

Executive Summary

This report consists of three sections, the first of which summarizes the current economic conditions with references to Bank of Canada's Monetary Policy Report 2021. Any continuation of trends or notable changes with respect to the figures in the report will be discussed.

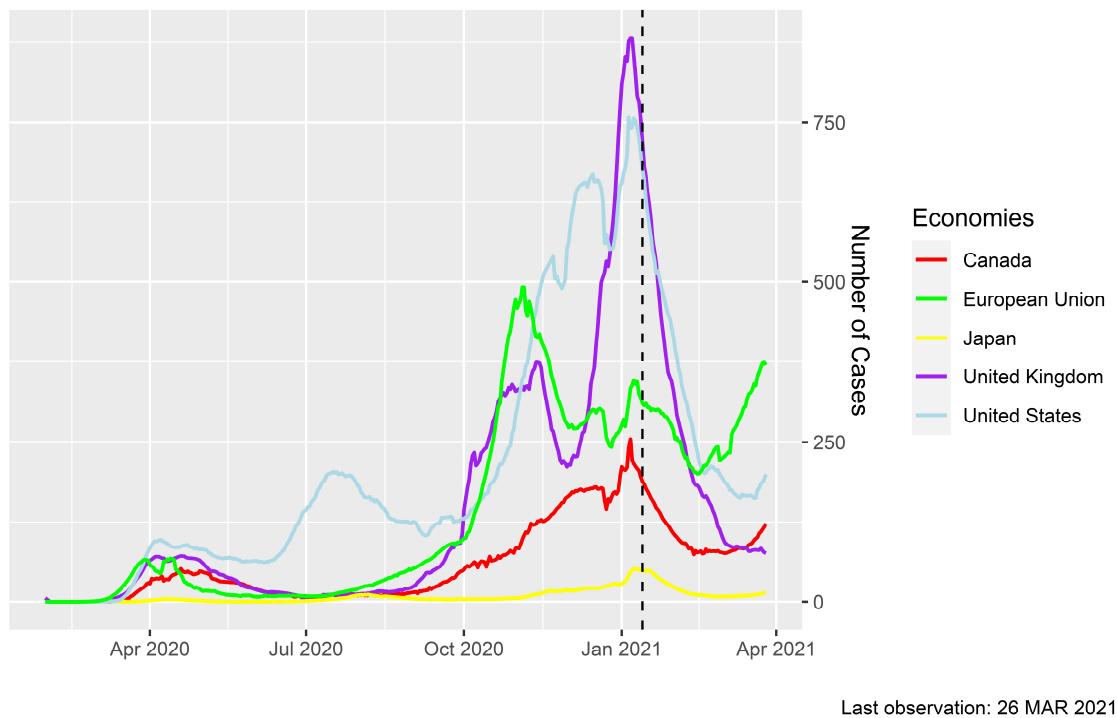
- COVID-19 new infection rates have been steadily declining, paving way for economy recovery.
- While equity and commodity prices have been increasing, the unemployment rates are still higher than pre-pandemic levels in early 2020 within Canada and the United States.
- Many of the hardest hit industries have yet to show signs of recovery in real GDP output.
- Change in employment in hardest hit industries are still negative, although the magnitude of job loss has decreased.

Current Economic Conditions

This section comments on the developments in key trends since the release of Bank of Canada's Monetary Policy Report in January 2021.

Chart 1: Advanced Economies

Daily new cases per million people, 7-day moving average

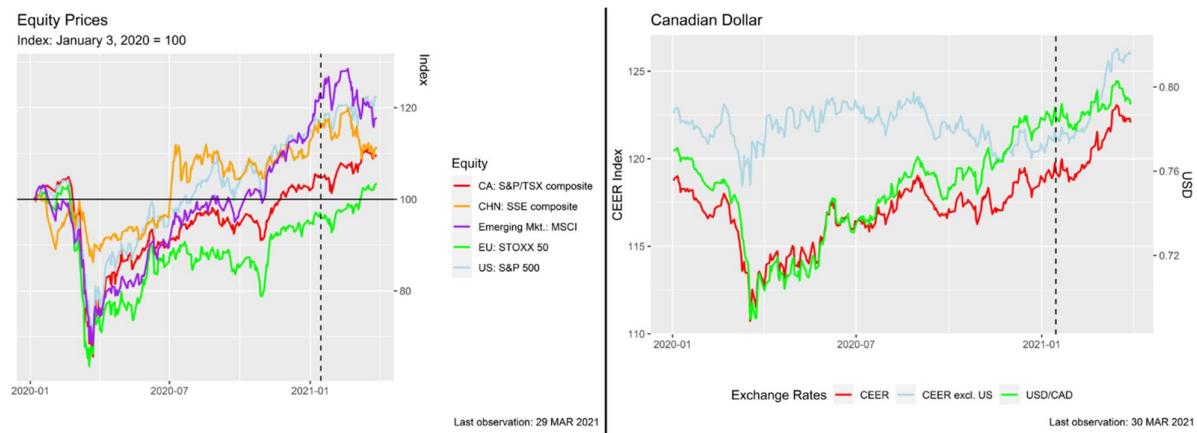


* The vertical dashed line indicates the last observation of the previous policy report.

Since the report, the number of new cases of COVID-19 has been steadily decreasing, with current levels well below the peak in around early January for most advanced economies. This may be attributed to tighter measures in containment and the rollout of effective vaccines. However, in recent days, an upward surge in new cases can be seen in some countries, reflecting high uncertainty in the evolution of the virus infection despite mass vaccination programs that have been implemented. This surge is especially noticeable for the European Union, and moderately noticeable for the United States and Canada. Canada's

proportion of daily new cases has remained steady as the second lowest amongst the five advanced economies, but the recent surge has elevated its position to third.

Chart 2: Equity Markets and Exchange Rates



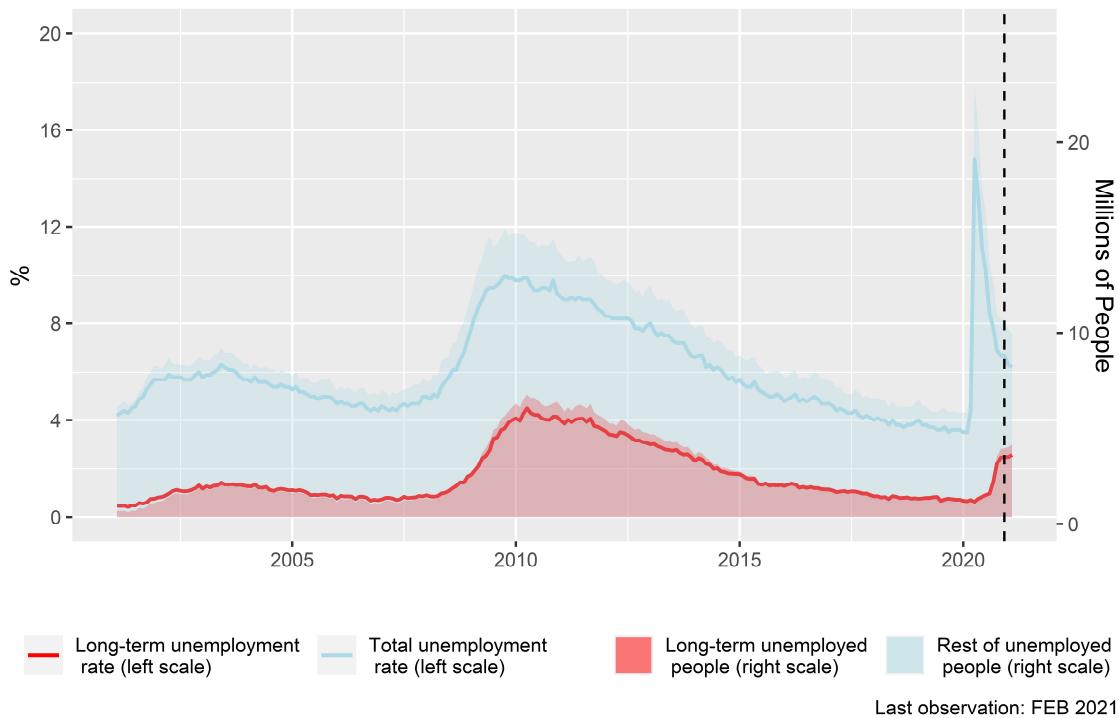
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On the left panel, the equity indices that have continued to rise since the report was published include the SP/TSX composite, the S&P500, and the STOXX 50. This reflects the decreasing uncertainty among investors and their expectations of improved growth prospects. These observations are consistent with decrease rates of new COVID-19 cases as seen in Chart 1. Also, as “bond yields continue to be very low for most advanced economies” (Governing Council of the Bank of Canada, 2021, pg. 4) due to low policy rates, it has supported higher demand for investment in equity, thus raising prices in the equity markets. The two indices that have decreased are the SSE composite and the MSCI. On the right panel, the Canadian dollar continues to strengthen against the USD, and the rising CEER indices also indicate an appreciating Canadian dollar against Canada’s major trading partners.

Chart 3 below contains only two addition months of new data since the publishing of the report.

Chart 3: Unemployment rates in the United States

Monthly data, seasonally adjusted



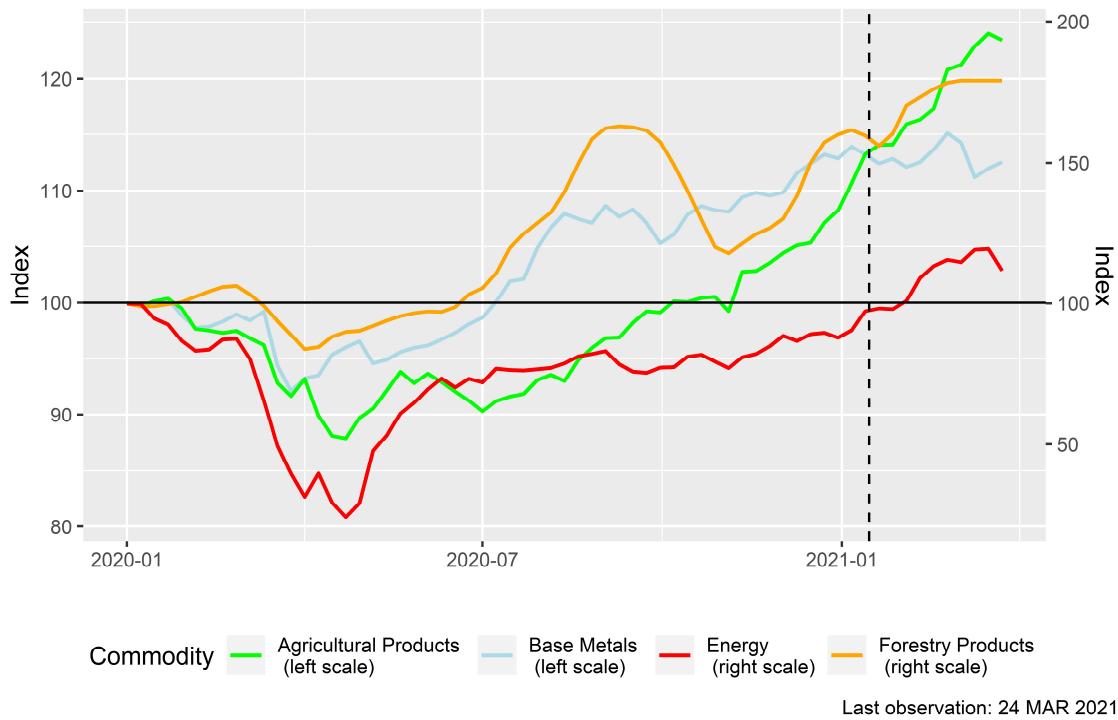
* The vertical dashed line indicates the last observation of the previous policy report.

Data collected for the months of January and February 2021 shows that long-term unemployment rate (unemployed for 27 weeks or more) in the U.S. have remained somewhat constant since the release of the report, plateauing from its spike 2020. The total unemployment rate has dipped slightly, continuing the downwards trend from its peak in 2020. The recovery of the labor market may be lagged, especially when the new round of U.S. fiscal stimulus has only begun in the “first quarter of 2021” (Governing Council of the Bank of Canada, 2021, pg. 5). Overall, unemployment rates remain around two percent above pre-pandemic levels of early 2020.

In Chart 4 below, the Energy index of the Bank of Canada’s Commodity Price Index is used in place of the Crude Oil index used in the report. This is a close substitute as crude oil is a main constituent of the Energy index.

Chart 4: Commodity Prices

Index: January 01, 2020 = 100, weekly data



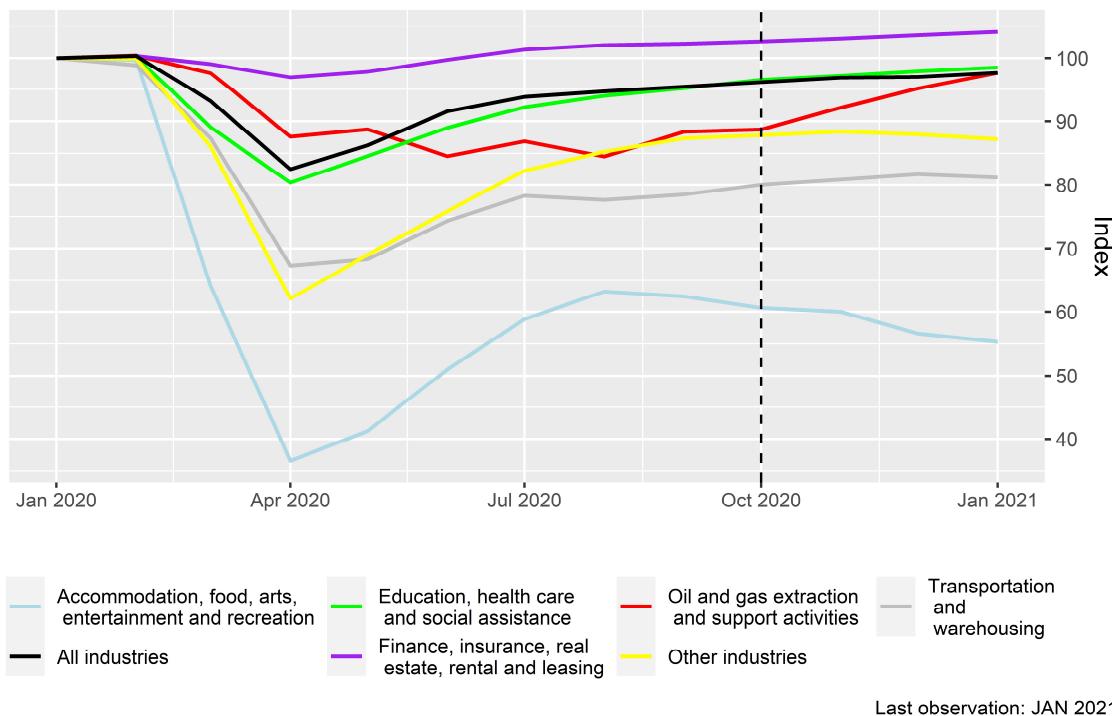
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Commodity prices have increased continually since the report. Notably, the energy index has risen past 100, above levels of 2020 January. This indicates that growth is improving and the demand for oil, coal, and natural gas (components of the index) have returned to pre-pandemic levels of January 2020. Since the report, non-energy indexes like the Agricultural and Forestry indexes have climbed steeply, while the Base Metals index has levelled off. Overall, the commodity prices have recovered to pre-pandemic levels, which would benefit the export sectors of countries.

Chart 6 below show that most industries continue to remain below January 2020 levels (at 100). On the one hand, the finance and real estate sector has recovered slightly above 100 and the oil and gas extraction sector has climbed about 10 index points since the report's release. On the other hand, real GDP trends in other industries appear to have

levelled off. Most notably, the accommodation, food, entertainment, and recreation sector has experienced another dip, heading in the direction of reversing the upwards trend which began in April 2020. As a hard-to-distance industry, this trend in the recreation sector is consistent with increased containment measures within Canada during that period.

Chart 6: Real GDP by Industry
Index: January 2020 = 100, monthly data



* The vertical dashed line indicates the last observation of the previous policy report.

Chart 8 below contains only one quarter of new data since the publishing of the report. The data on the new quarter shows that price and non-price lending conditions, computed from the balance of opinions, have entered the ‘easing’ territory (below 0%). This reverses the upwards trend seen in both series since early 2020.

Chart 8:
Senior Loan Officer Survey business lending conditions, quarterly data



Chart 9: Unemployment rates in Canada
Monthly data, seasonally adjusted



Chart 9 above contains only one month of new data since the publishing of the report. Both total unemployment rate and long-term unemployment rate in Canada have increased from December 2020 to January 2021, continuing the increasing trend since the peak in 2020. The persistence observed in high levels of long-term unemployment rate may be exacerbated by skill erosion from prolonged periods without work, and “their attachment to the labor force may decrease” (Governing Council of the Bank of Canada, 2021, pg. 14). Recovery may also be more difficult as the pandemic has hit harder than the recession in 2008, as seen in the height of the peak in total unemployment in 2020 (which is at least two-fold that of the peak in 2008).

Chart 10a:
Change in employment between DEC 2020 and FEB 2021,
seasonally adjusted, monthly

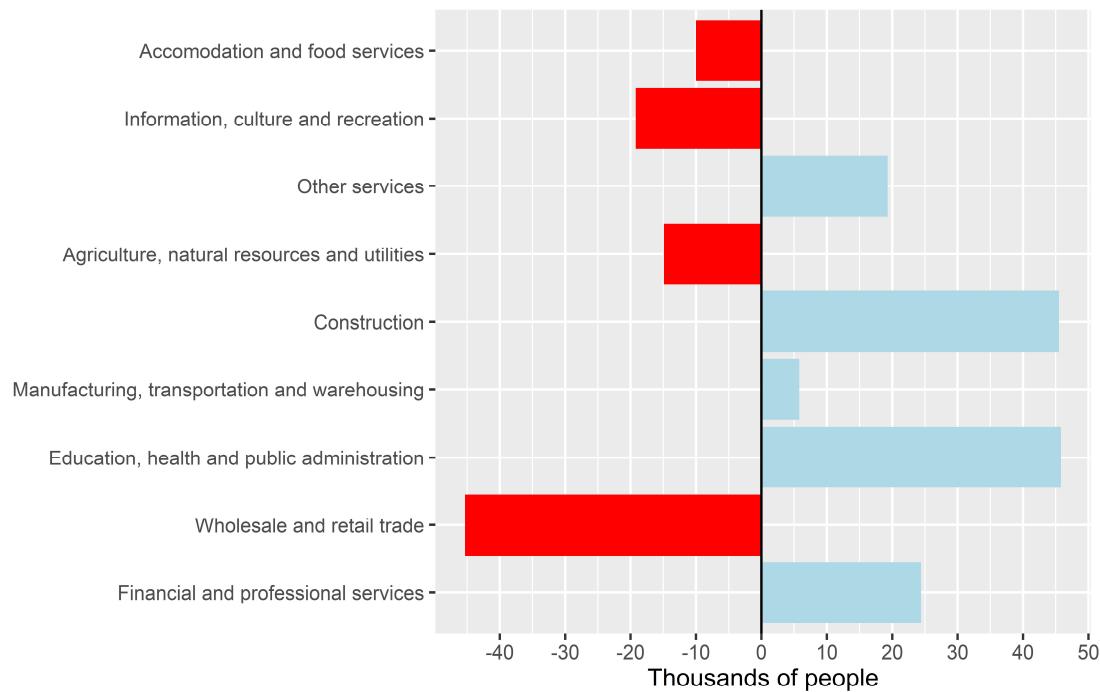


Chart 10 in the previous policy report compare changes in unemployment over a period of a quarter, while Chart 10 above shows changes over only 2 months. Jobs are still being lost in the first two industries (by descending height arrangement in the chart), a trend which has not

reversed since the last policy report. However, the magnitude of job loss is now much lower (e.g. -10,000 vs. -140,000 people in the last report, for the first industry). Notable reverses in trends include the Wholesale and retail trade industry, which had enjoyed about 80,000 employments in the previous report's period but had now suffered a job loss of 45,000. The other services industry has also employed about 20,000 people, compared to a loss of nearly 50,000 jobs in the report. Industries such as Construction, Education, and Financial Services have continued to increase the number of people employed.

Chart 11: CPI Inflation and Core Measures

Year-over-year percentage change, monthly data



* The vertical dashed line indicates the last observation of the previous policy report. The adjusted CPI index has not been included as data was not found.

Chart 11 above shows that inflation is heading towards to target of 2.0%, a sign of increasing aggregate demand, but remains well below the target. The range of core inflation measures have also widened.

Appendix - Bibliography

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Appendix – Data Sources

Chart	Data Source	Dataset / series name	Column(s) used / series identifier	Link	First to Last
1	Our World in Data	Our World in Data COVID-19 dataset	“new_cases_per_million”	https://ourworldindata.org/covid-cases	2020-01-29 to 2021-03-26
2a	Yahoo Finance	SP/TSX Composite Index (^GSPTSE)	“Close”	https://ca.finance.yahoo.com/quote/%5EGSPTSE/history?period1=1459296000&period2=1617062400&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true	2020-01-06 to 2021-03-29
2a	FRED St. Louis	S&P500	“SP500”	https://fred.stlouisfed.org/series/SP500	
2a	Investing.com	Euro Stoxx 50 (STOXX50E)	“Price”	https://ca.investing.com/indices/eu-stoxx50-historical-data	
2a	Yahoo Finance	SSE Composite Index (000001.SS)	“Close”	https://finance.yahoo.com/quote/000001.SS/history?period1=1459296000&period2=1617062400&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true	
2a	Investing.com	MSCI Emerging Markets (MSCIEF)	“Price”	https://ca.investing.com/indices/msci-emerging-markets-historical-data	
2b	Bank of Canada	Canadian Effective Exchange Rates (Daily Nominal)	“CEER_BROADN”, “CEER_BROADN_X US”	https://www.bankofcanada.ca/rates/exchange/canadian-effective-exchange-rates/	2020-01-02 to 2021-03-30
2b	Bank of Canada	Daily Exchange Rates	“FXUSDCAD”	https://www.bankofcanada.ca/rates/exchange/daily-exchange-rates/	
3	FRED St. Louis	Unemployment Rate	“UNRATE”	https://fred.stlouisfed.org/series/UNRATE	2001 FEB to 2021 FEB
3	U.S. Bureau of Labor Statistics	Unemployed 27 weeks or longer as a percentage of total unemployed		https://www.bls.gov/charts/employment-situation/unemployed-27-weeks-or-longer-as-a-percent-of-total-unemployed.htm	
3	FRED St. Louis	Number Unemployed for 27 Weeks & Over	“UEMP27OV”	https://fred.stlouisfed.org/series/UEMP27OV	
3	derived	Total unemployed (number) = unemployed 27 weeks and over (number) * 100 / Unemployed 27 weeks and over as percentage of total unemployed			

		Rest of the unemployed (number) = Total unemployed (number) – unemployed 27 weeks and over (number)	
		Rest of the unemployed (absolute rate) = Unemployed 27 weeks and over as percentage of total Unemployed * Unemployment rate	
4	Bank of Canada	Commodity Price Index	“M.ENER”, “M.MTLS”, “M.FOPR”, “M.AGRI” https://www.bankofcanada.ca/rates/price-indexes/bcpi/ 2020-01-01 to 2021-03-24
6	Statistics Canada	Gross Domestic Product (GDP) at basic prices, by industry, monthly (Table 36-10-0434-01)	[T001], [21], [48-49], [52], [53], [61], [62], [71], [72], [81] https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610043401&pickMembers%5B0%5D=2.1&pickMembers%5B1%5D=3.1&cubeTimeFrame.startMonth=01&cubeTimeFrame.startYear=2020&cubeTimeFrame.endMonth=03&cubeTimeFrame.endYear=2021&referencePeriods=20200101%2C20210301 2020 JAN to 2021 JAN
8	Bank of Canada	Senior Loan Officer Survey	“SLOS_BUS_LEND_PC”, “SLOS_BUS_LEND_NP” https://www.bankofcanada.ca/publications/slos/ 2006 Q1 to 2020 Q4
9	FRED St. Louis	Unemployment Rate: Aged 15 and Over: All Persons for Canada	“LRUNTTTCAM156S” https://fred.stlouisfed.org/series/LRUNTTTCAM156S
9	Statistics Canada	Duration of Unemployment, monthly, seasonally adjusted (Table: 14-10-0342-01)	“Total unemployed, all weeks”, “27 weeks or more” https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410034201&pickMembers%5B0%5D=1.1&pickMembers%5B1%5D=3.1&pickMembers%5B2%5D=4.1&pickMembers%5B3%5D=5.1&cubeTimeFrame.startMonth=01&cubeTimeFrame.startYear=2000&cubeTimeFrame.endMonth=03&cubeTimeFrame.endYear=2021&referencePeriods=20000101%2C20210301 2000 JAN to 2021 JAN
9	derived	Rest of the unemployed (number) = Total unemployed (number) – unemployed 27 weeks and over (number)	

		Rest of the unemployed (absolute rate) = Rest of the unemployed (number) / Total unemployed (number) * Unemployment rate		
10a	Statistics Canada	Employment by industry, monthly, seasonally adjusted, and unadjusted, and trend-cycle, last 5 months (Table: 14-10-0355)	https://open.canada.ca/data/en/dataset/12f07737-3508-4962-aebd-5bcfc73214b1	2020 DEC to 2021 FEB
11	Bank of Canada	Consumer Price Index, 2000 to Present	“Total CPI”, “CPI-trim”, “CPI-median”, “CPI-common”	https://www.bankofcanada.ca/rates/price-indexes/cpi/ 2018 JAN to 2021 FEB