Macro Impact and Micro Analysis of COVID-19 on Canadian Economy--Based on the Post-Pandemic Development Era

Xuan Zhu*

Victoria College, University of Toronto, Toronto, Canada

*Corresponding author: xjulia.zhu@mail.utoronto.ca

Abstract. The worldwide economic landscape has experienced drastic alternation since the COVID-19 epidemic. As a major participant in international markets, Canada has been significantly impacted. This paper examines the extensive effects of the pandemic on the Canadian economy, including macro and microeconomic factors. The macroeconomic analysis examines the downturn and slow recovery of economic growth and employment, interruptions in international trade and investment, and changes in financial markets symptomatic of both local and global concerns. The microeconomic analysis investigates the direct impacts on tourism, which has encountered unparalleled difficulties; business operations of varying scales, emphasizing the transition to digital platforms and enterprise adaptability from small to large; and market demand, which has experienced a notable evolution in consumer behavior and expenditure patterns. The objective of the study is to provide a comprehensive explanation of how the mentioned factors impacted Canada’s response to the pandemic. It blends data analysis with economic theory to identify post-pandemic adaptive techniques and policy interventions for continuous recovery and development.

Keywords: Canada; economic development; COVID-19; post-pandemic.

1. Introduction

In December 2019, the coronavirus affected the global economy significantly, particularly in commerce, investment, and labor markets. The pandemic resulted in a rapid cessation of economic operations across nations as governments enforced lockdowns to mitigate the spread of the virus. This led to a noticeable decline in global GDP with the International Monetary Fund (IMF) projecting a 3.5% reduction in global growth contraction for 2020 [1], the most severe since the Great Depression. Supply chains experienced problems and delays, resulting in shortages and inflation in some industries, while the demand for services, especially tourism and hospitality, plummeted.

Canada, a large participant in the global economic system, has been profoundly influenced by the disruptions. The country ranks among the world's major economies, positioned inside the top 15 by GDP. It is a significant exporter of commodities like oil, natural gas, minerals, and forestry products, therefore strongly associating its economy with global commodity prices and demand. Canada's financial markets are well-developed, enhancing its substantial position in global finance. The pandemic's economic effect in Canada was varied. The decline in oil prices in early 2020, exacerbated by diminished global demand, severely impacted the energy industry. Manufacturing and exports saw significant disruptions owing to global supply chain issues and a downturn in international commerce. The domestic service industries, especially travel, hotel, and retail, saw historic revenue decreases. The Canadian government implemented significant fiscal stimulus measures, including direct cash assistance to people and companies, to alleviate the economic decline.

As the world enters a post-pandemic phase, Canada’s economic recovery is expected to be incremental. The future robustness of the economy will depend on several things, including the rate of immunization, global economic recovery, and stability in commodities markets. The Canadian government has redirected its emphasis towards facilitating a green recovery, with investments in sustainable infrastructure and technology expected to be pivotal. The pandemic-induced transition to digitization is anticipated to persist in shaping economic activity, potentially benefiting industries like technology and e-commerce.

The paper aims to analyze the macro and micro impact of the coronavirus on the Canadian economy. At the macroeconomic level, growth stagnated, unemployment rates increased as industry decelerated or ceased operations, foreign trade and investments encountered significant disruptions, and financial markets exhibited considerable volatility. On a microeconomic level, the tourism sector experienced substantial reductions in visitor counts and revenues, prompting businesses across diverse industries to modify their operations and strategies to adapt to new market conditions. At the same time, consumer demand notably shifted towards digital services and products rather than conventional retail and services.

2. Macro Impact of COVID-19 on the Canadian Economy

The COVID-19 epidemic has significantly influenced Canada's socioeconomic environment, radically transforming its economic landscape. It precipitated a substantial recession, characterized by pronounced decreases in GDP and unprecedented surges in unemployment, notably impacting industries such as services and hospitality. Global supply chain disruptions and a decrease in international demand impeded commerce and investments. The financial markets saw significant volatility, leading the Bank of Canada to conduct assertive monetary measures, including reducing interest rates and enacting quantitative easing [2].

2.1. Economic Growth and Unemployment

The virus instigated Canada’s sharpest economic contraction since the Great Depression. Lockdowns and public health interventions resulted in an abrupt stop in its economic activity, leading to a significant decline of 10.7% in GDP during the second quarter of 2020 [3]. Despite a drastic rebound with the relaxation of limitations in June of that year, total economic production diminished and continuously fluctuated without any overall increase.

According to data from Statistic Canada, the GDP growth descended sharply under the 0% threshold at the beginning of 2020, signifying a significant decline or contraction in the measured metric. After the first drop, a notable recovery occurs as it ascends sharply in May and June 2020, briefly above the 0% baseline, indicating a rebound or correction after the initial disturbance. Following recovery, it stabilizes at the 0% threshold after August of that year, with little variations above and below the point. This suggests a degree of stability in the measured economic indicator; however, persistent issues remain as the GDP later fails to regularly exceed the baseline. The fluctuating pattern from 2021 to 2023 indicates a stabilization at the break-even point, with no substantial profits or losses, which reflects a prudent economic climate influenced by the ongoing consequences of the epidemic.

Interconnected with that, the labor economy had significant changes, with unemployment rates reaching unprecedented levels during the onset of the epidemic. Sectors such as services, retail, and hospitality were especially hard hit, resulting in massive employment losses. Government initiatives, such as the Canada Emergency Response Benefit (CERB), were essential in stabilizing the labor market and providing temporary financial assistance to impacted workers. Attributing to these measures, the Canadian labor market had experienced a gradual recovery. According to data sorted by MacroTrend, by the end of 2020, employment started to improve, although it was uneven across different sectors, especially in some service industries [4]. The unemployment rate decreased to 7.5% by the middle of 2021, indicating the market’s continuous recovery. These statistics show the serious disruption the epidemic created and the significant role of the government’s support.

2.2. International Trade and Investment

Canada's heavy dependence on foreign commerce indicated that the economic repercussions of the COVID-19 epidemic seriously influenced trade balances and investment flows. The worldwide dislocation of supply chains and a reduction in international demand negatively impacted fundamental Canadian exports, particularly in industries like natural resources and automotive manufacturing. These industries, usually major contributors to Canada's trade surplus, experienced diminished order volumes and lower revenues, altering trade dynamics and economic stability. For example, interruptions in auto-related commerce caused a 30% drop in item exports and a 25% drop in imports in April 2020. This loss occurred on both sides of the border [5].

The international economic uncertainty produced by the epidemic led to hesitance among both foreign and local investors. Concerns over long-term economic stability and the possibility of ongoing disruptions resulted in reduced investment inflows into Canada. A variety of investors delayed or completely withdrew from previously scheduled projects, resulting in an enormous drop-in investment activity. This drop affected several industries, hitting not just huge industrial and energy projects but also the real estate and technology sectors that had previously witnessed robust investment growth.

Moreover, these economic difficulties were intensified by border closures and trade restrictions, which further impacted logistics and operations for enterprises dependent on cross-border supply chains. The automotive sector, characterized by just-in-time production, had specific challenges stemming from delays in components and assemblies from international suppliers.

During these turbulent times, the Canadian government and corporations engaged in negotiations to stabilize the economy via several stimulus measures and assistance for impacted sectors. Attention was also paid to diversifying trade alliances and developing local manufacturing skills to alleviate future risks. The initial economic impact was substantial, but the long-term policies are designed to establish a more solid economic structure in Canada, capable of enduring global disturbances. This phase of economic contemplation and adjustment may provide a more varied and stable economic landscape in the future.

2.3. Financial Market

Canada's financial markets have seen extraordinary volatility throughout the COVID-19 epidemic, with significant indices plummeting rapidly and then rebounding swiftly. First, the S&P/TSX Composite Index had the biggest one-day plunge since May 1940 [6]. However, a V-shaped recovery happened, and in September 2020, in addition to the recovery, the Toronto Stock Exchange (TSX) started to match the profit projections of the index businesses closely. Moreover, The TSX increased by almost 10.1% between September 2020 and February 2021, gaining over $300 billion in value (including reinvested dividends). Additionally, in 2019, this growth represented almost 14% of Canada's yearly domestic production [7]. This is mostly affected by the actions of the government and the Bank of Canada. To alleviate the economic repercussions, the Bank of Canada has reduced interest rates to almost zero and initiated a comprehensive quantitative easing program. These initiatives aim to enhance financial liquidity and stimulate economic activity by augmenting borrowing and expenditure.

A near-zero interest rate environment reduces borrowing costs for firms and individuals, so supporting spending and investment during economic uncertainty. Quantitative easing enhances this by augmenting the money supply, hence reducing long-term interest rates and promoting investment in both public and private sectors. This injection of liquidity has been essential in stabilizing the stock market, which originally declined, and facilitating the recovery of asset values.

Furthermore, these monetary policies have had a stabilizing influence on the housing market, as demand has risen because of decreased mortgage rates. However, these policies also bring obstacles, such as increasing asset values and growing family debt, which might pose dangers to long-term financial stability.

With the economic recovery underway, the Bank of Canada is prioritizing inflation management, which has escalated due to heightened consumer expenditure and supply chain disruptions [2]. The central bank must carefully tighten monetary policy to manage inflation without hindering economic recovery. This equilibrium will be essential in determining Canada's economic path in a post-pandemic context, guaranteeing that growth is sustainable and is not compromised by financial volatility or inflated markets.

3. Micro Impact of COVID-19 on the Canadian Economy

COVID-19 has had significant and diverse microeconomic effects on the Canadian economy, especially on the travel and tourism sector, business operations, and consumer demand.

3.1. Tourist Industry

The COVID-19 epidemic caused enormous disruptions in Canada's tourist industry, making it one of the most damaged sectors. As can be seen from the industry's commercial expectations, travel restrictions, both domestic and foreign and general health concerns, significantly decreased tourism. Nearly 47.3% of tourism-related enterprises predicted a decline in profitability, which was more than the average for all business sectors (37.1%) [8]. Furthermore, 38.3% anticipated reduced sales, which is indicative of the sharp decline in tourists. The significant effect on sales and income sources highlighted this reduction. For instance, hotel reservations and event cancellations skyrocketed, which had a significant impact on the industry's financial stability. Related industries that depend on strong visitor inflows, such as hospitality, entertainment, and transportation, were also negatively affected by the general decline in tourism activity. Regions that rely heavily on foreign visitors, including Niagara Falls and areas of British Columbia renowned for their natural beauty and outdoor tourism appeal, were most impacted by the closure of international borders.

Expectations for the sector's long-term recovery were divided, but most people were still hopeful as vaccine distribution grew, anticipating loosened restrictions and a spike in demand for travel. However, because of the uncertainties and possible long-term shifts in travel habits after the pandemic, around 18% of companies in the industry maintained a negative outlook for the future. Significant financial difficulties make this long-term uncertainty worse, and many firms are worried about their capacity to take on further debt, which is a critical strategy for surviving extended periods of decreased activity.

3.2. Enterprise Operation

The influence of COVID-19 on Canadian businesses differed significantly across various company sizes, reflecting distinct challenges and responses to the pandemic’s economic shocks.

Small firms are often the most susceptible during economic recession and were hit particularly hard compared to greater sizes of firms. A multitude of small enterprises reported significant reductions in sales and encountered acute cash difficulties. Statistics Canada reported that the first quarter of 2020 had a 9.4% decrease in hours worked in small enterprises, indicating a substantial fall in operational capacity [9]. Moreover, the actual production for small enterprises decreased by 2.1% over the same year, representing the most significant reduction among all company categories.

Medium-sized enterprises also experienced significant reductions, with hours worked decreasing by 11.1% in the first quarter of 2020 [9]. Their actual production declined by 1.1% over the same period, indicating operational interruptions and difficulties in growing or adjusting to changing market circumstances. These corporations, albeit more robust than small enterprises, nonetheless had significant challenges in managing the economic repercussions of the epidemic.

Large corporations had a considerably distinct trend. Although they experienced decreases, they managed to sustain more steady operations than smaller enterprises. In the first quarter of 2020, hours worked at large enterprises rose by 1.2%, while real production declined by 1.5% [9]. This increased resilience may be ascribed to improved access to money and enhanced contingency planning.

Overall, the data underscores that the impact of COVID-19 was disproportionately distributed across businesses of different sizes, with small and medium-sized enterprises bearing the brunt of the economic downturn. The recovery trajectories for various enterprises are anticipated to differ, with bigger enterprises likely to recover more swiftly owing to their superior resources and more diverse market position.

3.3. Market Demand

During the pandemic, changes in consumer behavior and the state of the economy had a significant impact on market demand across several industries. Spending on non-essentials fell sharply as people put their health and safety first in the face of financial uncertainty. The auto industry had the biggest decline in this change, with new car sales falling by 48.5% in March and then by 74.6% in April [5]. Not only did expensive goods witness a decline in discretionary spending; but non-essential retail sectors also suffered a decline in foot traffic and sales, which prompted companies to improve their online visibility and sales capacity.

On the other hand, consumers' growing health consciousness and hoarding habits led to a rise in demand for industries like grocery and health items. Online purchasing also increased significantly because of this change, a tendency that has made e-commerce a crucial part of retail strategy moving ahead. Even though certain industries saw a recovery, general consumer attitudes remained cautious due to persistent health issues and unstable economic conditions.

It is anticipated that market demand will gradually revive, pending a more comprehensive economic recovery, increases in employment rates, and a resurgence of consumer confidence. As companies adjust to the 'new normal,' shifts in work schedules, travel patterns, and digital penetration will probably continue to impact the consumer demand environment.

4. Conclusion

The COVID-19 epidemic has significantly affected the Canadian economy at both macroeconomic and microeconomic levels. At the macroeconomic level, the country saw considerable disturbances in economic development and employment, obstacles in foreign commerce and investment, and marked volatility in financial markets. These extensive economic transformations highlight the vulnerability and interdependence of global economies in confronting health problems. In the microeconomic sphere, the tourist industry saw unparalleled declines, while businesses of all kinds encountered a range of obstacles. Small and medium-sized enterprises had the most significant reductions in operating capacity and production, underscoring their susceptibility to extended economic disturbances. Conversely, big firms exhibited enhanced resilience, capitalizing on more significant cash reserves and strong operating strategies.

The Canadian economy exhibits indications of a cautious recovery, dependent on sustained public health protocols and efficient vaccine dissemination. To promote a resilient and durable economic recovery, policy initiatives must prioritize assistance for the most adversely affected sectors, such as tourism, and provide targeted support to small and medium-sized firms essential for economic vitality and employment.

Future expectations must be cautiously hopeful, prioritizing adaptation and resilience. Businesses and politicians must heed the lessons from this epidemic to enhance preparedness for future global threats. The progression towards digitization and adaptable operational frameworks indicates a possible transformation in long-term corporate strategies and consumer behaviors, altering the Canadian economy in the future.

References

[1] International Monetary Fund. Policy support and vaccines expected to lift activity. World Economic Outlook, 2021.

[2] Azizova C, Witmer J, Zhang X. Assessing the impact of the bank of Canada's government bond purchases. Bank of Canada, 2024.

[3] Statistics Canada. Canadian economic dashboard and COVID-19. Statistics Canada, 2023.

[4] Macrotrends. Canada unemployment rate 1991-2024. 2024.

[5] Gellatly G, McCormack C. Recent developments in the Canadian economy, 2020: COVID-19, second edition. Economic Insights Statistic Canada, 2024.

[6] Xu D. Canadian stock market volatility under COVID-19. University of Waterloo, 2022.

[7] Leblanc G O, Fontaine J, Shotlander R. What cured the TSX equity index after COVID-19. 2021.

[8] Tam S, Sood S, Johnston C. Impact of COVID-19 on the tourism sector, second quarter of 2021. Statistics Canada, 2021.

[9] Gu W. Economic Impact of the COVID-19 pandemic on canadian businesses across firm size classes. Economic Insights Statistic Canada, 2020.