

STORM WITHOUT END

Chapter 1: The Economic Impact of COVID-19 on Canada and the Provinces

by Livio Di Matteo

The international economic and fiscal disruption and impact of the pandemic has been enormous. Canada and its provinces were not immune from the economic impact of the pandemic. According to the IMF, Canada in 2020 saw its estimated real GDP shrink 5.2% with revised projections of economic growth now at 4.6% in 2021, 3.9% in 2022 and 2.8% in 2023. The period spanning January 2020 to approximately January 2022 saw the most precipitous fall in economic activity since the Great Depression, raising the risk of deflation, a rapid rebound, and then more gradual economic progress that extended into early 2022. Since then, we have moved into a period of boom marked by excess demand, the lowest unemployment rate in nearly five decades, inflation, and now rising interest rates.

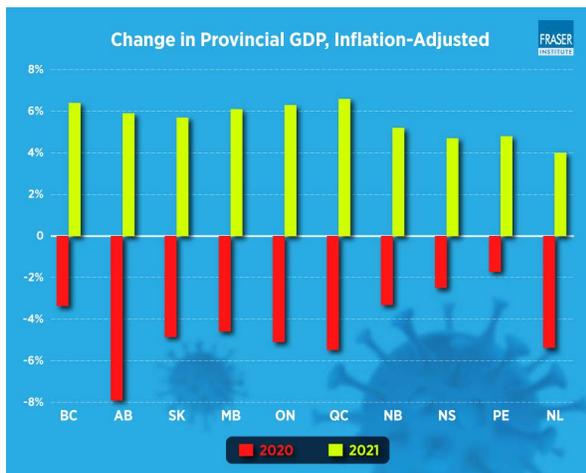
The first wave of the pandemic had the most severe economic impact given its novelty and the uncertainty about its consequences and spread, and assorted measures to contain the virus in the absence of either vaccines or immunity. There was a drop of 11% in real GDP in the second quarter of 2020 followed by rebounds of 9% and 2% in the third and fourth quarters of 2020 and of 1% in the first quarter of 2021. However, there was another decline in output of approximately 1% in the second quarter of 2021 as a result of another wave of COVID-19, but vaccine rollout during this period mitigated the drop. Recovery commenced in the third quarter of 2021, when real GDP finally surpassed the level set in the first quarter of 2020. But, by the fourth quarter of 2021, real GDP was only 2% higher than it had been two years earlier, a sign of substantial foregone output.

All provinces were affected by the virus and the measures instituted to manage it, though some weathered the storm better than others at certain points during the pandemic,

depending in part on the size of the COVID-19 surge in each province and the economic effects of the restrictions imposed. For example, in 2020 the hardest hit economy was Alberta with an estimated 8% real GDP drop followed by Quebec and Newfoundland & Labrador, each falling by over 5%, then Ontario at about 5%. The Atlantic provinces and British Columbia, on the other hand, were hit less hard with real GDP drops of between 3% and 4%. The subsequent estimated real GDP rebound in 2021 was greatest in Quebec, British Columbia, and Ontario at over 6%, respectively, followed by Alberta, Saskatchewan, and New Brunswick at over 5%.

The correlations between infections and deaths from COVID-19 and GDP and employment performance do not appear as important as that between the length and intensity of restrictions and poorer economic performance—restrictions which in the end were adopted mainly to conserve scarce hospital capacity. Ontario and Quebec, for example, implemented

some of the most stringent pandemic responses, imposing lockdowns and other restrictions. Ontario was hard hit by drops in retail sales, particularly during the second and third pandemic waves. Alberta, on the other hand, instituted fewer restrictions but had much higher case counts overall, as well as the second highest employment growth of the ten provinces.



The largest drop in employment occurred in Quebec at approximately 19% by April of 2020. Next in terms of severity of the drop in employment was Nova Scotia (16.0%), British Columbia (15.4%), and Alberta (15.1%). The smallest employment drops were for Saskatchewan (13.0%), New Brunswick (13.4%), and Manitoba (13.8%). Prince Edward Island, Ontario, and Newfoundland & Labrador were mid-ranked at between 14.7% and 14.5%. Recovery in employment then began, though there were ebbs and flows in the process and even by January 2022 not all provinces had recovered to pre-pandemic levels.

Travel was particularly hard hit by the pandemic. The monthly total number of Canadians returning from abroad plunged from 2.84 million to 168,607 between March and April of 2020—a 94% drop—while the number of those returning from the United States fell from 1.90 million to 134,522—a 93% decrease. Canadian air carriers transported 28.4 million passengers in 2020, less than one third (30.2%) of the 94.1 million passengers carried in 2019. As well, operating revenue of Canadian air carriers in 2020 fell to less than half (41.4%) of the figure reported in 2019.

In trying to put the pandemic behind us, it is not clear whether the federal and provincial governments have learned any clear lessons about how to deal with either a resurgence of COVID-19 or a new pandemic while minimizing disruption to the economy. At the same time, the experience of the pandemic appears to have underscored the ultimate resilience and adaptability of firms, workers, and consumers in the Canadian economy as they adapted to the challenges of a new economic environment.



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