Economic Outlook

Third Quarter 2021

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Canada: The Good, the Bad and the Ugly

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SEI recently released its third-quarter Economic Outlook. A summary of the conclusions is provided below:

- The global equity rally stalled during the third quarter, with challenges accumulating as the clock ticked toward the final hours of September.

- Canada's comparatively strict lockdowns have helped slash the daily COVID-19 infection rate but also affected its economic growth rate. Granted, the pandemic itself and governmental responses to this black-swan event have played havoc with many measures of economic activity.

- The labour market continues to recover rapidly despite the uninspiring growth this year. At SEI, we expect the labour market to tighten further in both countries given the amount of fiscal and monetary stimulus that has been injected since the start of the pandemic.

- As is true elsewhere, Canada is facing inflation pressures that its central bank and most economists deem transitory. The global supply-chain crisis has certainly exerted a powerful and mostly transitory impact on reported inflation rates in Canada and the rest of the world.

- Luckily for Canada, it is a producing nation—not just a consuming one. We think the energy shortage (and the commodity squeeze generally) should be good news for the country's equity market.

- While supply chain disruption, lingering inflation and political dysfunction all present potential short-term headwinds, we believe that global economic growth will continue at a rate that significantly exceeds the sluggish pace that prevailed following the 2007-2009 global financial crisis over the next year or two.

- In the U.S., the summer COVID-19 wave did slow the country's economic momentum during the third quarter. The spread of the virus restrained consumers' willingness to spend on restaurants, hotels, air travel, entertainment and other services. At the beginning of August, GDP was on track to grow by a 6.1% seasonally-adjusted annual growth rate. It is now signalling an advance of only 3.7%.

- Yet, we suspect that the gloom related to weakening economic growth in the U.S. may be overdone. Vaccines (including boosters) and improved treatments for severe COVID-19 cases are expected to limit the extent of hospitalisations and deaths, despite the Delta variant's higher transmission rate than the original virus.

- Once the latest COVID-19 wave passes, consumers' spirits will likely revive. For example, households generally remain in good financial shape in the U.S. Household wealth is at an all-time high, owing to booming stock and home prices.

- While we believe that a rise in U.S. stock-market volatility is likely, we do not anticipate a return to the extraordinary levels of volatility reached at the March 2020 peak. Factors behind a near-term rise in volatility could include further easing of gross domestic product growth amid reduced fiscal spending, the tapering of asset purchases by the U.S. Federal Reserve (Fed), more bad news coming out of China and the seemingly never-ending Congressional battle over the infrastructure bills and the debt ceiling.

A full-length paper is available if you wish to learn more about these timely topics.

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