-- Speaker 0 00:03 Welcome to the trade security podcast. We are riding a roller coaster of economic news right now with great drops and turns coming unexpectedly and often as a steady stream of information whips by. It's difficult to gain an understanding of what's happening and how it will impact the economy, your business, your family, and your future. I'm Janet Eastman and on this episode of the trade security podcast and pleased to have Dan North, chief economist for EULAR, Ermias North America. As my guest, he's going to give us an idea of what all this news is really telling us. Thank you so much for joining me today Dan. Cause I know you are probably very busy.

Speaker 1 00:44 Yeah, pretty busy. Janet, Janet, thank you so much for having us this morning. Aide GFSI Buku didn't have while NBJ OSI.

Speaker 0 00:52 So Dan, can we start off with having you provide us with an overview of the impact of coven 19 on a global level?

Speaker 1 01:00 Well, it's really sort of hard to describe and understand the magnitude of this effect. So the best way I thought to describe it was by means of an analogy. So let's say, uh, your in a car parking lot and you open your door and you bang the car next to you and this just a little scratch. Well, let's say that that's kind of a soft patch in the economy. And then let's say, you know, you have a fender bender at a few miles an hour and you bend up the other car's fender a little bit and that's what you would call a recession. This is a head on collision at 60 miles an hour. It's just a totally different thing, a totally different regime. The good news is we can recover from it. Um, and I'll talk about that a bit later. And this all came about sort of in a three stage shock.

Speaker 1 01:52 First of all, you had the disease appear in China. China's reaction was to have a massive shutdown and that caused a supply shock for the rest of the world. Obviously Shina provides an enormous amounts of goods all over the world. So suddenly it was much more difficult to get product out of China. Then the <inaudible> disease spreads, and the reaction among the rest of the world is, okay, let's do the same thing. Let's shut down. Let's close all nonessential businesses. And now there's demand shop. You know, people are in size, so they're not going to be able to buy things that they would normally buy. And then that spilled over into the financial markets, uh, where credit dried up. And that could have become a lot worse. But the federal reserve kind of stepped in and lubricated things. So there's a three step shock there, which really obviously stopped the economy and its track.

Speaker 1 02:51 And it's actually worse for Canada because they're actually two more steps. First is the effect of oil prices. You know, we have this demand shock, a drop in LA at the same time that Russia and Saudi Arabia entered into this price for which we've not really recovered from since. So oil prices have collapsed and especially collapsed and Canadian oil prices. And then the fifth part is Canada's very sensitive to what goes on in the U S we expect to see a sharp downturn in the U S 20% of Canada's GDP is exports to the U S so there's that extra weight there. And overall we're going to have the worst quarter since the great depression. And that's really, really a shocking thing that think about good news. Part of this we try to bring out is that just like today's modern cars, they have great protection systems so that even if you go through this 60 mile an hour collision, you, you can survive.

Speaker 1 04:00 And, uh, it might take a while to heal, but you can survive and your, your injuries will heal you. You'll get through it. And we'll get through it too, because we've had these massive policy responses. Um, here in the U S we put together to start on the fiscal side, a $2 trillion package, 10% of GDP with all sorts of, uh, uh, grants to small businesses, uh, and many other, uh, facets. And that's about, as I said, 10% of GDP. And then we might even get another go round. There's talk about another infrastructure package. So on the fiscal side we have a huge response. And on the monetary policy side in the U S the federal reserve has really, I would say gone wild in its response. We're down to 0% rates. Again, huge increases in QE, more lending programs support the money markets, commercial paper, corporate debt, States and municipalities, more repo facili --

-- ties, main street lending programs, so forth.
Speaker 1 05:06 So enormous policy support and similar support in Canada. Um, the first round of fiscal stimulus was a package of about 5% of GDP. And then we just passed the emergency wage subsidy benefit, which was something around 3% of GDP. So good response there. And the bank of Canada has a, it's not been quite as aggressive as the federal reserve, but for the bank of Canada it's really been quite aggressive. And we just saw in the last hour that the bank of Canada's providing a whole new, uh, basically a QE program supporting, uh, provincial and corporate bonds. So a very huge shock to the global and us economy met with pretty good responses.
Speaker 0 05:59 So this financial response of the U S is going to support Canadian businesses doing business in the U S correct?
Speaker 1 06:07 That's certainly the plan. Yes. Um, and you know, we've, both countries have lost, uh, an enormous amount of jobs, but there are programs in place to keep those jobs going as best as possible. Um, so again, these, these programs will help to a certain extent as long as the businesses can survive over the next few months. So our programs here, uh, in the U S will certainly be of benefit to Canada as well.
Speaker 0 06:40 I just want to clarify something that you said in your previous comments. You said the shock of covert 19 or the impact is equivalent to the great depression of the 30s as opposed to the great recession of 2008, 2009. We're actually going back to how bad it was in the 30s. I just want to be clear on that.
Speaker 1 06:59 That is, that is correct. And hopefully the scenario we have is that it's going to be for one quarter. So, for instance, in the U S we see in the second quarter, uh, a downdraft of as much as 30%, quarter to quarter annualized and easily that much for Canada, if not, uh, if not more. Um, so that brings us back to levels, uh, shocks of the great depression. Uh, by comparison, the great recession is, uh, is going to be Childsplay.
Speaker 0 07:39 Hmm. So we've already seen a turnaround in China. What can we learn from what's happening there right now that we can maybe look to for guidance on what we can expect for the remainder of the year?
Speaker 1 07:53 Well, um, there are a couple things to note here. First of all, in terms of the disease itself, I really don't understand the numbers coming out of China. For instance, if we look at the world, um, the, the total world, uh, the cases per million of COBIT are 260 cases per million. And the deaths are 16 and a half deaths per million in the U S we have about 1900 cases per million. Canada has 720. China has 57. And if we go back to the desperate million, the world is 16 and a half, U S 79, Canada 24, China is two. So I'm concerned about those Chinese statistics and how they actually might compare. Um, and it's maybe better to talk about what won't work. Uh, that what worked in Canada that we do here in China. There were really totalitarian, draconian measures of locking down tens of millions of people and, and personal surveillance as well.
Speaker 1 09:08 Those things are really not going to work. Uh, so well in, uh, in here in the West, I mean we've started to dip our toe in there. Um, but it's, it's something that we don't, we can't do as much as China did. Um, they are still facing both the supply and demand shock. Uh, and it's taking them a while to come out of it and it will take us a little while as well. What are the big risks we're also seeing that we're seeing coming out of Asia is now the second way. So for instance, if we look at Singapore, Taiwan, Hong Kong, there's been a resurgence, uh, in the disease. I mean these countries were very good at shutting things down and holding the disease down for a long time. And as they started to open it back up, a lot of immigrants have come back in and brought the disease with them from other countries. So that is a concern about that is, uh, is controlling the disease for the second time around.
Speaker 0 10:16 So the big picture perspective is we're going to see a bad second quarter, so we're probably going to see a significant rise in business bankruptcies then. Correct?
Speaker 1 10:27 Sure, sure. There's, there's no two ways about that now. Like a lot of statistics, it actually hasn't shown up in the, uh, in the day that'd because we probably haven't even gotten March. --

-- We haven't gotten March statistics on bankruptcy's, but there's no question about it. And no one's going to escape. That is, no industry is gonna escape. Uh, you know, the, the worst off are going to be manufacturing, autos, metals, energy, uh, those, those sorts of industries. The ones that will make off a little bit better are things like pharma, echnology, utilities and so forth. But basically it's going to be a broad, broad hit to insolvencies. We think globally insolvencies are going to be up around 18% this year in the U S uh, insolvencies were already on the rise. Uh, we had, uh, uh, two and a half percent increase last year, which the first increase since 2009, we think this year it's going to go up to 25% and under, uh, in 2019 also had its first increase at 2.6%.

Speaker 1 11:40 First increase since 2001, we think Canadian, uh, and solvency are going to go up to 17% this year. So a dramatic increase in insolvencies. You don't normally see that, uh, that that steep and increase. And again, these are business insolvencies, which actually leads us into the question of uh, personal insolvencies and the housing market. Um, you know, if as, as this, uh, difficult quarter comes along, it's entirely possible possible that housing prices will fall. And with the record, high levels of personal debt in Canada, it's, it's a concern for the housing market. You know, back in the 2008, 2009 in the U S we had the asset bubble, the housing market bubble collapse. Many, uh, borrowers, many mortgage holders went underwater and stop paying their mortgage, um, and really damaged the housing market to the point where we're really just coming back to levels from 20 years ago. So that's a big risk standing out there. Uh, in terms of personal and solvency is in Canada.

Speaker 0 13:00 So we're talking about business bankruptcies, we're talking about personal insolvencies. Now if we swing back around to you talking about the jobless claims that we've seen in both the U S and Canada, when things start to ramp up and there are all these bankruptcies, what do you think the jobless scene is going to look like as the year progresses?

Speaker 1 13:22 Well, that's what's going to be the ugliest part. And I'll just throw out some, some thoughts there. So for instance, uh, in the Canadian employment report, you know, the payrolls are down about a million. The unemployment rate jumped up to 7.8%. The, you know, both of them were the largest, uh, uh, increases in history. Um, and even before that actually the, the, uh, the jobless claims data from both the U S and Canada were actually fresher data and actually showed a more difficult situation. For instance, in Canada, you have basically 3 million people applying for jobless benefits. In the U S we're up to about 10 million. Um, and obviously the Canadian labor force is much smaller. So the claims, the jobless claims compared to the people employed was something like 6%. In the U S it's like 17%. In Canada. It's a much worse situation and you can see the unemployment rate easily going to 10%, uh, in the U S and easily going to 20% in the Canada.

Speaker 1 14:40 And that's, that's really, again, is a shocking number. But again, we hope that thisU shaped recovery, which is our central scenario, uh, we'll bring back most of those jobs over the second half of the year. And this comes about because the, the sharp downturn in this second quarter resulted from, you know, a self inflicted wound government saying, okay, you have to shut down businesses and that can be reversed pretty quickly. In fact, a number of our States are already starting to do it. And then Europe, some countries are already starting to do it and that's our scenario is that the economies will be able to bounce back in. The third and fourth quarter's tough part is that employment always lags. For instance, when you start to go into a recession, employers really don't like to lay people off. It's actually more costly. It's costly to lay people off. Um, and on the other end, employers coming up may not be so anxious to put employees back on because that demand might not ramp up and there's a cost to bring employees back on. So it's, it's, we think the jobless claims, the job situation is going to lag the actual recovery a little bit. Um, but again, there's policy support and we do expect to see most of those jobs coming back in, in the second half of the year.

Speaker 0 16:21 So I know, Dan, --

-- that hindsight is 20, 20, and I know we're learning a lot about what's happening in a situation like this. But from your standpoint, what should we be taking away from this covert 19 time that we can hang onto and think about in the future to prepare for when this possibly happens again?

Speaker 1 16:40 Well, I've got a number of thoughts along those lines. There's quite a few things we can learn. First of all, there's always going to be another pandemic. It's always going to be out there. I mean this is the nature of, uh, of viruses and disease. There's another one coming. Um, and it's really impossible to tell the specific nature, especially since I'm not a doctor or an epidemiologist, but one problem we've seen is the total lack of personal protective equipment, you know, masks, gowns and gloves. Um, and in this particular, uh, go around, we've seen a huge shortage of ventilators and, uh, shortages of medicines as well. So I think one thing we'll learn is that we need to have less dependence on other countries for critical medicines. And perhaps what will come out of this is something like a strategic Puzzlet petroleum reserve here we have in the States.

Speaker 1 17:42 Maybe we should build up a strategic personal protective equipment reserve so that we have to scramble for masks. Simple things like gloves and gowns. Uh, that would be something to learn from this pandemic because another one is comment. Secondly, and I think this is important is one we'll, we'll reflect back on this. We really might have to question whether the cure was more costly than the disease. Now, if you're in Italy or New York and you've seen the terrible cost of this disease, um, then your response obviously will be, yes, it was, it was worth, um, you know, th the response was worth it. But if you're going to take a, make a policy, um, you have to take everybody into account for the greater good. And I think when we look back on this and look at how we, uh, self-inflicted ourselves by, by, uh, closing down these economies to the point where it was the worst since the great depression, we might step back and say, really was that a good idea?

Speaker 1 18:53 Um, I don't think the, the cost benefit analysis really has been thought through, uh, very thoroughly. Third, we should also know there is always going to be another financial crisis, always going to be another financial crisis. Now the response on the fiscal policy, um, is obviously, you know, manage your fiscal position better. Um, so you can respond to this. Well, Canada's done a much better job than the U S the net GDP debt to GDP ratio is something around 35% in the U S it's more like 80%. So, uh, Canada has, has done a better job of managing that, but that's going to be very tough going forward, particularly in the U S given our demographics. We have this aging workforce, which is going to require more health care, more social security benefits, making it much harder to manage our fiscal situation unless we bring in more skilled legal immigration to help manage to support those entitlement programs.

Speaker 1 20:09 And again, this is what Canada has done such a better job than the U S Canada's brought in about 20 times more skilled legal immigration compared to the labor force then in the U S and this is really helped, uh, will help the fiscal position going forward. Whereas in the U S we're probably going to be either even in deeper trouble shopped for the final thing, which is the monetary policy. The federal reserve, as I've mentioned, is Devoe has provided many, many new programs and it's basically provided a backstop, not just to the financial markets, not just to the financial system and the credit markets, but to the entire economy. So this is yet another example of the federal reserve making a classic central bank mistake, which is to provide too much easy money for too long and they're going to find it impossible to back out of. They tried to back out of it and last September overnight lending markets went and went nuts. And, um, I think that's going to be the case going forward. It's basically QE forever and 0% rates forever. And I think we're getting into the, uh, the, the idea of modern monetary theory basically where you know, where there's ever a problem or the, uh, the government needs money, fiscal policy needs money. The federal reserve basically say we have unlimited ability to print money. And I think that's a very, very hazardou --

-- s situation to be in.
Speaker 0 21:57 So the long lasting impact of covert 19, which is very costly for all of us in the end, is that it's going to take years for us to dig out of this. Is that how you see it?
Speaker 1 22:10 I think so. Again, you know, we, we see because of this enormous support, policy support and the ability basically to say to businesses, okay, you're open again, we'll have that U shape recovery. It's going to be a very, very brutal, brutal quarter. It may be very brutal for the next couple of months, but, uh, we, we will recover the legacy one legacy being, uh, central banks, particularly the federal reserve, having been way too easy on credit and basically creating a moral hazard, a backstop to everybody, um, which is an enormous risk that at some point could come back to bite us in a financial crisis. That's much worse now that's out in the future. Let's think about the intermediate term again. We see a recovery later this year. Um, some of the other legacy effects will be that I expect we'll see a stronger state that is, for instance, um, the us and Canada both, uh, will learn not to be so dependent, for instance, on China or other countries for their supply chains.
Speaker 1 23:25 Um, we expect to see a more assertive government and this'll be kind of a low blow to globalization. Um, you know, that's, that's, that's been coming for a few years and I think this is going to be a yet a another um, piece that is going to knock back globalization. Um, we'll also be seeing the increase in, uh, Chinese, what I call soft power. Um, they are certainly making a bigger and bigger presence on the global stage, wanting to see more and more risk awareness, uh, uh, of what could go wrong for instance, you know, uh, uh, endemic insurance if you will. I mean that's, that's available and that has been taken. Um, so there's, there's more risk out there, more business interruption risks that we might have to consider. And finally there's going to be a change in the way we do work. Uh, it's obvious that many, many businesses now services particularly, which, you know, in developed economies is most of the economy, um, are working pretty well when people are out of the office. And I suspect that that is going to, uh, is going to be something that's going to be a more permanent, um, uh, picture on the landscape there.
Speaker 0 24:50 Dan, you've been providing some fabulous information here and I know I've taken up a lot of your time, so can you leave us with some bright spots or some positive notes? Okay,
Speaker 1 24:59 well there are some positive notes. Um, <inaudible> I would just, I would give out a couple of sort of tips first and for getting to the real positive, first of all, obviously we have to manage the disease. So we need to do the things we've been talking about, the staying safe and social distance in following the guidelines that will help us overcome the disease. And we have to keep our spirits up through this because we will overcome it even though it's tough. Um, I'd also mentioned that not all of those jobs will come back at once. Maybe not all of them. There are some that won't come back. So quite honestly, as a personal tip, maybe you should sharpen your resume and as a business, um, you're not to understand that your trading partners have trading partners too. So, for instance, your buyer, the guy that you've been selling to for years, uh, <inaudible> may have a perfect record with you, is always paid on time.
Speaker 1 26:01 Well, he's got a trading partner too, and now maybe that guy can't pay him and that might flow to the got to, uh, your buyer. So that's something we have to, uh, take, keep in mind as well. Um, but on the really good news, again, you know, we do have good notes. These enormous policy responses are like those protection systems that allow us to survive car crashes. Um, we should take advantage business who should take advantage and people should take advantage of those provisions in the fiscal stimulus packages. If they're there, they should get it. I small businesses have gone out here in the U S and gotten it right away. Um, they may not necessarily have a use for it today, but they might in the next couple of weeks. If it's there, they should get it. But the efforts to develop vaccinations I think apparently are turning out very, very well and perhaps running faster than we would have expected, which is very good news. --

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Speaker 1 27:05 We've seen that the virus can be overcome and that's great news. And we've also seen that some governments, um, in uh, in Europe for instance, such as Austria, uh, some States, some of the United States, um, the three Western States, California, Oregon, Washington, they're all starting to talk about making plans to open back up. And here in the East New Jersey, New York, uh, Pennsylvania, Rhode Island, big parts of the population are starting to make coordinated plans to start opening up in the next few weeks. So these are all good pieces of news. Um, there, there certainly is hope out there. There's no question we'll, we will overcome the virus. We have big policy plans in place to support us in the meantime and we do think that we're going to recover in the second half of this year. It's going to hurt your injuries from that car crash. You're going to hurt, but we're going to get out. So keep the faith.
Speaker 0 28:14 Thanks so much, Dan, for providing this overview on the economy. It's been really great information and I sincerely appreciate your time
Speaker 1 28:22 and I thank you so much for having me. Uh, it's, it's been great talking with you.
Speaker 0 28:27 That's Dan North. He is the chief economist for North America. You learn armies, and that is our show this week. Please follow the receivables insurance association of Canada on Twitter and LinkedIn. You can visit trade securely.ca to listen to all of our podcasts to stay on top of the latest business news and to find links to our social channels. Until next time, I'm Janet Cheesman. Thanks for listening to the trade security podcast, and as Dan said, keep the faith.
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