.
- India’s daily cases peaked on May 8 at 403,405 cases, and have now started to decline throughout the country.
- In South America, Brazil’s number of new cases has stabilized at around 300 per million people. However, Argentina and Colombia have seen a resurgence in new cases.

VACCINATION

- Vaccination has accelerated in the last three months and as of June 1st, 30-40% of the population in North America and Europe had received at least one dose of COVID-19 vaccine.
- In the South American region, countries including Chile, Uruguay, Dominica, Antigua and Barbados have received vaccines through the COVAX program and are showing a good initial vaccination coverage.

GROWTH HAS STALLED IN MANY OF THE TOP ECONOMIES

Most GDP forecasts have been revised upward for 2021 and the pace of economic recovery should remain relatively stable, although the emergence of new variants of COVID-19 has reinforced that the pandemic is not over yet.

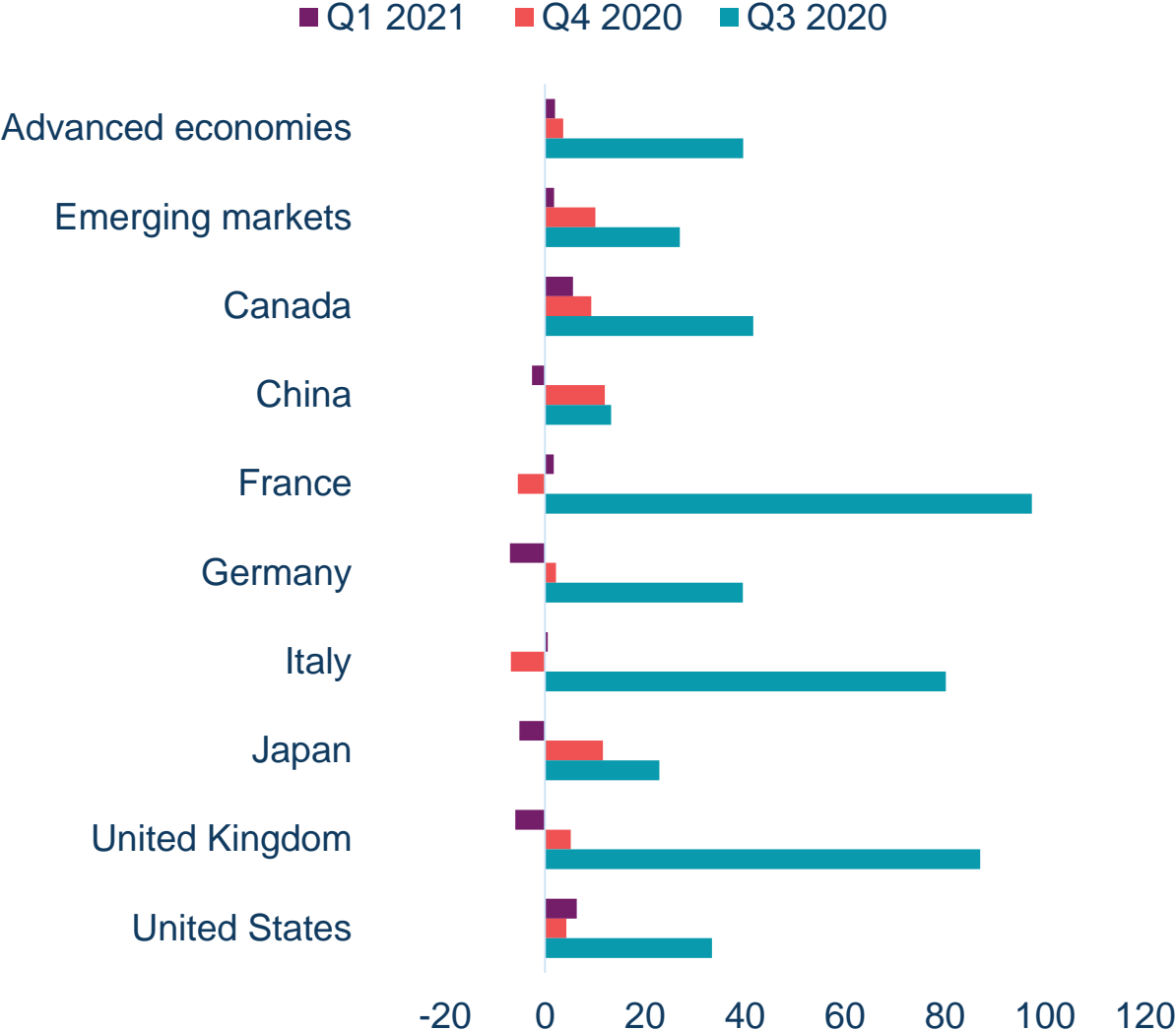
China suffered a disappointing Q1 outcome amid renewed coronavirus caution around the Chinese New Year. Despite COVID-19 hotspots such as India and Brazil, economic activity in Emerging Markets (excluding China) has improved, benefiting from a global trade upswing.

In Japan, tightened restrictions in Q1 weighed on the economic recovery. The services sector was hit especially hard, while trade and production proved resilient.

In the EU, Germany’s economy contracted by 7.0% during Q1 2021. Despite growing exports, containment measures still negatively affected tourism, leisure and (non-food) retail sectors. France surprisingly showed a modest increase in Q1, on the strength of consumer spending and investment.

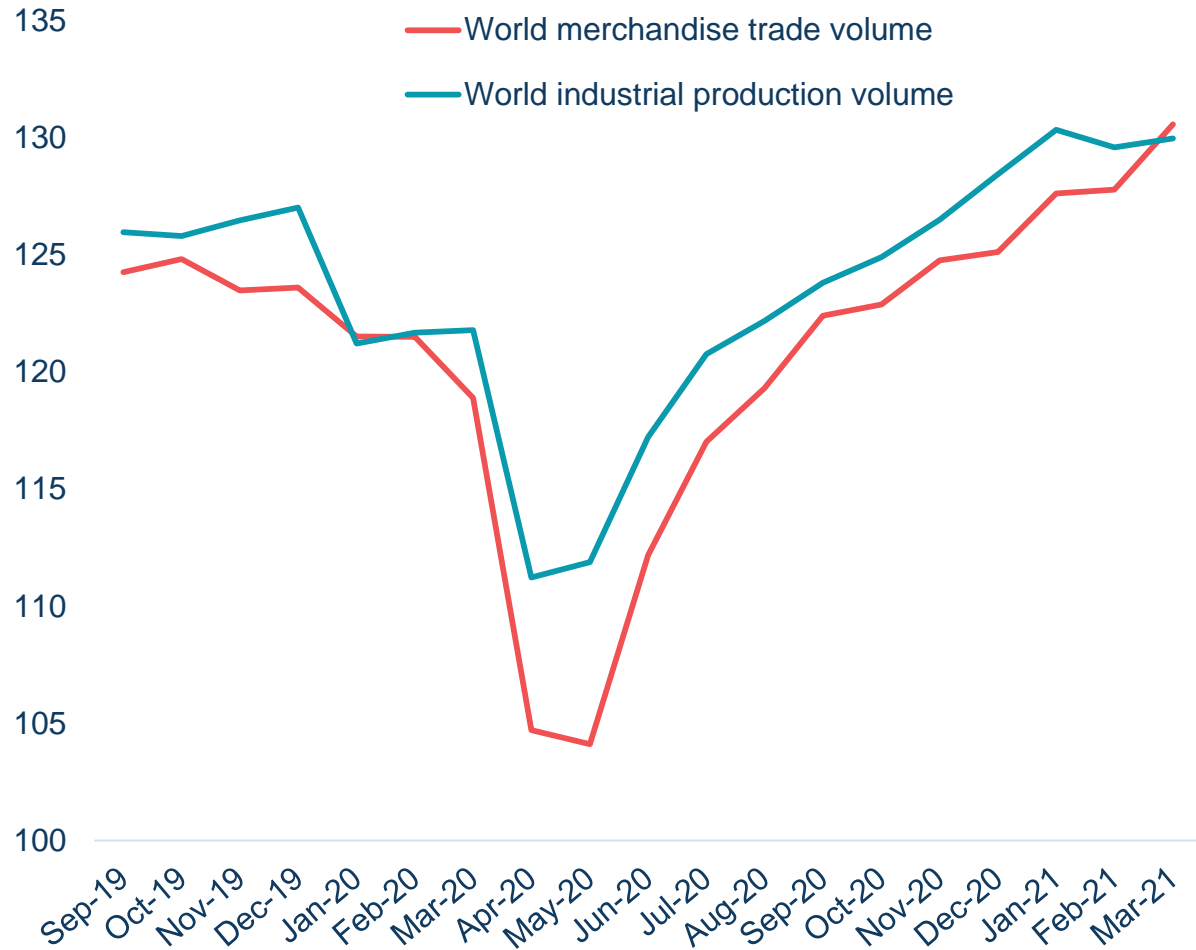
Substantial fiscal stimulus and improved health conditions have been reflected in consumer spending in the U.S. during the later part of Q1, setting the tone for a summer boom. The strength of the U.S. economy is likely to boost Advanced and Global economies’ growth during the months to come.

GDP growth, top economies (quarterly % change, annualized)



Sources: Oxford Economics, Statistics Canada, Eurostat, France INSEE, Italy ISTAT, UK ONS, Japan ESRI, U.S. BEA. Retrieved on 2021-06-02.

World merchandise trade and industrial production volume (Index 2010 = 100)



Source: Netherland Bureau for Economic Analysis. Retrieved on 2021-06-02.

WORLD TRADE VOLUMES PUMP UP MOMENTUM, INDUSTRIAL PRODUCTION TAKES A PAUSE

Strong monetary and fiscal policies undertaken during the pandemic by many governments have prevented trade and global output from a larger decline. In advanced economies, fiscal policies boosted personal incomes allowing people to maintain consumption levels, as household spending shifted away from services towards goods.

Building on its momentum, world merchandise trade volumes increased 3.5% in the first quarter of 2021, slightly down compared to Q4 2020 (3.9%). The growth was driven by imports, mostly from emerging economies. By the end of Q1 2021, led by a surge in the U.S., U.K. and the Eurozone, advanced economies had mostly recovered to reach pre-pandemic merchandise export trade volumes.

In Q1 2021, World Industrial Production volumes were up 7% compared to Q1 2020, driven by China and other emerging Asian economies. A modest rebound in the United States towards the end of Q1 2021 suggest a longer term recovery could be around the corner.

A STRONG GLOBAL ECONOMIC RECOVERY IS EXPECTED IN 2021

The International Monetary Fund (IMF) is now forecasting a stronger than expected recovery in 2021, adding 0.5 percentage points to the previous forecast to reach 6.0% growth.

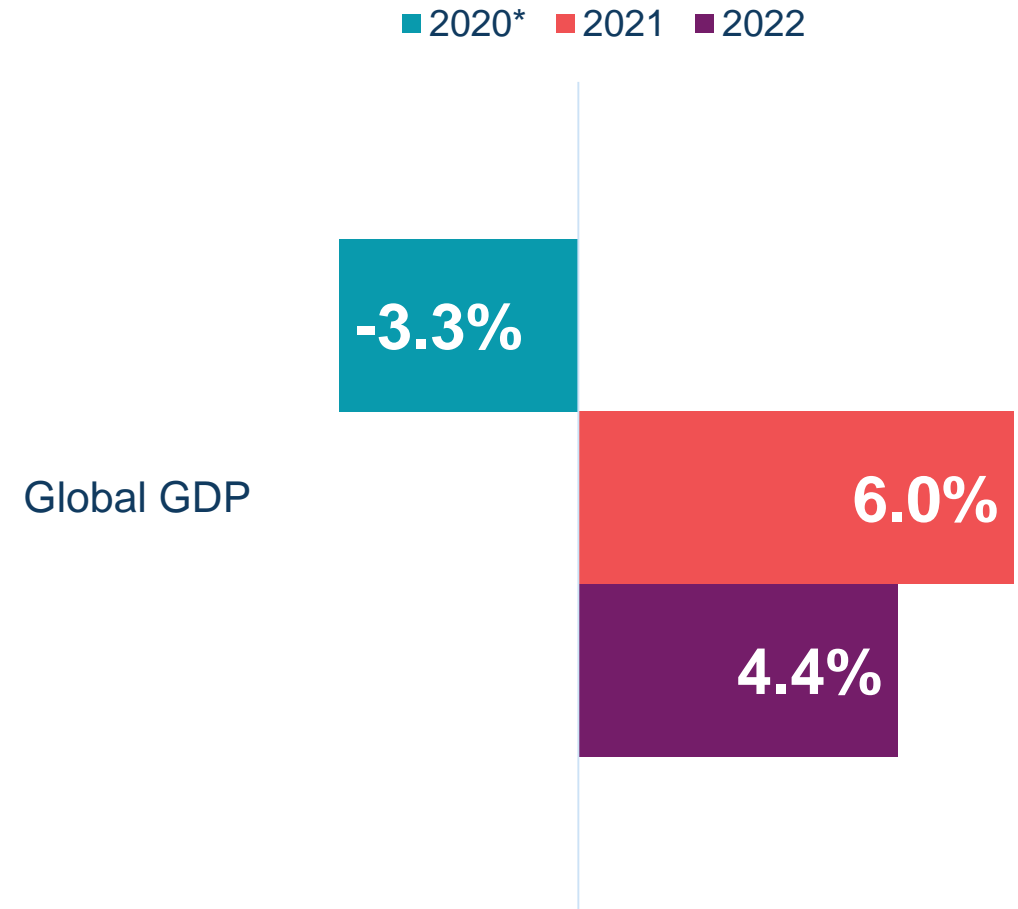
Multi-speed recoveries are underway in all regions and are linked to the pace of vaccine rollout, economic policies support, and structural factors such as reliance on tourism.

The 2021 GDP for advanced economies has been revised upwards by more than 1.2 percentage points to 5.1%, led by the U.S. which is on track to exceed its pre-COVID level this year.

Led by China, which had already returned to pre-COVID GDP in 2020, forecasts for emerging and developing economies have been revised upward. In 2021, 0.6 percentage points were added to the forecast and growth should reach 6.7%, while growth in 2022 is estimated at 5.0%.

As pointed out by the IMF, a high degree of uncertainty surrounds these projections; greater progress with vaccinations can boost the forecast, while new virus variants could lead to a sharp downgrade. Policies will need to be calibrated to the stage of the pandemic and well-targeted fiscal support towards households and firms will be crucial to maintain the momentum in the economic recovery.

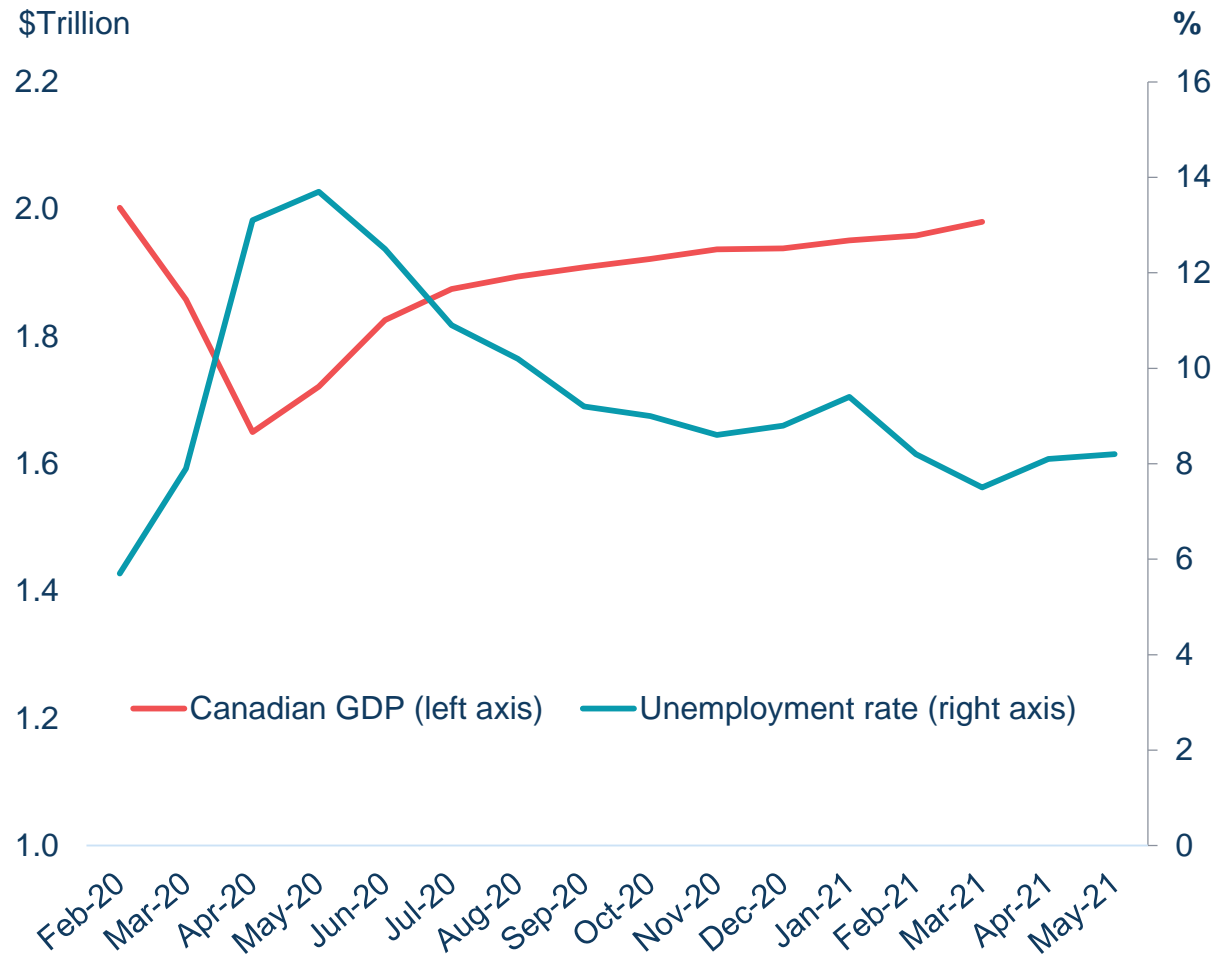
Global forecasted GDP growth (annual % change)



Source: IMF, World Economic Outlook, April 2021.

*GDP 2020 is actual

Monthly Canadian GDP and unemployment rate



Source: Statistics Canada Table 36-10-0434-01 & Table 14-10-0287-01.

STRONG CANADIAN GDP GROWTH IN 1ST QUARTER DESPITE RE-IMPOSED RESTRICTIONS

The Canadian economy remained strong in the first quarter of the year despite the restrictive measures to contain the second wave of the pandemic. While these measures were later relaxed, the country saw cases rise once again by the end of the quarter, when the third wave began.

Despite the tight restrictions, GDP increased 5.6% annualized in Q1 2021. Most expenditure components posted growth in the first quarter with residential investment growing 9.4%, government consumption posting 1.7% growth, and household consumption increasing 0.7%.

In the first quarter of the year, the Canadian labour market showed resilience, closing the period with the lowest unemployment rate since February 2020, at 7.5% in March. In April, however, some provinces imposed tight restrictions in response to the third wave of the pandemic, which quickly affected the labour market: 207,000 jobs were lost in April and another 68,000 in May. The largest losses were observed in Ontario and British Columbia, and in sectors directly impacted by restrictions, such as retail trade, accommodation and food services, and information, culture and recreation. In May, employment was still 3.0 percentage points below pre-pandemic levels.

The job losses observed after March affected more women than men, with women accounting for 65% of them. As a result, the gender gap had widened by May 2021, when female employment was 4.2% below pre-pandemic levels compared to 1.9% for males.

CONTINUED, BUT UNEVEN, RECOVERY FOR CANADIAN INDUSTRIES

Real GDP continued to grow in the first quarter of 2021, with both goods- and services-producing industries posting increases. This marks the third consecutive overall quarterly increase since the beginning of the pandemic. In March, however, total economic activity was still about 1% below pre-pandemic levels (Feb 2020).

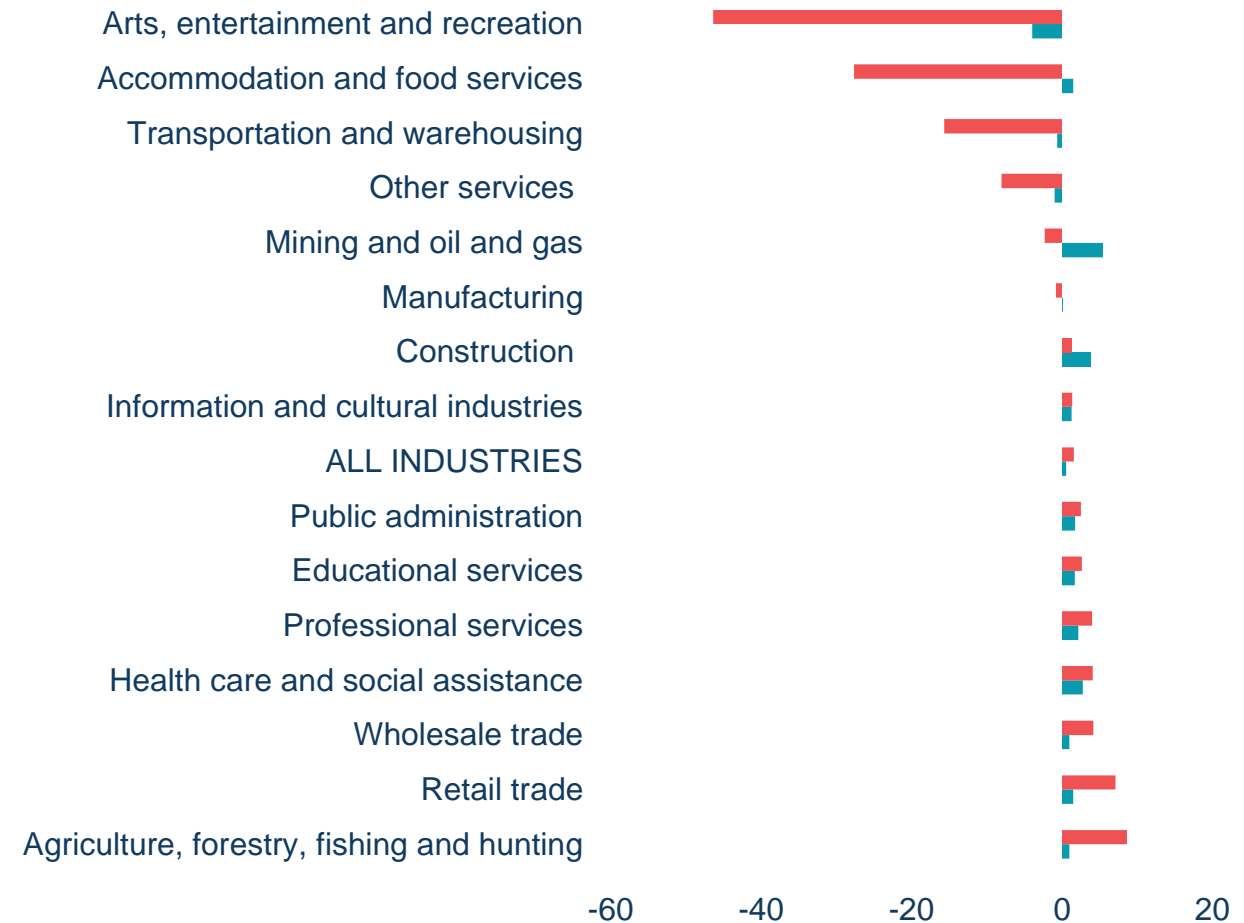
February's easing of restrictive measures implemented by many provinces supported the quarter's growth. Overall, real GDP increased 5.6% in Q1 relative to the last quarter of 2020, annualized, with the construction sector contributing the most on the strength of residential construction, followed by mining, oil and gas extraction.

Industries that rely more on face-to-face contact, such as arts and recreation, accommodation and food services, and transportation and warehousing, struggled to return to the levels of activity observed a year ago. Other sectors, such as agriculture, forestry, fishing and hunting, as well as retail trade, and wholesale trade, have benefited from higher demand and higher prices.

GDP by industry

(% change in 2021 Q1 compared to reference period)

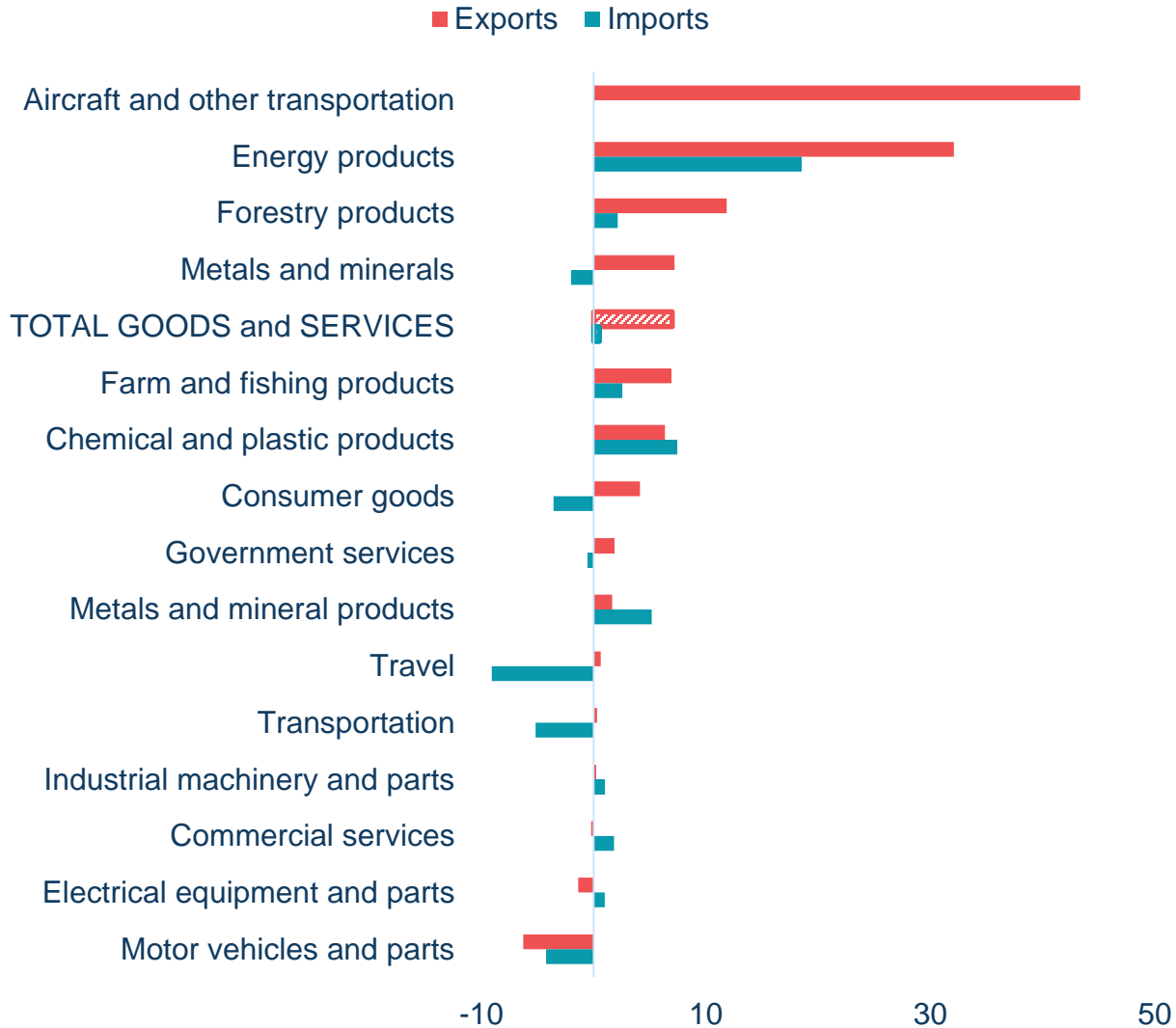
■ YTD % ■ Q/Q %



Sources: Statistics Canada Table 36-10-0434-01.

Note: Q/Q % is change from the previous quarter; "YTD %" is the year-to-date, change compared to the same period in the previous year.

International trade by product (2021 Q1, quarterly % change)



RESOURCE PRODUCTS CONTINUE TO SUPPORT EXPORTS IN Q1

Canadian **exports** experienced a strong increase in the first quarter of 2021, growing 7.0% compared to the previous quarter. **Goods** exports grew 8.4%, mainly driven by **energy** products, aircraft and other transportation, and forestry products. Strong price effects partially supported higher exports of energy products, as well as metals and minerals. Aircraft and other transportation benefited from exports of decommissioned aircrafts to the United States. Relative to the first quarter of 2020, goods exports were up 9.8%. **Services** exports slightly decreased 0.1% in Q1 2021 from the previous quarter, driven by lower exports of **commercial services**. Services exports are 10.8% below the same period last year, because of limited recovery, most notably in travel services.

Imports of goods inched up 0.6% in the first quarter of the year, mostly driven by **energy products**. Compared to the same period in 2020, goods imports increased 1.5%, supported by consumer goods and electronic and electrical equipment. **Services imports** saw a decline of 0.2% relative to the previous quarter and a 31.1% decline relative to the first quarter of 2020. Both drops were mainly driven by lower **travel services**. Combined, **goods and services imports** increased 0.5% in Q1 2021, relative to the previous quarter.

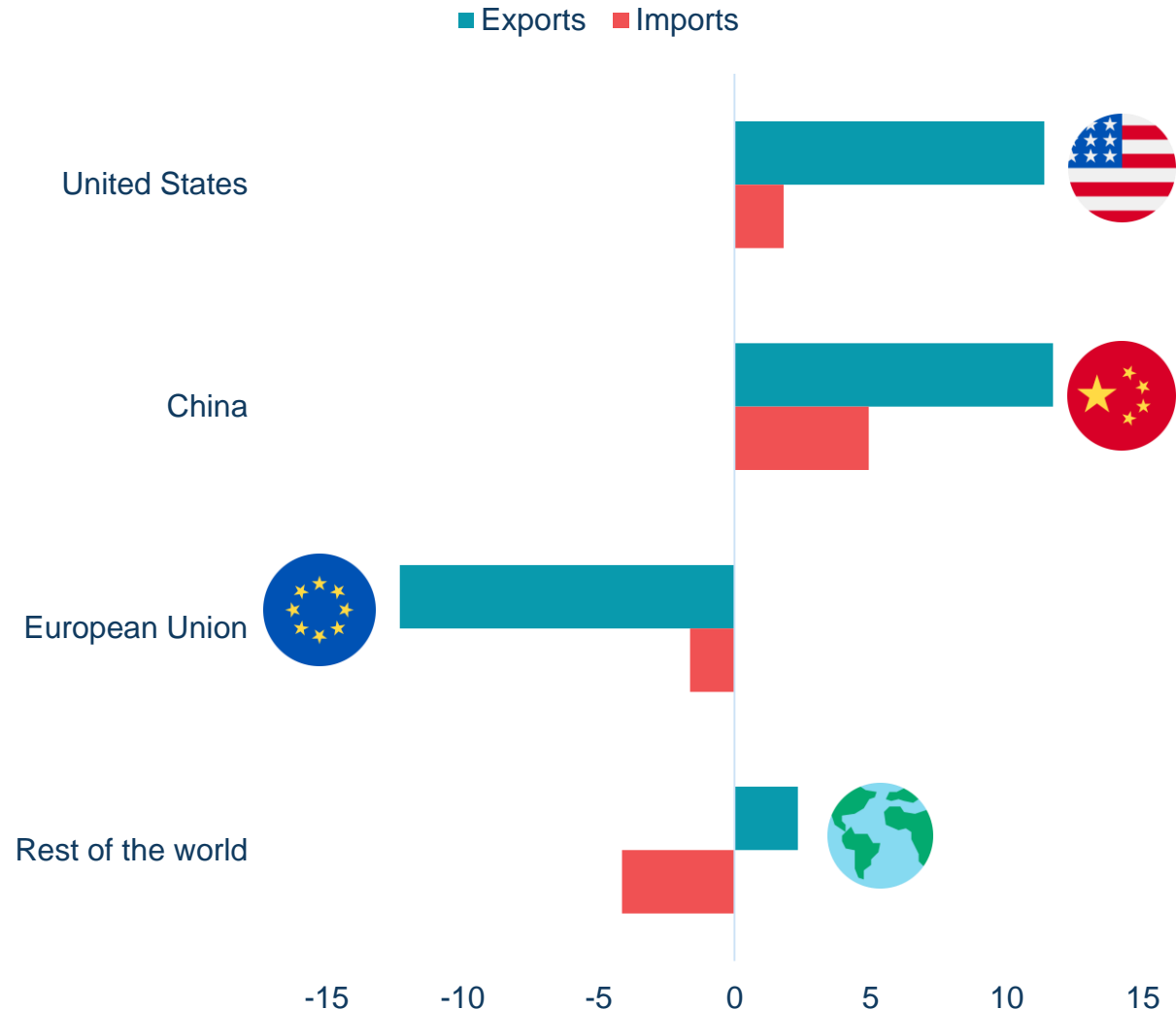
STRONG TRADE GROWTH WITH THE U.S. AND CHINA IN Q1

The first quarter of the year experienced a recovery in goods trade with the United States, after declines in both exports and imports in the previous quarter. Goods exports increased 11.4% and imports 1.8%. Similarly, exports to China also increased in Q1 2021, after a decline in Q4 2020, and imports continued growing, at a rate of 4.9%. Relative to the first quarter of 2020, exports to the United States increased 9.9% while imports declined 1.4%.

Goods trade with the European Union reversed the growth observed in the previous quarter and posted declines in both exports (12.3%) and imports (1.6%).

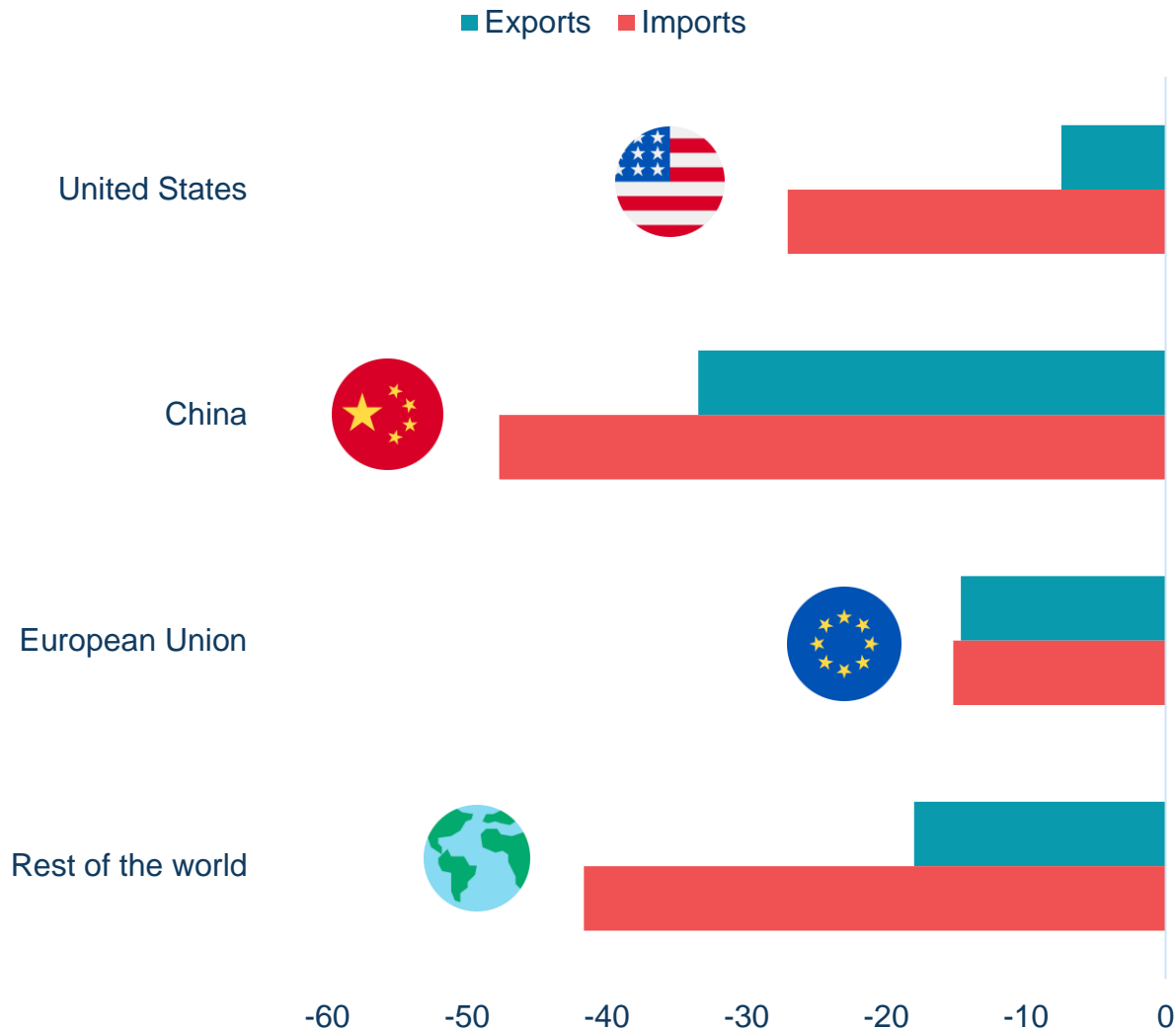
Goods exports to the rest of the world increased 2.3% while imports declined 4.1%. The growth in exports, driven by Hong Kong, Saudi Arabia and others, was partially offset by a large decrease (26.8%) in exports to United Kingdom on lower gold exports.

Goods trade, by major trading partner (2021 Q1, quarterly % change)



Source: Statistics Canada Table 36-10-0023-01, balance of payments basis, seasonally adjusted. European Union does not include the United Kingdom.

Services trade, by major trading partner (2021 Q1, annual % change)



SERVICES TRADE RECOVERY HAS YET TO BEGIN

Services trade with all major trading partners continued to struggle in the first quarter of 2021, relative to the same period of 2020.

Travel and transportation services remained well below pre-pandemic levels, as travel restrictions remained in place. Compared to the first quarter of 2020, commercial services exports rose 2.0% and imports increased 2.4%, driven by financial services, which can be delivered remotely.

While services exports to the U.S. remains weak, they are doing better than other partners, mainly supported by commercial services exports. Services exports to the European Union have also recovered some of their losses in the last two quarters and are not as far from pre-pandemic levels.

Services imports were hit harder than exports and have been experiencing a slower recovery.

ECONOMIC FORECASTS REVISED UPWARD AS BUSINESSES AND CONSUMERS ADJUST TO RESTRICTIONS

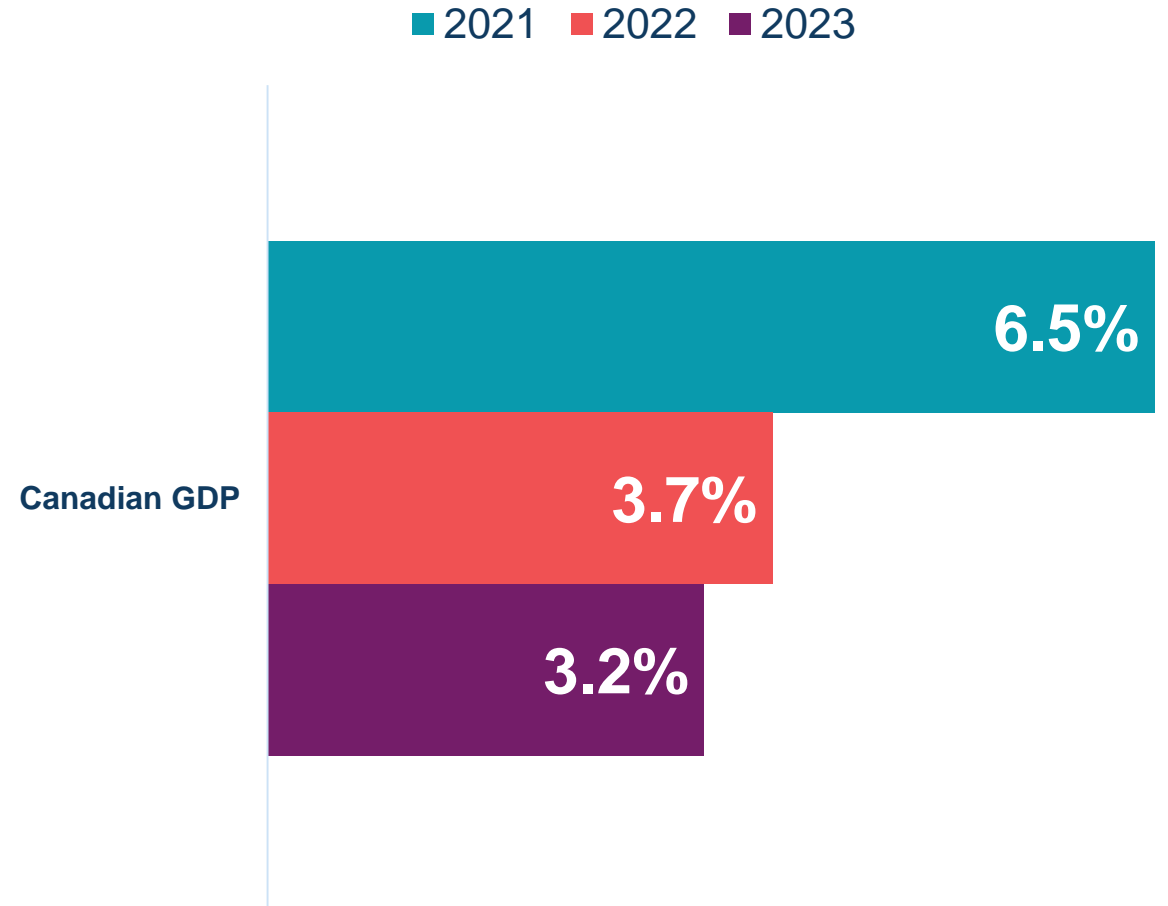
As the economy recovers from the COVID-19 pandemic, the Bank of Canada has added an impressive 2.5 percentage points to its previous forecast and the Canadian economy is expected to reach growth of around 6.5% in 2021, slowing to 3.7% in 2022 and 3.2% in 2023.

Domestic and foreign indicators have pointed to a stronger recovery than anticipated. Domestic demand is expected to increase, supported by relatively high disposable income powered by additional fiscal stimulus, low interest rates and improved consumer confidence. Supported by the rebound in U.S. industrial production, demand for Canadian machinery and equipment and non-energy commodities are expected to continue to boost exports; higher commodity prices (energy, lumber, base metals) and improved business confidence should stimulate business investment and mitigate the adverse impacts of the recent appreciation of the Canadian dollar.

Some risks remain, such as the persistence of changes in consumer preferences (e.g. the shift towards telework that could influence demand for housing and reduce the need for both personal and public transportation), and the uneven labour market recovery, as unemployment remains high in accommodation and food services and retail.

Services exports are anticipated to rebound as travel restrictions are eased, however, in a recent survey by the Conference Board of Canada, businesses have indicated that travel budgets might remain below pre-pandemic levels indefinitely.

Canadian forecasted GDP growth (annual % change)



Source: Bank of Canada, Monetary Policy Report, April 2021.

Table 1: Canadian trade by industry sector
(\$ millions)

	Exports			Imports		
	Q1 - 2021	Q/Q %	YTD %	Q1 - 2021	Q/Q %	YTD %
Goods	152,718	8.4	9.8	151,034	0.6	1.5
Resource products	86,770	13.3	19.9	47,464	5.8	-0.1
Energy products	27,893	32.1	28.6	6,254	18.5	-27.4
Non-resource products	61,676	2.8	-0.9	97,229	-2.0	1.1
Industrial machinery & equipment	9,086	0.2	-7.6	16,370	1.0	1.9
Electronic machinery & equipment	6,644	-1.4	-4.1	18,263	1.0	9.7
Motor vehicles and parts	19,551	-6.3	-6.9	25,292	-4.2	-4.5
Aircraft & other transportation equipment	7,726	43.4	18.0	4,087	0.0	-36.7
Consumer goods	18,669	4.1	4.0	33,217	-3.6	8.8
Services	28,220	-0.1	-10.8	27,762	-0.2	-31.1
Travel	2,770	0.6	-53.8	1,400	-9.1	-88.7
Transportation	3,481	0.3	-13.4	5,371	-5.2	-27.3
Commercial	21,637	-0.2	2.0	20,640	1.8	2.4
Government	332	1.8	-23.3	350	-0.6	-8.9
Total Goods and Services	180,938	7.0	6.0	178,796	0.5	-5.5

Note: "Q/Q %" is the change from the previous quarter; "YTD %" is the year-to-date (Q1 to recent quarter) cumulative change compared to the same period in the previous year.

Source: Statistics Canada Table 36-10-0019-01 & 36-10-0021-01. Balance of payments basis, seasonally adjusted.



Table 2: Goods trade by trading partner
(\$ millions)

	Exports			Imports		
	Q1 - 2021	Q/Q %	YTD %	Q1 - 2021	Q/Q %	YTD %
United States	112,006	11.4	9.9	94,250	1.8	-1.4
Mexico	2,363	22.0	20.6	4,642	-9.1	-2.4
European Union	7,112	-12.3	-1.6	13,137	-1.6	-2.6
France	889	-3.6	-17.1	1,241	-0.8	4.7
Germany	1,631	-1.3	-11.0	3,654	-2.2	-6.9
United Kingdom	5,373	-26.8	6.6	2,196	-6.9	10.9
India	549	-37.6	-52.8	1,047	-7.1	2.8
China	7,611	11.7	36.2	14,669	4.9	50.1
Japan	3,343	7.1	4.4	2,787	-8.2	-9.3
South Korea	1,268	0.6	8.6	2,207	-5.6	16.3
Rest of the world	13,094	20.6	11.5	16,096	-1.1	-6.6
Total Goods Trade	152,718	8.4	9.8	151,034	0.6	1.5

Note: "Q/Q %" is the change from the previous quarter; "YTD %" is the year-to-date (Q1 to recent quarter) cumulative change compared to the same period in the previous year.
Source: Statistics Canada Table 36-10-0023-01. Balance of payments basis, seasonally adjusted.

Table 3: Services trade by trading partner
(\$ millions)

	Exports		Imports	
	Q1 - 2021	YTD %	Q1 - 2021	YTD %
United States	16,708	-7.5	16,135	-27.1
Mexico	285	-28.6	331	-78.0
European Union	2,913	-14.7	3,719	-15.2
France	727	-27.2	572	-22.0
Germany	505	-16.1	676	-13.9
United Kingdom	1,429	-10.6	1,570	-19.5
India	786	-37.7	477	-30.2
China	1,381	-33.4	488	-47.7
Japan	316	-19.4	548	-23.0
South Korea	205	-39.2	93	-38.0
Rest of the world	5,255	-14.0	5,038	-42.8
Total Services Trade	29,280	-13.0	28,400	-31.1

Note: "YTD %" is the year-to-date (Q1 to recent quarter) cumulative change compared to the same period in the previous year.
Source: Statistics Canada, Table 36-10-0024-01. Balance of payments basis, seasonally unadjusted.