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Q2 market update: The pandemic's impact on the global economy

Businesses have begun to reopen and stock markets have rebounded. But is COVID-19 still a risk for the global economy?

Highlights

- The global economy began to reopen this past month. But the damage caused by lockdowns has already affected businesses and employment.
- Stocks generally moved higher recently.
- Interest rates around the world have stayed at low levels.

Dealing with a crisis like no other

In the first quarter* of 2020, COVID-19 led governments to lock down economies to protect the health of citizens. These steps included "planned closures" of economies to try to contain the spread of the virus.

In the second quarter*, governments tried to balance containing the virus with reopening the global economy.

(**First quarter refers to the months of January, February and March. Second quarter refers to the months of April, May and June.*)

After weeks of limited economic activity and people staying at home, governments gradually eased restrictions. But when cases of COVID-19 began rising again in certain regions, these restrictions returned.

While the reopening of the economy led to optimism for a global financial market recovery, challenges remained. Economies had stopped, and many companies lost business or closed during the quarter. This led to higher unemployment figures around the world.

The economic shutdown also prompted governments to give financial support to businesses and individuals. In many countries, slow economic activity and a weak oil market had a negative effect on inflation (rising prices for goods and services).

The stock-market rebound and oil prices rising again

Over the period, major global equity markets posted gains as investors grew more hopeful that economies would recover. Many people believed government and central bank actions – including lowering interest rates – would help the global economy rebound.

Oil prices declined in April given increased supply and low demand because of COVID-19-related shutdowns. Oil prices recovered somewhat, however, and ended the second quarter higher due to production cuts by the Organization of the Petroleum Exporting Countries (OPEC).

What's more, demand for oil increased as economies reopened. The widespread belief was that people would soon become more willing to drive and fly.

During the quarter, the U.S. information technology sector gained, with many companies benefiting as people worked from home.

Is there now some optimism for the Canadian economy?

Canada's economy slowed down significantly in the first quarter. Economic activity, including investment in business, weakened because of the pandemic. Plus, household spending declined at a fast pace. Since the Canadian economy relies heavily on the energy sector, oil price weakness was another reason the economy struggled.

What did the Bank of Canada (BoC) do in response to this economic weakness? They reduced interest rates from 1.75% to 0.25%. The BoC kept interest rates at this lower level during the second quarter.

The BoC's outlook was somewhat positive in its last policy meeting of the second quarter. They stated the Canadian economy may return to growth in the third quarter* of 2020.

(**Third quarter refers to the months of July, August and September.*)

Canada’s inflation rate was lower in the second quarter, with consumer prices falling in April and May. Consumer prices declined in response to lower demand, as most people continued to stay home and many businesses shut down.

The economy lost a large number of jobs as a result of the pandemic. The unemployment rate reached its highest level since 1976. Once the economy began to reopen in May, Canada’s employment numbers increased slightly.

Economic outlook: Risks and uncertainties

Economies have begun to reopen and investors appear more optimistic. But COVID-19 is still a risk to the global economy.

Second wave of COVID-19. One of the biggest threats to an economic recovery is a possible second wave of the virus. This may cause governments to lock down parts of their economies again. Near the end of the second quarter, new cases began to increase in some parts of the world.

- **COVID-19: How to stay healthy and protect yourself**

High debt may affect economic growth. Low interest rates and inflation could support global economic growth. But there’s concern that the debt levels of consumers, companies and governments have risen too high. High levels of debt could be harmful to economic growth over the longer term.

- **6 tips for reducing debt**

Employment rebounds. If the economy remains weak, a rebound in employment numbers might take longer than expected. Some jobs may not come back at all, as certain companies and industries struggle to survive. Personal and corporate bankruptcies may also increase.

- **5 tips for coping with job loss**

U.S.-China trade disputes and Brexit. Continuing trade disagreements between the U.S. and China could slow global economic growth. All eyes will also be on the U.S. election in November, as the outcome will affect global trade. The election might also impact the U.S. economic recovery. Another challenge to global financial markets is uncertainty about the U.K.’s exit from the European Union. If “Brexit” is not a smooth transition, it could have a negative impact on Europe’s economy.

What does Canada’s economic future look like?

In Canada, a weak labour market may stall the country’s economic growth. High consumer and government debt levels could also slow down the economy.

In the third quarter, we believe the BoC will keep interest rates low to stimulate Canada's economy.

In our view, oil prices may stay stable as demand improves and the economy reopens. OPEC also appears likely to keep oil production at levels that will bring stability to the oil market. Investor concern about the global economy remains. This concern could lead to unstable financial markets, which has historically been positive for gold prices.

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