

Impact of the COVID-19 Pandemic on Canadian Industries: A Comparative Analysis

The COVID-19 pandemic has had a profound impact on Canada's economy, affecting various industries differently. While Canada's economy has shown resilience and recovery in certain areas post-pandemic, challenges persist in specific sectors.

The manufacturing and oil and gas industries continue to face headwinds due to external factors like trade uncertainties. In contrast, sectors such as retail (food and beverage) and home renovations have experienced sustained growth, adapting to new consumer behaviors and market demands.

In 2020, the Gross Domestic Product (GDP) contracted by 5.04%, but rebounded by 5.29% in 2021, returning to pre-pandemic levels by late 2021. Employment rates fell from 62.3% in 2019 to 58.1% in 2020, recovering to 62.1% by 2023. The manufacturing sector lost over 280,000 jobs between February and April 2020 and faced further challenges with a PMI decline to 47.8 in February 2025, influenced by proposed U.S. tariffs.

The oil and gas industry saw a 12% employment drop between March and June 2020, with recent U.S. tariff threats potentially hindering recovery. Conversely, the food and beverage retail sector experienced growth, with operating revenues rising from \$131.5 billion in 2019 to \$147.0 billion in 2021. The home renovation market also flourished, with average planned spending increasing from \$10,211 in 2019 to \$19,000 in 2023. Government spending played a pivotal role in economic recovery, contributing significantly to GDP growth in 2024. Household saving rates peaked at 26.5% in Q2 2020, declining to 6.1% by Q4 2024, influencing consumer spending patterns. Overall, while some sectors struggled, others adapted and thrived in the post-pandemic landscape.

Here's an economic analysis of key sectors, comparing their performance before and after the pandemic:

1. Overall Economic Performance:

- **Gross Domestic Product (GDP):** Canada's GDP experienced a significant contraction in 2020 due to the pandemic, shrinking by 5.04%. However, the economy rebounded with a growth of 5.29% in 2021, returning to pre-pandemic levels by the fourth quarter of 2021, marking one of the fastest recoveries among recent recessions.
- **Recent Growth:** In the fourth quarter of 2024, Canada's economy grew at an annualized rate of 2.6%, surpassing expectations. This growth was driven by increases in consumer spending, business investments, and exports.

2. Employment and Labor Market:

- **Employment Rate:** The employment rate fell from 62.3% in 2019 to 58.1% in 2020. By 2023, it had largely recovered to 62.1%, close to pre-pandemic levels.

- **Job Recovery:** Over 1.1 million more Canadians are employed today than before the pandemic, marking the fastest jobs recovery in the G7.

3. Productivity and Income:

- **Labor Productivity:** After declining for seven consecutive quarters, business productivity rebounded to pre-COVID-19 levels by the third quarter of 2022. However, unit labor costs remained 13% above their pre-pandemic baseline, indicating ongoing challenges in cost management.
- **Disposable Income:** Household disposable income rose during the pandemic, with the second quarter of 2024 seeing a 2.6% increase. This was 21% above pre-COVID levels, partly due to government support measures and increased wages.

4. Household saving rate

The COVID-19 pandemic brought significant fluctuations to Canada's household saving rates, which in turn influenced consumer spending patterns between 2020 and 2024. Here's an overview of these changes:

Household Saving Rate:

- **Pre-Pandemic Period (2019):** In 2019, Canada's household saving rate was relatively low, averaging around 2.1% in the second quarter and 2.5% in the third quarter.
- **Pandemic Onset (2020):** With the onset of the pandemic, the saving rate surged dramatically, peaking at 26.5% in the second quarter of 2020. This unprecedented increase was largely due to reduced consumer spending opportunities during lockdowns and increased government support measures.
- **Subsequent Years (2021-2024):** The saving rate gradually declined as economic activities resumed. By the fourth quarter of 2024, it stood at 6.1%, down from 7.3% in the previous quarter.

Impact on Consumer Spending:

- **2020:** The spike in savings during 2020 led to a contraction in consumer spending, as households curtailed expenditures amid economic uncertainty and limited spending avenues due to public health restrictions.
- **2024:** Despite a decline in the saving rate by 2024, consumer spending remained subdued. Factors such as elevated interest rates and inflationary pressures led many Canadians to reduce their expenditures. Nearly two-thirds reported cutting back on spending due to interest rate concerns, and over 60% cited inflation as a reason for reduced spending.

5. Government spending

In summary, while the household saving rate in Canada soared at the onset of the pandemic and has since moderated, consumer spending patterns have been influenced by a combination of economic factors, including interest rates and inflation, leading to cautious spending behaviors in 2024.

Government spending has played a significant role in influencing Canada's economic growth, particularly in recent years. Here's an overview of its impact:

Contribution to GDP Growth:

- **Third Quarter of 2024:** Government expenditures increased by 1.1%, marking the third consecutive quarterly rise since a decline in the fourth quarter of 2023. This uptick in spending across all government levels contributed positively to the GDP growth during this period.
- **Second Quarter of 2024:** Government spending emerged as the largest contributor to economic growth, accounting for approximately 79.1% of the total growth. This surge was primarily due to higher compensation and increased purchases of goods and services by the government.
- **Fiscal Policy and Economic Stability: Deficit-to-GDP Ratio:** Canada's general government deficit stood at 2% of GDP in 2024, the lowest among G7 countries, tied with Germany. This relatively tight fiscal policy has contributed to a quicker reduction in inflation and allowed for earlier decreases in interest rates.
- **Recent Economic Performance: Fourth Quarter of 2024:** The economy experienced an annualized growth rate of 2.6%, surpassing expectations. This growth was driven by increases in consumer spending, business investments, and exports.

6. Industry-Specific Analysis:

Industries That Experienced Sustained Growth:

- **Food and Beverage Retail Industry:**
 - **Pre-Pandemic (2019):** In 2019, Canada's food and beverage stores generated approximately \$131.5 billion in operating revenue, marking a 3.2% increase from the previous year. **Pandemic Period (2020-2021):** The industry saw continued growth during the pandemic. In 2020, operating revenues rose to \$142.9 billion, followed by an increase to \$147.0 billion in 2021.
 - **Monthly Sales Data:** Monthly retail sales of food and beverage stores in Canada fluctuated during the pandemic, reaching approximately \$12.8 billion CAD in February 2024.

- **Home Renovation Market:**

- Pre-Pandemic (2019): In 2019, the average planned spending on home renovations by Canadian homeowners was approximately \$10,211, marking a six-year low.
- Pandemic Period (2020-2023): The home renovation market experienced significant growth during the pandemic. National renovation spending increased by an estimated \$300 billion between 2019 and 2023, led by home renewal and revitalization projects in major markets like Toronto and Vancouver.
- Average Renovation Costs: The average expected renovation cost nearly doubled from \$10,000 in 2019 to \$19,000 in 2023.

Industries Facing Ongoing Struggles:

- **Manufacturing:**

- Between February and April 2020, Canada's manufacturing sector lost over 280,000 jobs—a 17% drop in employment compared to a 16% decline nationwide. While there was a recovery, recent uncertainties, such as proposed U.S. tariffs, have led to contractions in manufacturing activity.
- In February 2025, the S&P Global Canada Manufacturing Purchasing Managers' Index (PMI) fell to 47.8 from 51.6 in January, indicating the first contraction in six months. This decline is attributed to uncertainty over proposed 25% tariffs on Canadian goods by the U.S., leading to significant pessimism among manufacturers.

- **Oil and Gas Drilling:**

- Initial Impact: Between March and June 2020, employment in Canada's oil and gas industry decreased by approximately 12%, equating to a loss of around 21,300 jobs.
- Subsequent Recovery: Despite the initial downturn, the latter half of 2020 saw a steady employment recovery, with numbers approaching pre-pandemic levels by December 2020.
- Proposed Tariffs: In early 2025, U.S. President Donald Trump announced plans to impose a 10% tariff on Canadian crude oil imports. This move aims to pressure Canada to address issues related to drug trafficking and immigration.
- Industry Response: The Canadian Association of Energy Contractors expressed concerns that such tariffs could lead to reduced investments and potential job losses within the sector.