It Truly IS Different This Time

A Publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

ECONOMIC RESEARCH
economics.bmo.com

Douglas Porter, CFA, Chief Economist
douglas.porter@bmo.com

How is this recession different… let us count the ways. While financial markets were busy handicapping the odds of the next U.S. stimulus package and the November 3rd election, evidence continued to roll in on the highly unusual nature of this cycle. There was more outsized strength in housing, the ongoing resiliency of equities, the rapid V-shaped recovery in China, and reports of labour shortages amid high jobless rates, to name but a few. Events have unfolded at such a fast and furious pace this year—and November awaits—that it's sometimes difficult to see the weirdness of the economic forest in 2020 for the data trees. Let's do some amateur arborist work, and look at 12 of this year's strangest rings:

1. **Personal incomes are up, not down**: While markets breathlessly await any news on a potential stimulus package from Washington, the reality is that U.S. personal incomes are still on track to rise by more than 5% this year, an upswing from the 3.9% advance in 2019. Suffice it to say that it's not normal for incomes to rise in an economic downturn: they fell 3% in 2009. With consumers heavily supported and, at the same time, blocked from buying some services, savings rates have soared this year—on pace to average 16% in both the U.S. and Canada.

2. **Housing has strengthened, not weakened**: In a "normal" recession, housing is typically clobbered by its status as a big-ticket, interest-sensitive purchase. The 2008/09 U.S. downturn took that trend to extremes. But because this recession was not preceded by rising interest rates, housing has not suffered its usual "recession victim" fate. Instead, home sales, prices and starts have all come roaring back in both the U.S. and Canada. And, the sector is poised to be a rare source of growth for both economies this year. This week saw U.S. single-family housing starts rise to their highest level since 2007 in September.

3. **Bankruptcies have dropped, not risen**: In staggering contrast to every prior recession, insolvency tallies have fallen this year, and fallen hard, for both businesses and consumers. For example, Canadian consumer filings have plunged almost 40% y/y in the past six months to the lowest levels in at least 15 years (September figures are likely to be released next week). Loan deferrals, even lower interest rates, and massive government income supports have explained this odd development.

4. **The fiscal response was immediate and overwhelming**: Of course, a big explanation for the prior curiosity on bankruptcies, as well as the rise in personal incomes, was the rapid-fire and heavy-duty government spending measures. Loaded on top of the usual automatic stabilizers, fiscal policy around much of the world went into hyper-drive as economies were shut down in the spring. The IMF estimates that the worldwide fiscal response was equal to $11.7 trillion,

or 12% of global GDP, in a mere six months. In a more normal recession, fiscal policy often doesn't respond until the downturn is over.

5. **The monetary policy response was immediate and overwhelming**: While monetary policy has a much better track record for responding to a downturn in a timely manner, this episode set a new standard for a rapid response—especially by the Fed. Learning important lessons from the 2008 crisis, the Fed wasted no time in the heart of the emergency in March, wheeling out all the guns (and some new ones) within weeks of the shutdowns. Recall that in 2008, the Fed did not get rates down to the lower boundary until December, a full year after the recession started. The Bank of Canada also nearly emptied its toolbox by the end of March this year, while it wasn't until April 2009 that it delivered its final rate cut in the prior cycle.

6. **Stocks regained their losses in weeks, not years**: The overwhelming and rapid response by policymakers helps explain how and why financial markets were able to stabilize and repair after the March turmoil. After plunging by more than 33% in a matter of weeks, the MSCI World index had fully recouped those losses by the end of summer. While it has stepped back in recent weeks, the index is still up 7% from year-ago levels, even with the clear second wave building in many major economies.

7. **It was the deepest downdraft in the post-war era**: Third-quarter GDP stats are beginning to roll in, with the U.S. expected to report record growth of roughly 30% next week. We're looking for even gaudier results in Europe and Canada, albeit after deeper drops in Q2. But, even with these massive bounces, almost all major economies will still be well below pre-pandemic levels, owing to the record setbacks during the spring. To pick but one example, Canadian GDP plunged 18.1% in March and April, and even with a spirited rebound since then, it was still almost 5% below pre-pandemic levels by August. In the deep 2008/09 recession, the economy was down by less than 5% at the point of maximum weakness.

8. **It was the shortest recession ever**: What this downturn had in depth, it gave up in longevity. In the post-war period, the average U.S. recession has persisted for roughly 12 months. We suspect when the final determination is made, this one lasted two months (there may be some debate over whether the economy was still in recession in May). At this point we would reiterate that this is the economist definition of recession—that is, the period in which the economy is contracting. While technically well shy of the normal two-quarter standard for a recession, the depth and dispersion of the downturn leaves zero doubt on whether this episode qualifies.

9. **Sector differences were extreme**: Almost all sectors of the economy were hammered shut by the lockdowns. However, as conditions gradually reopened, the differences among industrial sectors were sometimes extreme. It's not unusual for some industries to be harder hit during downturns—with cyclical sectors, such as manufacturing and construction, living up to their name. However, this cycle saw some industries devastated, while others actually

benefitted on balance. While housing, tech and some retail sectors have thrived, arts and entertainment are down more than 50% y/y and hotels & restaurants are off more than 30% y/y.

10. **Services suffered, not goods**: The pronounced weakness in the aforementioned high-touch service sectors runs almost completely counter to past downturns. In a typical recession, stability in the service sector helps to offset deep weakness in the big-ticket durables industries. It's almost as if the world has been turned on its head this cycle, with goods holding up relatively well and services still struggling massively. Winners and losers among economies have been sorted along these lines, with tourism-dependent nations suffering heavily, while manufacturing-led economies have recovered quickly. Case in point, Germany's composite PMI stayed strong in October at 54.5, while France flagged to 47.3. Meantime, the world's largest goods exporter—China—saw industrial production pop 6.9% y/y last month, and the 4.9% y/y rise for Q3 GDP puts that economy on track for 2% growth this year.

11. **Commodity prices held up remarkably well** (aside from that little nasty bout of negative oil prices): Let's just say that amid the deepest decline in the global economy in the post-war era, it is passing strange that many key commodity prices have not only held up, but in some cases thrived. The Bank of Canada's commodity price index, which is burdened by a heavy energy weighting, has still managed to rise 4% from year-ago levels. To put this in perspective, the index was down more than 40% y/y seven months into the downturn in 2008/09. Strong gains in copper, gold, natural gas, lumber and some agricultural prices have all provided important offsets to still-soggy oil prices. While each of the strong commodities has its own particular story, the key driver is that underlying strength in the demand for goods.

12. **The US$ has weakened, not strengthened**: We noted earlier this year that, compared to other financial markets, exchange rates had been a relative wallflower at the 2020 market rave. That's not to say there was no drama in FX, but this year's swings have been far from unusual. But what has been unusual is that the U.S. dollar is now on track to weaken this year, versus its usual recession behaviour of rising on safe-haven demand. There was a brief bout of dollar strength in the depths of the turmoil, but it passed quickly, and we suspect it is more likely to weaken further over the next year, almost regardless of what transpires on November 3rd. On the flip side, the Canadian dollar—after briefly showing in March that it never met a crisis it didn't want to join—is now basically unchanged on net over the past year.

General Disclosures

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K., Bank of Montreal Europe Plc in Ireland and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited, Bank of Montreal Europe Plc and BMO Capital Markets Corp are affiliates. BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such Information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Economic Publications

Our publications are disseminated via email and may also be available via our web site https://economics.bmo.com. Please contact your BMO Financial Group Representative for more information.

Additional Matters

This report is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Its contents have not been reviewed by any regulatory authority. BMO Capital Markets does not represent that this report may be lawfully distributed or that any financial products may be lawfully offered or dealt with, in compliance with regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder.

To Australian residents: BMO Capital Markets Limited is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and is regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. This document is only intended for wholesale clients (as defined in the Corporations Act 2001) and Eligible Counterparties or Professional Clients (as defined in Annex II to MiFID II).

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

To U.K./E.U. Residents: In the UK, Bank of Montreal London Branch is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority ("FCA") and BMO Capital Markets Limited is authorised and regulated by the FCA. The contents hereof are intended solely for clients which satisfy the criteria for classification as either a "professional client" or an "eligible counterparty", each as defined in Directive 2014/65/EU ("MiFID II"). Any U.K. person wishing to effect transactions in any security discussed herein should do so through Bank of Montreal, London Branch or BMO Capital Markets Limited; any person in the E.U. wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Limited. In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.In an E.U. Member State this document is issued and distributed by Bank of Montreal Europe plc which is authorised and regulated in Ireland and operates in the E.U. on a passported basis. This document is only intended for Eligible Counterparties or Professional Clients, as defined in Annex II to "Markets in Financial Instruments Directive" 2014/65/EU ("MiFID II").

To Hong Kong Residents: This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This material has not been reviewed or approved by any regulatory authority in Hong Kong. Accordingly the material must not be issued, circulated or distributed in Hong Kong other than (1) except for "structured products" as defined in the Securities and Futures Ordinance, in circumstances which do not constitute it as a "Prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance, or (2) to Professional investors as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules made thereunder. Unless permitted by the securities laws of Hong Kong, no person may issue in Hong Kong, or have in its possession for issue in Hong Kong this material or any other advertisement, invitation or document relating to the products other than to a professional investor as defined the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules.

To Korean Residents: This material is not provided to make a recommendation for specific Korean residents to enter into a contract for trading financial investment instruments, for investment advising, for discretionary investment, or for a trust, nor does it constitute advertisement of any financial business or financial investment instruments towards Korean residents. The material is not provided as advice on the value of financial investment instruments or any investment decision for specific Korean residents. The provision of the material does not constitute engaging in the foreign exchange business or foreign exchange brokerage business regulated under the Foreign Exchange Transactions Act of Korea.

To PRC Residents: This material does not constitute an offer to sell or the solicitation of an offer to buy any financial products in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC"). BMO and its affiliates do not represent that this material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. This material may not be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

Singapore Residents: This document has not been registered as a prospectus with the Monetary Authority of Singapore and the material does not constitute an offer or sale, solicitation or invitation for subscription or purchase of any shares or financial products in Singapore. Accordingly, BMO and its affiliates do not represent that this document and any other materials produced in connection therewith may lawfully be circulated or distributed, whether directly or indirectly, to persons in Singapore. This document and the material do not and are not intended to constitute the provision of financial advisory services, whether directly or indirectly, to persons in Singapore. This document and any information contained in this report shall not be disclosed to any other person. If you are not an accredited investor, please disregard this report. BMO Singapore Branch does not accept legal responsibility for the contents of the report. In Asia, Bank of Montreal is licensed to conduct banking and financial services in Hong Kong and Singapore. Certain products and services referred to in this document are designed specifically for certain categories of investors in a number of different countries and regions. Such products and services would only be offered to these investors in those countries and regions in accordance with applicable laws and regulations. The Information is directed only at persons in jurisdictions where access to and use of such information is lawful.

To Thai Residents: The contents hereof are intended solely for the use of persons qualified as Institutional Investors according to Notification of the Securities and Exchange Commission No. GorKor. 11/2547 Re: Characteristics of Advice which are not deemed as Conducting Derivatives Advisory Services dated 23 January 2004 (as amended). BMO and its affiliates do not represent that the material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any regulatory requirements in Thailand, or pursuant to an exemption available under any applicable laws and regulations.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal.

These documents are provided to you on the express understanding that they must be held in complete confidence and not republished, retransmitted, distributed, disclosed, or otherwise made available, in whole or in part, directly or indirectly, in hard or soft copy, through any means, to any person, except with the prior written consent of BMO Capital Markets.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., (Member FDIC). Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets.

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (member FDIC), Bank of Montreal Europe p.l.c, and Bank of Montreal (China) Co. Ltd, the institutional broker dealer business of BMO Capital Markets Corp. (Member FINRA and SIPC) and the agency broker dealer business of Clearpool Execution Services, LLC (Member FINRA and SIPC) in the U.S., and the institutional broker dealer businesses of BMO Nesbitt Burns Inc. (Member Investment Industry Regulatory Organization of Canada and Member Canadian Investor Protection Fund) in Canada and Asia, Bank of Montreal Europe p.l.c. (authorised and regulated by the Central Bank of Ireland) in Europe and BMO Capital Markets Limited (authorised and regulated by the Financial Conduct Authority) in the UK and Australia.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

™ Trademark Bank of Montreal in the United States and Canada.

© COPYRIGHT 2020 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group