

Economic Commentary



The COVID-19 third wave: A self-inflicted economic wound

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MARKET RESEARCH

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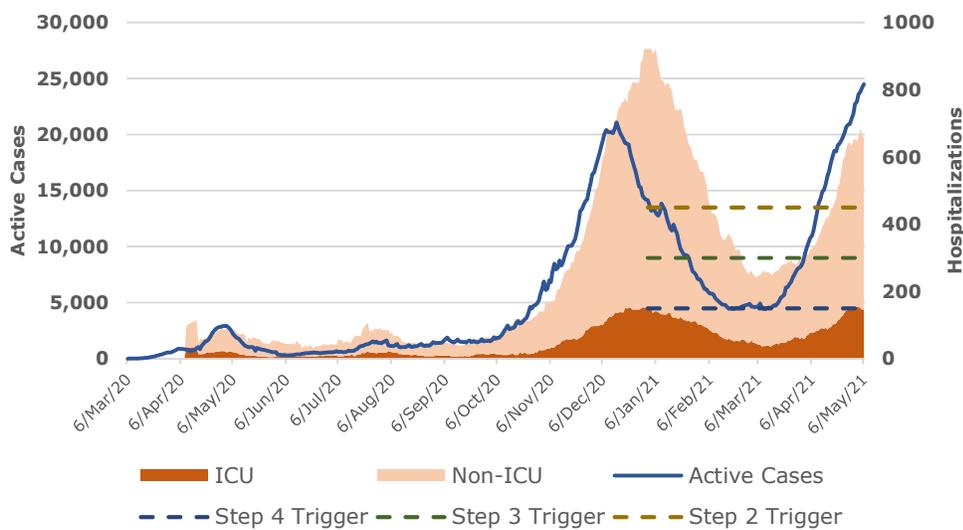
Main takeaways

- *Alberta is now the North American epicentre of the COVID-19 pandemic. As cases continue to climb, hospital and ICU admissions will continue to rise, raising the prospect of overburdening the health care system.*
- *We believe there are three main reasons for this critical situation: 1) the rise in the prevalence of more infectious COVID-19 variant of concern, 2) a slow response to rising COVID-19 cases, 3) a lack of personal responsibility by the general population. There is evidence that the latter is mainly to blame for the need for harsher restrictions on activity.*
- *Regardless of the exact reason for the gravity of the third wave, it is clear that the damages it will cause are in large part self-inflicted.*
- *We estimate the province could lose between 35,000 and 65,000 jobs because of the third wave of COVID-19 infections, resulting in a rise in the unemployment rate to about 10%.*
- *There is also a concern that another wave of restrictions could trigger a rise in business insolvencies.*
- *Due to a lack of stabilization in new cases and the lag between active cases and hospitalization, we believe that most of the restrictions are likely to be in place until June.*
- *With the vaccination campaign well underway and most adults likely to have received one dose by the end of June and fully vaccinated by September, most of the restrictions are likely to be gradually removed during the summer and fall, allowing a sustainable economic recovery to take hold.*

Canada has been battling the third wave of the COVID-19 pandemic for several weeks and Alberta is now the epicentre of the pandemic in Canada and North America. Moreover, the data coming in daily suggest that the situation is not improving:

1. The number of daily cases in Alberta, at more than 2000 per day on average over the past 7 days, is surpassing the recent peak reached during the second wave. Moreover, there are no signs that we are close to an inflection point.
2. The infection is rampant, with more than 10% of COVID-19 tests conducted coming back positive. This suggests a high prevalence of the virus in the population and a high level of transmission.
3. As new cases continue to pile up, the number of active cases is at its highest since the start of the pandemic and will continue to increase since there is no slowing in the number of new cases. Currently, Alberta has the highest number of active cases relative to population in North America.
4. The high number of active cases will translate in a record number of COVID-related hospitalizations and ICU admission. There is usually a 2 to 3 week lag between increases in COVID-19 cases and increases in hospitalization. Since we have not yet reached a peak in terms of cases, we won't see a peak in hospitalizations for some weeks.
5. With the older generations having been vaccinated, we are seeing a shift in infection to a younger cohort, especially between 20 and 50 years old. While younger generations have a lower risk of death, they face the same probability of complications that leads to hospitalization and ICU admission.

Fig 1. COVID-19 cases and hospitalization



Source: Albert health, Alberta Central

In an effort to contain the virus and prevent a collapse of the health care system, the Alberta government announced the most stringer restrictions on activity since the initial phase of the pandemic in spring 2020. The main new restrictions are: limit to gatherings, even outdoors, return to online learning for all students, closures of outdoor patios for bars and restaurants on top of the ban on indoor dining that was put in place in April.

These new measures will have a negative, but temporary, impact on the economy. In this report, we estimate the impact the third wave is likely to have on Alberta's labour market and the broader economy.

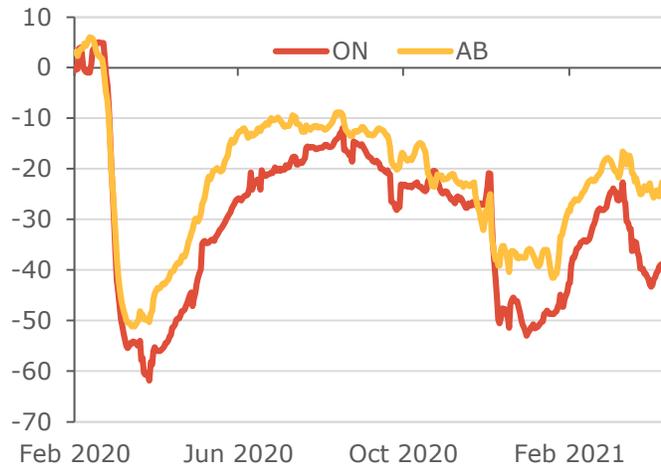
Why is the COVID-19 situation so dramatic?

We can pinpoint three main reasons why the current wave of infection is so dramatic:

1. An increase in the prevalence of variants of concern partly explains the sharp rise of cases. Evidence from the UK's experience in late 2020 shows that the variants of concern spread more easily, even with appropriate measures in place, while at the same time leading to complications in a greater number of cases.
2. Health authorities may have waited too long to impose restrictions at the start of the third wave, especially given the rise in variant of concerns, likely in the hope that the public would modify its behaviour and pro-actively forgo at-risk activities.
3. Ultimately, the general public's COVID fatigue is also to blame, with many letting their guards down and not adhering to the rules to slow the spread of COVID. In support to the last point, real-time indicators of economic activity show little changes in behaviours as the number of new cases started to rise in March. For example, ahead of the closure of indoor dining in the province, activity at restaurants as measured by OpenTable reached its highest level since the start of the pandemic. The Google mobility data shows that Albertans are continuing their normal activities undeterred. In contrast, during the second wave, there was a clear reduction in activity as COVID cases increased even before restrictions were imposed.

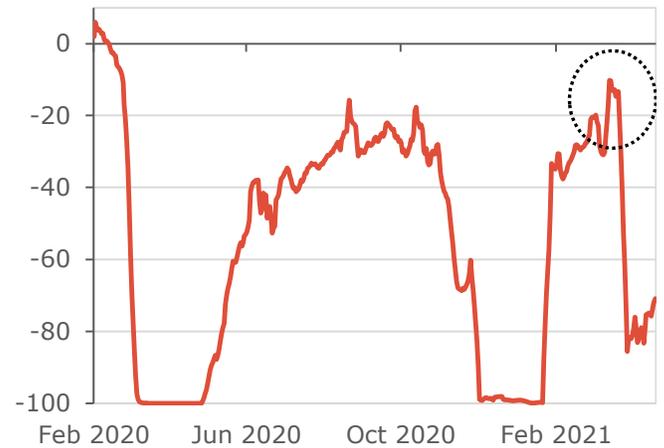
We believe it is this lack of personal responsibility that forced the imposition of harsher restrictions to avoid a meltdown of the health care system.

Fig 2. Google mobility data



Source: Google, Alberta Central

Fig 3. Restaurant activity relative to 2019



Source: OpenTable, Alberta Central

Compared to the situation in Ontario, it is interesting to note that the COVID situation in both provinces followed a similar trend until Ontario imposed restrictions, after which it significantly improved in Ontario. Similarly, after being the COVID-epicenter in Canada in previous waves, the situation in Quebec looks, so far, well under control. However, it is important to note that the province still has curfew in place, greatly limiting the opportunity for people to socialize.

Regardless of the exact reason for the gravity of the third wave, it is clear that the damages it will cause on the health care system, general population and the economy are in large part self-inflicted.

Economic impact of the third wave

It is clear that the economic impact of the third wave will be more significant than initially expected. Based on experience from the second wave, we expected that we would see some moderate job losses in the hard-to-distance sectors, but with continued gains in other sectors which would partly offset those losses. However, considering the stringency of the latest measures, it is clear that the decline in employment will be more significant than during the second wave.

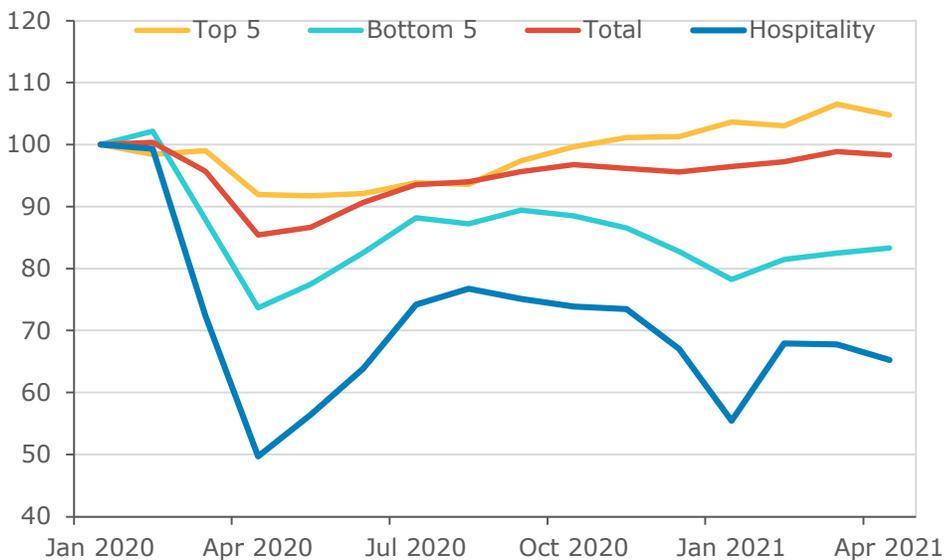
To estimate the impact on the labour market, we take a bottom-up approach by industry to evaluate what could be the potential decline in employment in each sector. Starting with the goods-producing sectors, we believe that as we saw in the second wave, the impact of the new measures on employment is likely to be small. Nevertheless, the high level of cases in the Fort McMurray area is forcing oil producers to modify their maintenance schedule due to a shortage of workers and the need to take appropriate measures to prevent outbreaks. As a result, we could see a modest decline in employment in the

resource sectors during the third wave. Similarly, we could expect some reduction in the number of construction workers, as some projects are likely to be delayed. All in all, we could expect job losses for the goods-producing sector of between 0 and 10,000 in May.

Most of the job losses will be concentrated in the services sector, particularly the food and accommodation industry. Considering the new measures are very similar to the ones put in place in spring 2020, we believe that this sector's employment level is likely to drop to the lows reached in April 2020, translating into a reduction in employment of between 20,000 to 30,000.

There is likely to be some decline in employment in the trade sector, as their capacity is further reduced. However, there a no closure of non-essential shop like last year. With students learning from home across the province, we could see some job losses in the education sector, like during the second wave. Similarly, the new restrictions are likely to impact employment in the business, building and other services industry similar to during the second wave. The closure of personal care businesses will lead to job losses in that sector too. Overall, take together, those sectors are likely to shed between 15,000 and 25,000 jobs.

Fig 4. Employment by industries - Alberta (index: Jan 2020 =100)



The top 5 industries are: natural resources, utilities, transport and warehousing, finance, insurance and real estate, and education. The bottom 5 industries are: agriculture, manufacturing, information, culture and recreation, accommodation and food services, and other services. Source: Statistics Canada, Alberta Central

Overall, we could expect the province to lose between 35,000 and 65,000 jobs because of the third wave of COVID-19 infections. As a result, we expect the unemployment rate in the province to increase to between 9.7% and 10.2%. The rise in the unemployment rate is likely to be somewhat contained because those who will lose their jobs will not be looking for employment, hence not officially counted as unemployed.

We believe the restrictions announced recently to flatten the third wave are likely to be in place until at least June. However, since a rise in new COVID cases leads to higher hospitalization and ICU admissions with a delay of about 2-3 weeks, the lack of slowdown in the number of new cases suggests that occupation rates in hospitals are unlikely to stabilize until the end of May and to stay elevated for most of June. This means that we may not reach the threshold for reopening until mid-June.

The more long-term concern is whether the drop in revenues for many businesses due to the new restriction could trigger a wave of insolvencies. After more than a year of weak revenues, many businesses have taken a significant amount of debt to stay afloat and are likely thin on financial resources.

The negative impact to be temporary

The silver lining is the progress in the vaccination of the population. Despite all the criticism, about a third of Albertans have received at least one vaccine dose. The recent expansion of the vaccination eligibility will lead to a greater part of the population having received at least one dose. This will help reduce new infections, but it will be very gradual, and we expect every Albertan aged 12 years plus who wants to be vaccinated to have had at least one dose by the end of June.

By the end of the summer, we expect that those who want to be vaccinated will have received their two doses and a critical level of immunity will have been reached. This is likely the moment when most of the restrictions to slow the spread of COVID will be finally removed, allowing a more sustainable recovery, especially in the hard-to-distance sectors.

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