RBC Economics

Daily Economic Update

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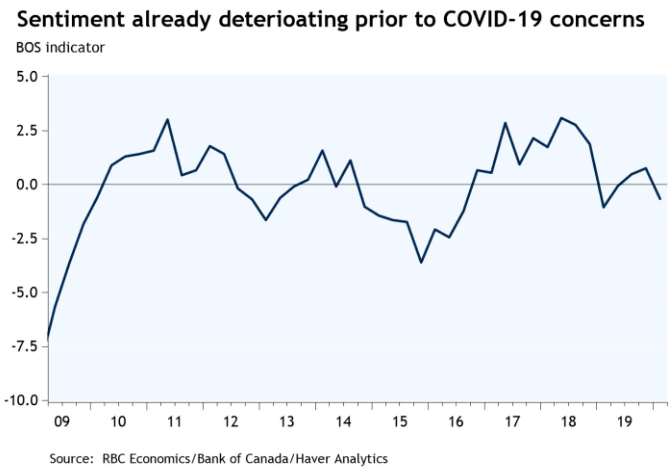
BoC survey highlights energy shock

- Conditions were softening before COVID-19 concerns intensified
- Mid-March follow-up shows growing impact on consumer-oriented businesses
- Energy firms think current shock worse than 2008 and 2015

The Bank of Canada's latest Business Outlook Survey (BOS) would have been severely out of date were it not for some follow-up interviews conducted in mid-March that captured the early stages of the growing domestic coronavirus outbreak. Even those anecdotes (likely already familiar to most) failed to capture the more widespread economic disruption due to containment measures that ramped up in the second half of March. We think the most timely and relevant information here relates to the energy sector, which is grappling with simultaneous supply and demand shocks that firms say are worse than in 2008 and 2015. While reports of a potential OPEC+ supply cut and attempts to advance key infrastructure projects might provide some encouragement, it's likely that the energy sector's challenges will extend beyond the containment measures currently in place. That will add to what looks increasingly likely to be a more gradual rebound in economic activity in the second half of 2020 than most were hoping for early in this outbreak.



The survey period for the Q1 BOS stretched from February 11 to March 6—that is, prior to the intensification of concerns about the domestic coronavirus outbreak. Still, oil prices were beginning to weaken during that period and confidence was deteriorating particularly in energy-producing regions. The overall BOS indicator slipped below zero for the first time in three quarters, suggesting business sentiment was below its historical average. That fits with the BoC's assessment that more accommodative monetary policy would likely have been needed even in the absence of the COVID-19 shock.

With COVID-19 concerns and containment measures ramping up following the BOS survey period, the BoC conducted two sets of follow-up interviews to gauge the growing economic impact of the outbreak. The first canvassed firms and industry associations between March 13-17 when the shock was still escalating—some firms reported sharp declines in demand while others were only expecting as much. Firms in accommodation, food services and recreational industries reported that demand had collapsed and they were laying off workers or reducing staff. Keep in mind, this was prior to government-mandated

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shutdowns of non-essential services across most of the country. Manufacturers also saw reduced demand and were expecting to temporarily shut down. Some also noted challenges sourcing inputs from countries like China and Italy. Retail and transportation firms noted a surge in demand, some of which was expected to persist.

The second follow-up survey sampled oil and gas firms between March 12-18. Here, a dire picture emerged of financing and liquidity issues that were forcing many firms to reduce costs and operations. Most saw the current shock as worse than those in 2008 and 2015 as access to financing had become more difficult. Indeed, while some thought they could withstand a period of low oil prices, many were concerned about access to financing amid declining equity prices, widening credit spreads and a general reduction in risk appetite. This survey highlights the need for policymakers to provide more targeted support to the oil and gas industry. Reports suggest such an announcement could be coming as soon as this week, with large firms in other severely-impacted sectors also likely to receive direct aid.