# Transcript: COVID-19 Economic View: What's Next?

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[Onscreen Text: April 3, 2020]

[Onscreen Text: Benjamin Tal, Deputy Chief Economist, CIBC World Markets]

Ok, so where are we in the trajectory of economic growth? The short answer, of course, is that we are in a recession. In fact, I think a deep recession. We expect real GDP to fall by around 25 percent on an annual basis in the coming quarter. The unemployment rate probably to rise to 12, 13, maybe 15 percent with no less than 1 - 1.2 million jobs lost in the coming three months. So it's going to be significant.

[We see a still image of a 'closed' sign in a store window, followed by a still image of an empty train station, followed by a still image of an empty city bus.]

That is almost a given. Now, the question, of course, is what about the period following the next quarter? I think that at this point it's reasonable to assume that given social distancing and the possibility of an anti-viral medication, the infection curve is likely to flatten in the coming few months.

[A still image of three people social distancing as they wait in line for a subway, followed by a still image of medical vials being filled with a serum in a lab, followed by a still image of a medical technician in a biohazard suit looking at a chest x-ray.]

That's the consensus among all the experts we have been talking to. Now, of course, the flattening of the curve is not a green light. And if we have to imagine our life two or three months from now, I think that the picture that is emerging is the following: older people and individuals with preconditions will be asked to stay home. Companies will be asked probably to maximize the number of employees working from home.

[A still image of a senior eating a meal at home by himself, followed by a still image of a senior sitting on a stairlift being carried up a staircase, followed by a still image of a young professional working at her desk in her home office, followed a still image of a professional sitting at her dining room table looking at a tablet as she works from home.]

Construction activity will proceed, but at reduced productivity, I think, as physical disengaging will be practiced. Same goes for factory workers. I think we'll see a resumption of activity, but with flexible hours, all kind of multiple shifts aimed at reducing close interaction among workers and of course, increased reliance on automation.

[A still image of a backhoe picking up some dirt, followed by a still image of a lone construction worker building a tall column of rebar, followed by a still image of a lone factory worker checking a machine, followed by a still image of the same scenario as previous, followed by a still image of a factory worker performing maintenance on a piece of machinery, followed by a still image of a large factory room with a complicated automated robotics setup.]

Many stores will be reopened, I think. But social distancing will be observed with people lining up outside, as we see currently in some food stores. I think that personal services slow like hairdressers, and dentists, and all kinds of other facilities will be very slow to open. Now given this scenario, we expect activity to start rebounding in the third quarter. It will not be a typical V-shaped rebound since we are still operating at very reduced capacity and reduced productivity and more of the same we see in the fourth quarter. So it will not be a V-shaped recovery, but we see a recovery in the third quarter. Now many people ask about comparing the current situation to the 1929 depression. That's a mistake. That's not the current situation and it's very important understand why. In 1929 or even in a very severe recession like 2008, you are in a freefall with no bottom. This situation is very different since this crisis - and that's crucial -this crisis as an end game. This end game is, of course, a vaccine. So what we are doing all of us - governments, central banks, banks, individuals and corporations - what we are doing is simply buying time between this point and the point in which we have a vaccine, and in between we have social distancing and, of course, anti-viral medications that will provide another layer of defence. So that's the way I see the situation. This is a temporary crisis. It will pass. And now what we are doing is simply buying time.

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**[Title reads: Economic policy response]**

So what we are seeing now is clearly something that we have never seen in our lifetime, but also the policy response to this crisis is something that we have never seen in our lifetime. And I must admit that governments and central banks have been fantastic in the reaction function. Much better than we have seen in 2008. They basically learned from the 2008

experience. The move is quick and very, very significant in terms of size. The Bank of Canada is providing significant amount of liquidity into the system and basically the sky is the limit. They're basically telling banks: we can provide you with liquidity as much as you want; the sky is the limit.

[A still image of a pile of Canadian bills, with a focus on $100 bills, followed by a still image looking up towards the top of a set of financial district skyscrapers, followed by a still image of financial district skyscrapers on Bay street in Toronto.]

So that's a very positive reaction. So in terms of liquidity and the capital available for lending, we are there. It's not really a major issue at this point. Governments are spending a significant amount of money, something that we have never seen. In Canada, about $100 billion, maybe $120 billion, which is between 4 and 5 percent of GDP. This is a significant amount of money that is coming to the pockets of many small businesses and individuals through the EI system. That will help to ease the pain.

[A still image of the White House, followed by a still image of the Federal Parliament Building in Ottawa, followed by a still image of the bar area of an independent coffee shop, followed by a still image of two workers packaging some stock.]

More is coming, I believe, from the government. I think that we are going to see some significant increase in loan guarantees provided to banks or credit will be able to flow into the system. That's missing now, and it will be a partial loan guarantee, so banks will have skin in the game. But we need more credit in the system. That's something that is coming. We need to make sure that renters and landlords are protected. We're still missing some initiatives there. But overall, the government response and the Bank of Canada has been extremely important; add to it the response from commercial banks through debt payment deferral - which is very, very significant, especially in the mortgage market and small businesses - and we have a recipe to ease the pain in the short term until we get to the point in which there is a vaccine. So, again, the next three months will be very significant in terms of the slowdown in economic growth. The unemployment rate will rise. Unfortunately, many people will be losing their jobs. But here again, it's extremely important to understand that a rise in the unemployment rate now is very different than the rise in the unemployment rate during a recession. Why? Because many of the people that are losing their jobs now are losing it on a temporary basis. When the economy starts recovering, they will regain that job,

because it was not lost. It is simply on hold. So this cubicle, this office, this position is waiting for you - at least for many of those people who are now collecting EI insurance.

[A still image of a busy city street filled with people walking shoulder to shoulder, followed by a still image of a worker in a warehouse pushing a stack of cardboard boxes on a dolly, followed by a still image of workers sitting at a row of computers in a call centre, followed by a still image of four young professionals huddled over a table discussing a project.]

So that's something that we have to take into account. So what's important is not the number of people losing their jobs. It is the duration of unemployment, how long they would be unemployed. And if the nature of this crisis is temporary, I think the duration will be shorter. Very different than the reaction function of an unemployed in a significant recession where you lose your job and you don't know what to do.

[Soft Music playing in background]

**[Title reads: Navigating markets]**

So the question is what to do when it comes to investment and how markets react. As we know over the past week or so, we have seen some reaction - positive reaction in the market; there was a mini rally in the market and people are getting optimistic about a V-shaped recovery. I think it's important to discuss with clients the nature of this recovery, because if you look at where it's coming from and the environment in which this recovery is taking place, it is happening in an environment in which the VIX Index, namely volatility, is still at about 60, 65 percent, which is very, very high. Never before have we seen a significant lasting rally when volatility is so high. Second is, we have to remember that even in 2008, during the dark days, there was a period of six, seven days of a stock market rally up by close to 20 percent, and then it fell again by 28 percent. So it's very difficult to establish a bottom in this environment. Also, remember that corporate Canada and corporate America started this recession, this crisis with a relatively low earning trajectory. Clearly, we are not seeing dividend increases at this point, and not stock buyback activity. So therefore, I think we have to be careful declaring that this is the bottom. We are definitely close to the bottom, but it's possible that there will be another wave, something that we have to discuss with clients. Hopefully it will not be very significant. Maybe I'm wrong, but this is something that we have to be very clear about, because if this bear market ends now, it will be the shortest and the most volatile bear market ever. So we are not sure that this is 100 percent over. But we are clearly closer to the bottom. And if I'm right, or even semi-right about the trajectory of the

recovery - namely third quarter, fourth quarter reduced activity, but some sort of positive numbers coming - I think that the market will start reading between the lines and realizing that many, many sectors and many, many stocks are oversold at this point, and there are some opportunities in the market. And that's where I expect a more reasonable and lasting rally.

[Soft Music playing in background]