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international trade:
The situation is already worse than
stated in the July's Canada's State
of Trade 2020

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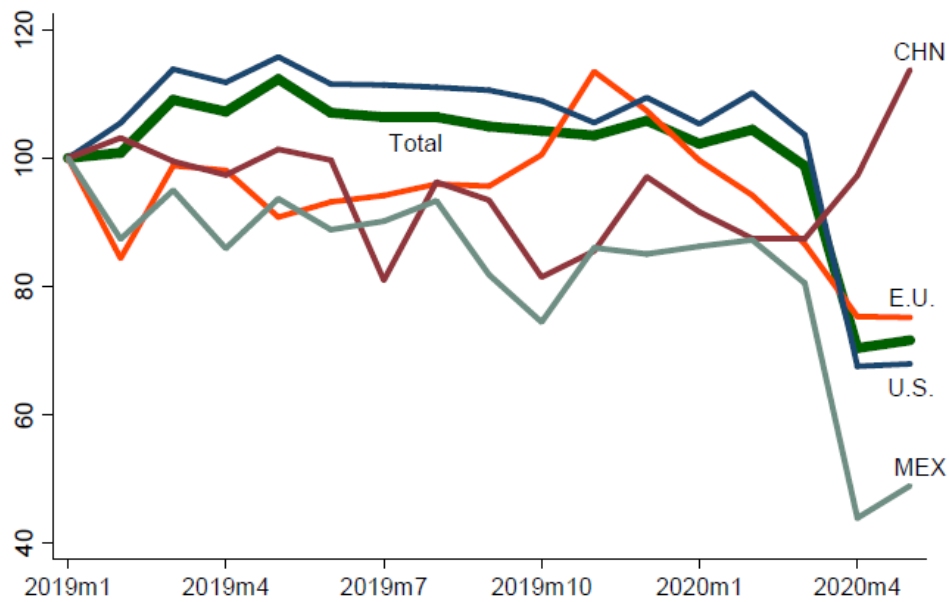
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In its Canada's State of Trade 2020 published on July 22nd 2020, Global Affairs Canada states that "for the first quarter of 2020, the overall impacts of COVID-19 on Canadian trade were few, with 2 exceptions: exports to China and South Korea dropped 14% and 26%, respectively". This is true, but unfortunately already outdated. The most recent figures based on customs data on the international merchandise trade of Canada with its main partners is now available for April and May 2020, and the trade situation is alarming, especially with our main partner, the United-States.

Recent evolution by main trading partners

Figure 1 depicts the evolution of Canadian merchandise exports to its main trade partners. All the figures are normalized to 100 in January 2019. The figure shows total merchandise exports were on a modest decreasing trend until the end of March 2020, and then experienced a sharp drop for all destinations but China.

Figure 1: Evolution of Canadian merchandise exports to its main partners (base 100 in January 2019), monthly data, January 2019-May 2020



Note: Authors calculation from Table 12-10-0011-01 of Statistics Canada (Customs data). Total are total exports, CHN are exports to China, E.U. are exports to European countries, U.S. are exports to the U.S., MEX are exports to Mexico.

As shown in Table 1, this acceleration of the crisis in April 2020 has also affected Canadian imports.¹ In March 2020, both Canadian imports and exports decreased by around 10% compared to their March 2019's level. However, in April and May 2020, the situation worsened following the implementation of strict confinement measures in Canada and in many of its trade partners. In May 2020, Canadian total merchandise trade decreased by around 35% compared to its level one year before.

The situation is quite heterogeneous across trading partners. The collapse observed in April and May 2020 is particularly dramatic for the trade with our partners from the CUSMA (new NAFTA): the decrease in imports and exports amounts to 40% to 60% for Mexico and the United-States. Trade relationships with European countries were also impacted, but to a much lesser extent (around 20% to 30% decline). Quite strikingly, by May 2020, our trade with China had fully recovered, and exports even exceeded their 2019 level.

¹ The decrease in hours worked reported in Table 1 shows the crisis' effects go beyond the drop-in trade.

Whereas the trade impacts of COVID-19 were quite limited during the first quarter of 2020, the emerging incomplete picture for the second quarter is thus far more worrying given the huge decline in the value of exports and imports with our main trade partners.

Table 1 : Canadian merchandise trade in 2020 relative to 2019: by main partners

	January	February	March	April	May
<i>Imports</i>					
All countries	95.2	95.8	90.7	69.3	65.7
United-States	99.6	98.0	94.0	58.6	57.4
European Union	88.1	91.3	92.8	72.4	73.3
China	81.4	86.7	72.9	92.7	99.5
Mexico	92.9	102.2	82.6	46.3	39.9
<i>Exports</i>					
All countries	102.2	103.5	90.6	65.6	63.7
United-States	105.4	104.5	91.0	60.4	58.6
European Union	99.7	111.7	87.6	76.7	82.8
China	91.7	84.8	87.9	99.9	112.2
Mexico	86.3	99.8	84.8	51.1	52.2
<i>Hours worked</i>					
Canada	100.5	102.3	86.0	73.0	77.8

Note : Authors' calculations from Table 12-10-0011-01 of Statistics Canada (Customs data) and Table 14-10-0036-01 (employment data) . All figures are expressed in % of the value for the same month in 2019.

Recent evolution for some selected sectors

The decline in Canadian trade is also highly heterogeneous across sectors. Table 2 presents the evolution of trade for three specific manufacturing sectors. They were selected because they represent the industrial and geographical diversity of Canadian trade with the rest of the world. For both the cars and parts and the chemicals industries, the decline is particularly sharp during the second quarter, whereas most of the decline happens during the first quarter for the electronic and electric materials industry. This certainly reflects the fact that electronic products are produced in China and other Asian countries that were particularly hit by the pandemics in the first quarter of 2020, whereas vehicles (and parts thereof) and chemicals are mostly traded with the United States and Mexico.

Note the trade in motor vehicles and parts products has dropped immensely compared to the two other sectors: imports and exports of motor vehicles and parts have been reduced to 1/5th to 1/6th in May 2020 relative to May 2019. This drop reflects both the drop in the demand for vehicles during the crisis, and the magnification of this drop due to the deep integration of the US, Mexican and Canadian production lines in this industry (for one vehicle, the parts might cross several times the border along the production process).

Table 2 : Canadian merchandise trade for some specific sectors in the first months of 2020

	January	February	March	April	May
<i>Imports</i>					
Motor vehicles and parts	92.9	98	81.2	19.4	16.2
Chemicals, plastics and rubber	102.1	103.1	101.5	86.6	75.5
Electronic and electric materials	94.1	93.5	86.7	83.5	77.1
<i>Exports</i>					
Cars and parts	93.3	98.7	76.8	12.6	20.2
Chemicals, plastics and rubber	93.7	100.3	89.8	75.5	69.1
Electronic and electric materials	89.1	79.5	79.7	76.6	78.2

Footnote : Authors' calculations from Table 12-10-0121-01 of Statistics Canada (Customs data). All figures are expressed in % of the value for the same month in 2019. These are respectively NAPCS codes C19 C15 and C18

All in all, we believe these figures call for great caution. The main trade partners of Canada having been hit later than China by the pandemic, the effect on trade came later, during the second quarter. Given the evolution of the sanitary situation in the U.S., it is hard to foresee improvement in the near future. Finally, the disruption of trade activities in sectors such as the automobile industry, which production activities are clustered geographically, will hit forcefully some communities in Canada.