

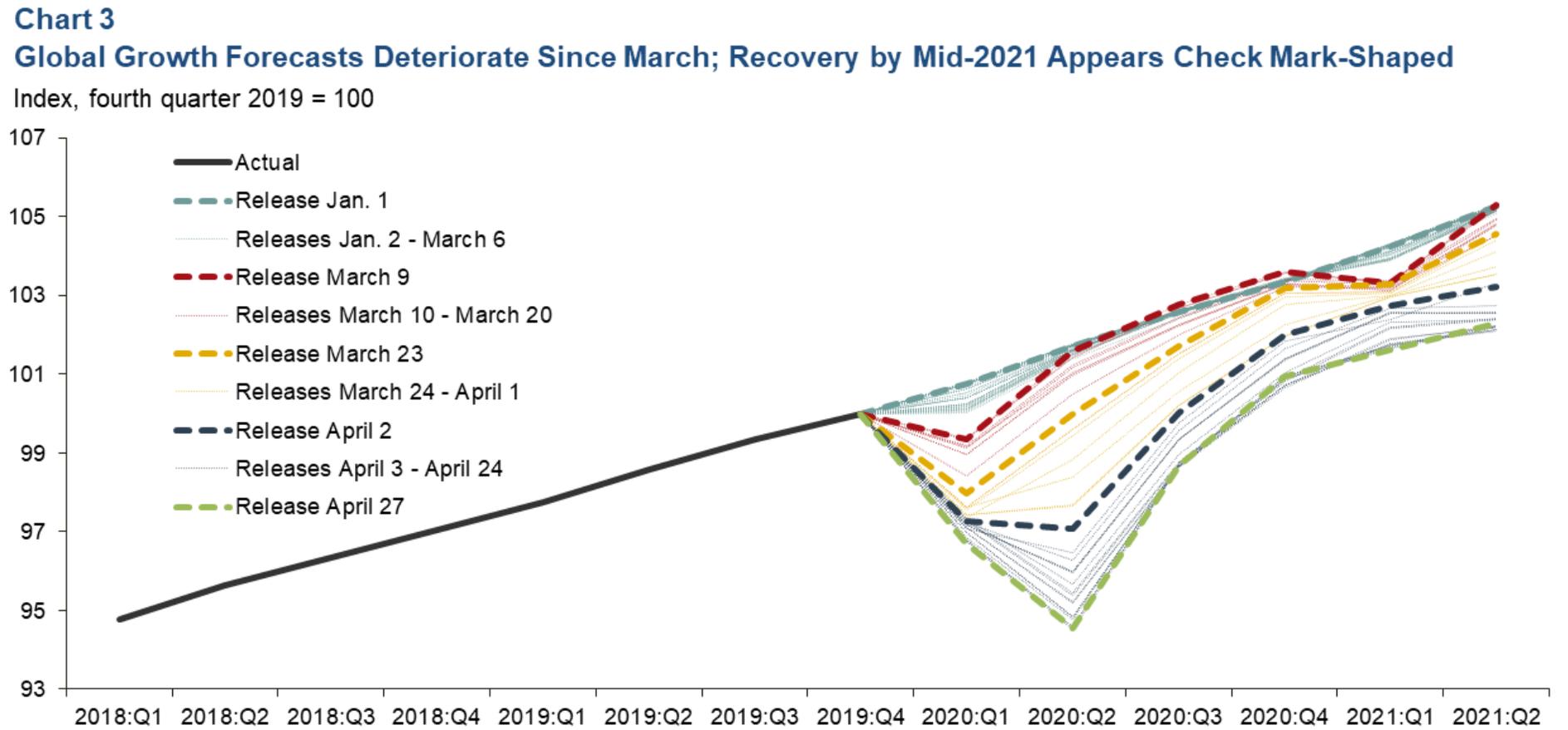


Macro snapshot

Professor Tony Frost
Thursday, June 4 2020

Forecasting is hard, especially when its about the future

V-shaped recovery looks unlikely for the global economy. U-shaped or “checkmark” more likely.



Source: Federal Reserve Bank of Dallas

Canada: L U V recovery? All of the above

Worth remembering: Any macro recovery story is an aggregation of different micro stories

Chart 2: Industries in the 'I' Group Unlikely to Reach Pre-crisis Activity Level in Near-term



Source: Statistics Canada, TD Economics

7 industries, ~ 10% of GDP

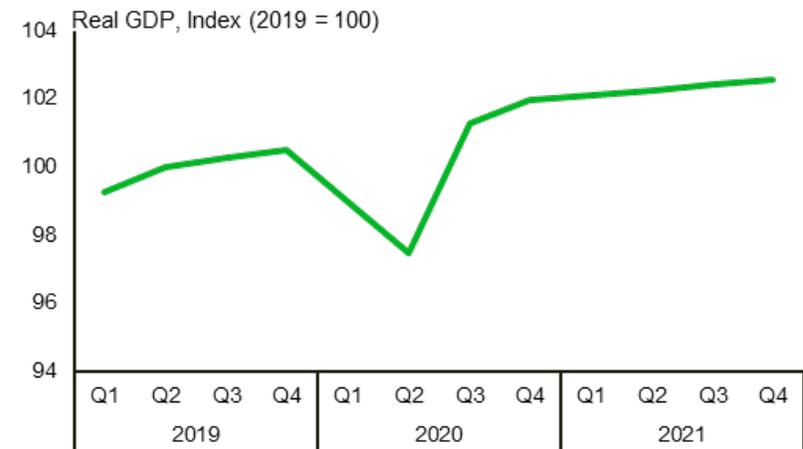
Chart 3: Activity Expected to Recover Gradually for Majority of Industries



Source: Statistics Canada, TD Economics

30 industries, ~ 60% of GDP

Chart 4: A Slice of Industries Are Likely to Get Back to Normal Quickly



Source: Statistics Canada, TD Economics

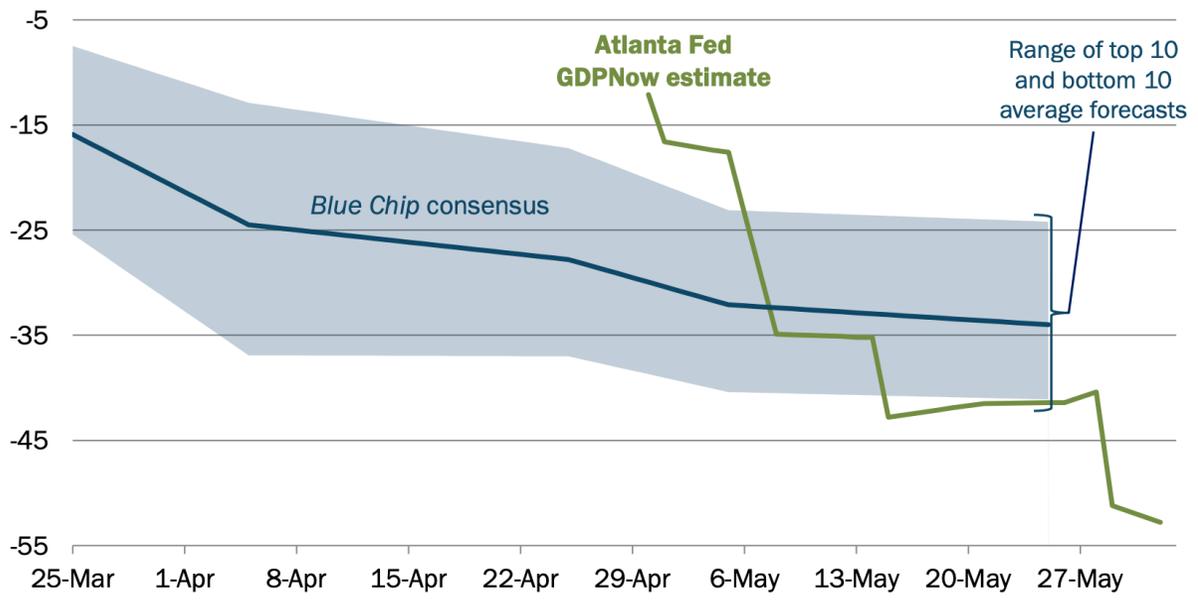
12 industries, ~ 30% of GDP

Source: TD Economics

US GDPNow estimates for Q2 still worsening...

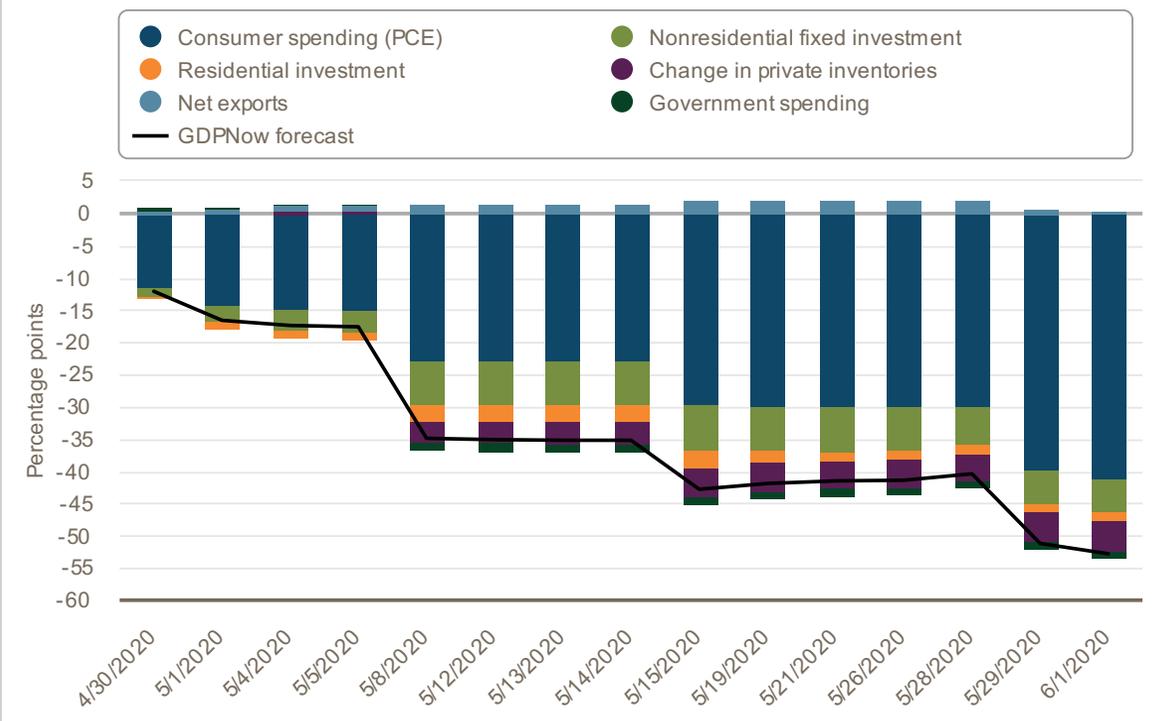
Fiscal programs are holding up incomes for now, but consumer spending is way down.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2020: Q2
Quarterly percent change (SAAR)



Source: Federal Reserve Bank of Atlanta

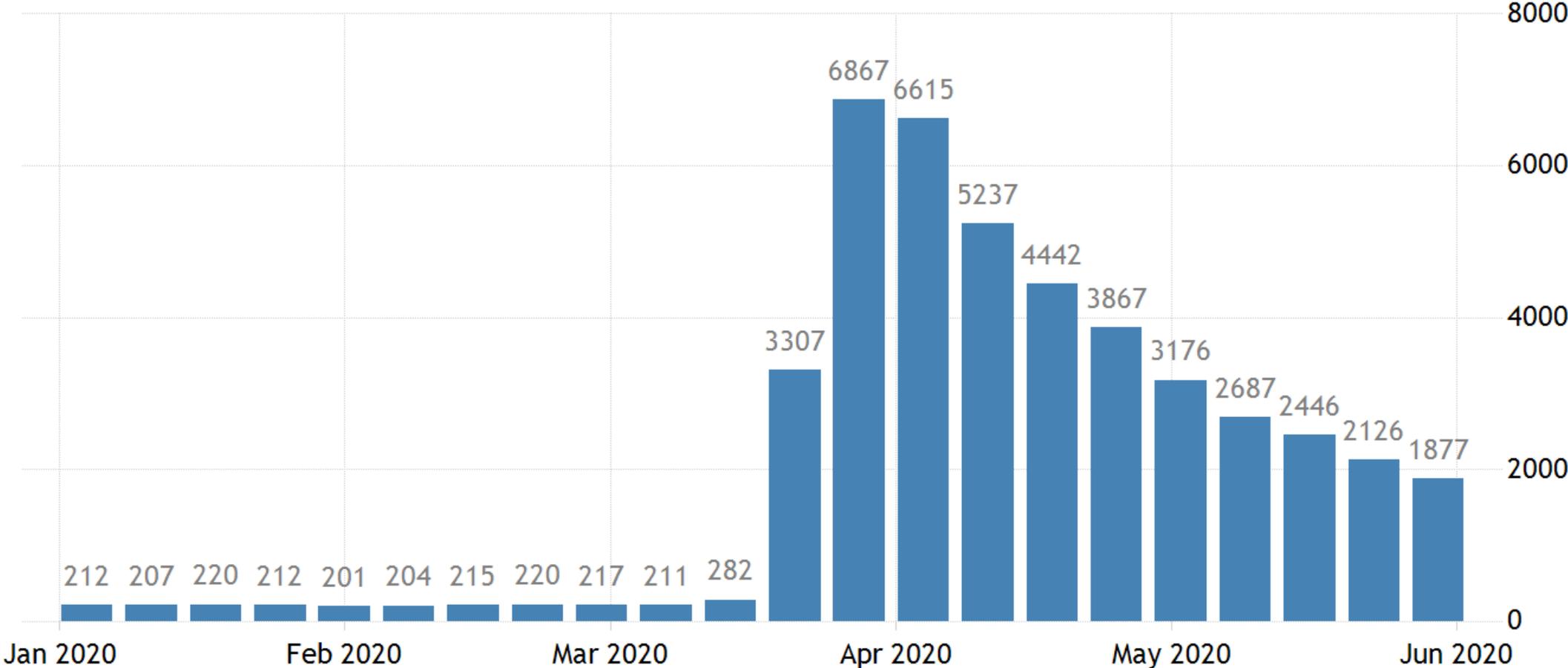
Subcomponent contributions to GDPNow real GDP growth forecasts



Source: Atlanta Fed

Are you an optimist or a pessimist?

US initial job claims still rising, but at a lower rate. Total since March 21st now up to 42.6 million.



SOURCE: TRADINGECONOMICS.COM | U.S. DEPARTMENT OF LABOR

From March 2020 to June 2020

1. We are all Sweden(s) now

- From homogeneity to heterogeneity in virus containment strategies
- Both national *and* sub-national variation in lockdown / opening (BC v. Ontario)

2. If we open, will they come?

- As lockdowns are lifted, consumers will decide our economic fate
- And consumer spending looks like it has changed, maybe fundamentally

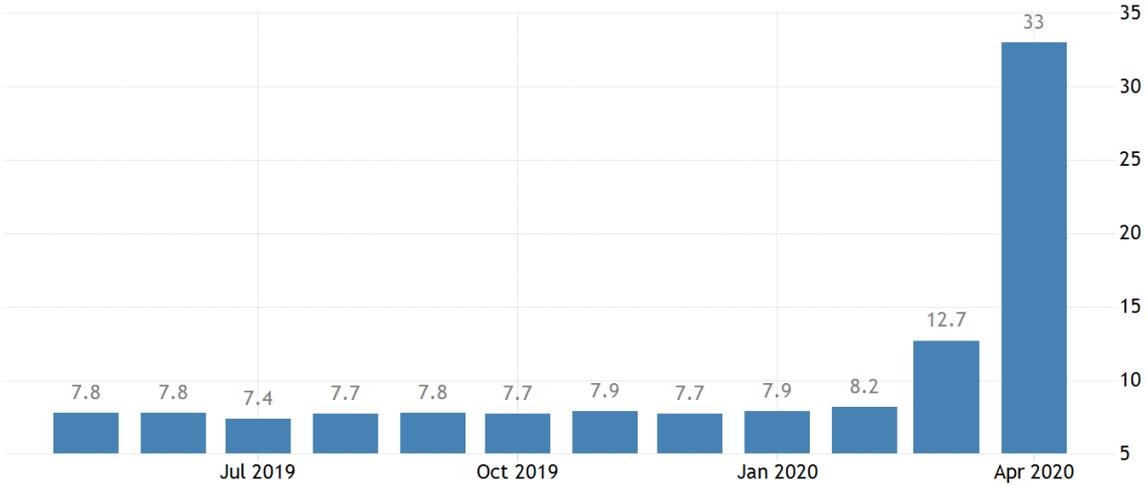
3. Double bind: Demand side for some sectors, supply side for others

- Fractured and disrupted supply chains
- Business model viability @ 50-90% capacity utilization?

Savings rates rising across advanced economies

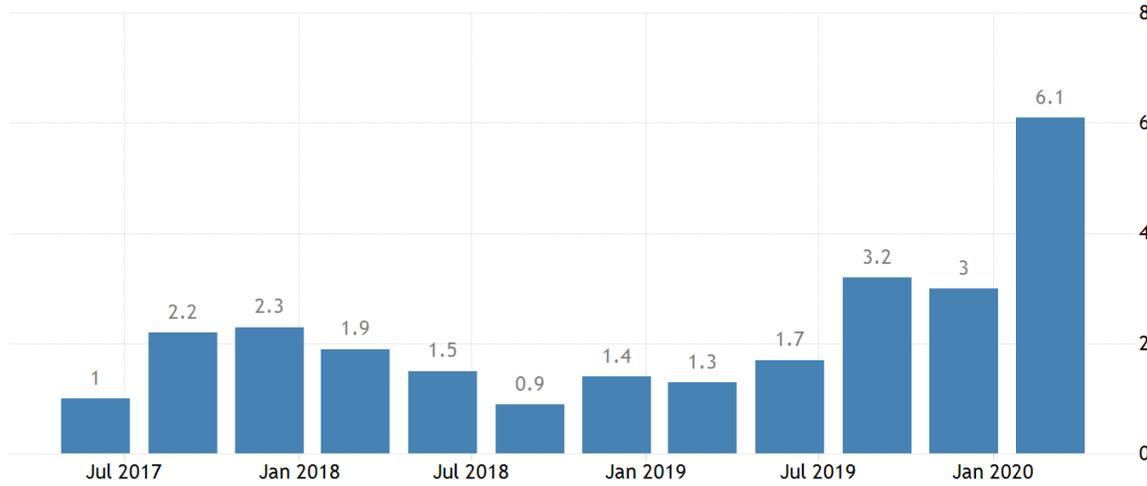
Job or income insecurity. Not being allowed to shop. Fear of shopping, even if allowed

US: Personal savings rate



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

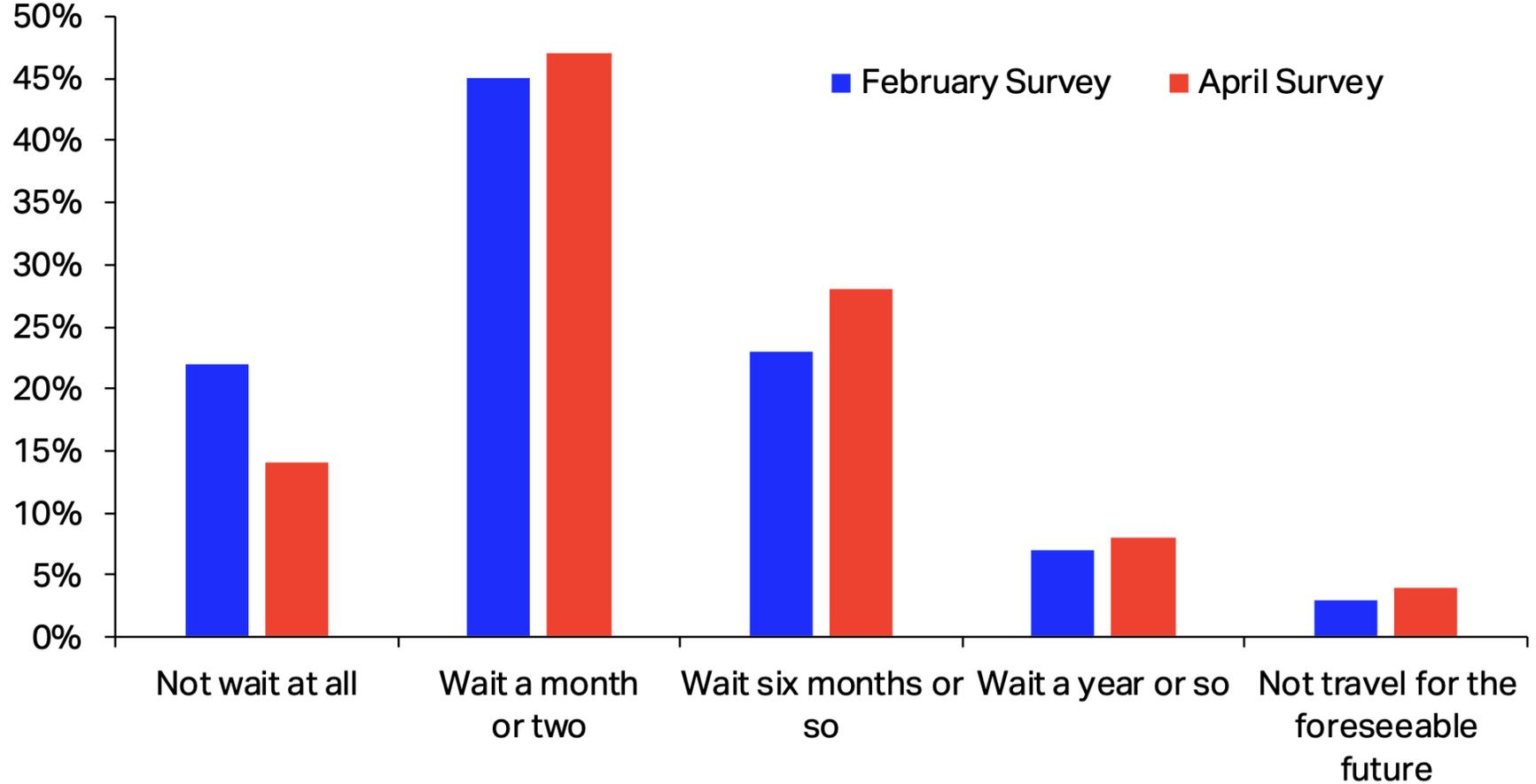
Canada: Household savings rate



SOURCE: TRADINGECONOMICS.COM | STATISTICS CANADA

Only 14% of consumers say they would resume travel as soon as restrictions are lifted

Passenger confidence key to the post-COVID-19 recovery in air travel
Returning to Travel After Containment Announcement



Three big macro changes from March to June

1. We are all Sweden(s) now
 - From homogeneity to heterogeneity in virus containment strategies
 - Both national *and* sub-national variation in lockdown / opening (BC v. Ontario)
2. If we open, will they come?
 - As lockdowns are lifted, consumers will decide our economic fate
 - And consumer spending looks like it has changed, maybe fundamentally
3. Double bind: Demand side for some businesses, supply side for others
 - Fractured and disrupted supply chains
 - Business model viability @ 50-90% capacity utilization?

Sorry to say, your business model may be borked...

The world will be different post-COVID 19. Welcome to the “no fun” economy.

- Can these businesses, running at 50-90% capacity, ever turn a profit?
 - Restaurants and bars
 - Cinemas
 - Airlines
 - Cruise ships
 - Training and education
 - Live entertainment
- And what happens to prices?
- Will, e.g. flying, return to a “rich people only” activity as it was long ago?