

MANITOBA ANALYTICS

Macroeconomic Outlook for Canada's Agrifood Supply Chains



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Overview of Key Macro Developments

The rapid spread of the coronavirus pandemic throughout the world compelled many governments to preserve public health by undertaking containment measures, including social distancing, restricting large public gatherings, closing non-essential businesses, and limiting travel. These control measures, though necessary, have been disruptive to people's lives and are having a significant impact on the economies of many nations, including Canada.

Global economic activity began to soften prior to the COVID-19 outbreak. After a slow start to 2019, manufacturing and service activity improved in the United States (US), such that by year's end, US Gross Domestic Product (GDP) grew by 2.3 per cent in 2019. With a new trade agreement recently underway between the US and China, economic conditions for 2020 were being looked upon favourably. Canada experienced a subdued pace to economic growth of 1.6 per cent in 2019, due to weaker consumer spending, high household debt, poor business investment, and underperforming trade from slow global growth. Manitoba mimicked Canada's economic performance, with GDP growth of 1.2 per cent in 2019. Even as economies began to slowdown, there was reason for optimism in Canada and Manitoba for 2020, as both jurisdictions were benefiting from low inflation, low unemployment and healthy wage levels.

With the onset of COVID-19 in early 2020, change came suddenly to nations, as domestic governments implemented measures to stop the spread of the virus, causing sharp reductions in economic activity. Businesses began to temporarily close (decreasing supply) and consumers stayed at home (decreasing demand). This reduced commerce and trade and led to a variety of disruptions in supply chains. These effects resulted in greater unemployment and lower income, which weighed on consumer and business confidence, and contributed to a contraction in economic activity. One way or another, consumption, production, prices, trade and capital investment will be affected until the pandemic is lessened and the measures removed.

Canadian agri-food supply chains are often considered to be secure, agile and resilient to most disruptions, yet they are facing some key challenges. First, when governments initially implemented measures in March 2020, businesses in the service sector were the most severely impacted. By limiting human contact to lessen the effects of the virus, activity at non-essential businesses, such as restaurants, hotels and entertainment, was greatly curtailed. People lost income as their hours of work were reduced or they were laid off. Businesses lost revenue when their customers listened to the advice of authorities and spent more time at home and avoided going out. Secondly, workers became infected with the virus at beef and pork processing plants, leading to temporary closures. Though the pandemic was more acute in US than in Canada, US hog and cattle producers were unable to sell their livestock to abattoirs that shuttered operations until facilities became safe and workers' health improved. Facing significantly depressed prices and few options to sell livestock, producers were pressured to consider alternatives, such as the euthanization of animals to limit their financial losses.

The coronavirus measures that protect public health, have led to a major reduction in agrifood activity in Canada, as food retailers and meat processers operate more slowly at reduced capacities. At present, the magnitude of the economic impact on GDP is unknown. So far, production shutdowns have been short-lived, resulting in no drastic food shortages and no upward pressure on prices. The food transportation and distribution system has functioned well, with no major disruptions along trade corridors, or at ports or border crossings. Food supply chains in Canada continue to be robust, though at times encounter new challenges, such as potato producers facing reduced consumer demand and pork producers having difficulty obtaining temporary foreign workers. Further, if business closures are prolonged, smaller establishments may have difficulty covering their operating expenses, possibly leading to insolvency.

Governments have been taking steps to alleviate the pain of this contraction, and avoid a more severe economic recession through the use of fiscal and monetary stimulus. Since mid-March, the Canadian government announced the provision of \$686 billion in fiscal support, including \$5 billion to agribusinesses through Farm Credit Canada. The Manitoba government announced in mid-April that it would make up to \$1 billion in support available. Federal and provincial fiscal policy is intended to help with the temporary loss of income that businesses and households are experiencing. With respect to monetary policy, the Bank of Canada's purchase of bonds in secondary financial markets provides \$5 billion per week in liquidity to financial institutions, sharply lowering interest rates, and making access to low-cost credit easier for Canadians.

Economic Outlook

There is still much uncertainty concerning the duration of the COVID-19 pandemic, as governments continue to enforce public health measures until the spread of the virus begins to subside. Global economies are expected to rebound in the coming months. However, the path to full recovery is not readily known, as it will depend on when government measures are lowered and how businesses and households respond.

Table 1 reflects the views from leading organizations on the short- and medium-term outlook of selected economies in the coming months. In North America, a severe contraction in economic activity is expected for the first half of 2020, given the mitigation measures that governments have in place. For Canada, GDP is expected to decline in the first quarter by an average of 6.1 per cent, with the most severe contraction occurring in the second quarter, where GDP is projected to drop further by 33.1 per cent. Similarly, United States GDP is forecasted to drop 3.9 per cent and 36.5 per cent respectively, in the first and second quarters of 2020. The economic shock from COVID-19 in the first half of 2020 is expected to be the deepest since the Great Depression of the 1930s.

There is much more optimism for the economies of Canada and the United States in the second half of 2020, when COVID-19 is anticipated to be weakened and measures possibly eased or lifted. Canadian economic activity is expected to increase by 16.5 per cent in the third quarter and by 15.4 per cent in the fourth quarter. Likewise, in the United States, quarterly GDP increases of 18.3 per cent and 15.1 per cent are expected. With an economic rebound expected to be underway for both countries, economic conditions are expected to improve heading into 2021.

The path to full recovery remains uncertain, as the economic contraction may be relatively short and quick or long and drawn out, depending on when the virus will weaken and measures can be removed. Three possible scenarios for the pandemic are depicted in **Figure 1**. In the first scenario, the initial COVID-19 outbreak in spring 2020 is followed by a series of repetitive waves occurring through the summer and diminishing in 2021. In the second scenario, the initial outbreak is followed by a much larger wave in fall 2020 or winter 2021. This mimics the path taken by the 1918 Spanish flu and the 2009 H1N1 flu. The third scenario reflects the initial outbreak that happened in spring 2020, with the virus slowly burning out over the following months. Economic forecasters seem to share this view, as they appear confident of a steady recovery beginning before the end of this year, with no major second wave or series of smaller waves to this pandemic happening by this fall or winter.

On an annual basis over the medium term, forecasters anticipate global economies will experience a weak downturn in 2020, followed by a gradual recovery in 2021. Manitoba's GDP is seen to decline, on average, by four per cent in 2020, and grow by 4.3 per cent in 2021. For Canada, a decline of 5.1 per cent in 2020 is expected to be followed by a rebound of five per cent a year later. In the United States, a decrease of 4.7 per cent in 2020, and an increase of 4.6 per cent in 2021, is foreseen. A similar pattern holds for Japan, the European Economic Area and the overall world economy. Only China is expected to be more resilient, with steady growth occurring in 2020, followed by even stronger economic growth in 2021. Based on these projections, it will take until 2022 for many economies to fully return to conditions that existed prior to the coronavirus pandemic.

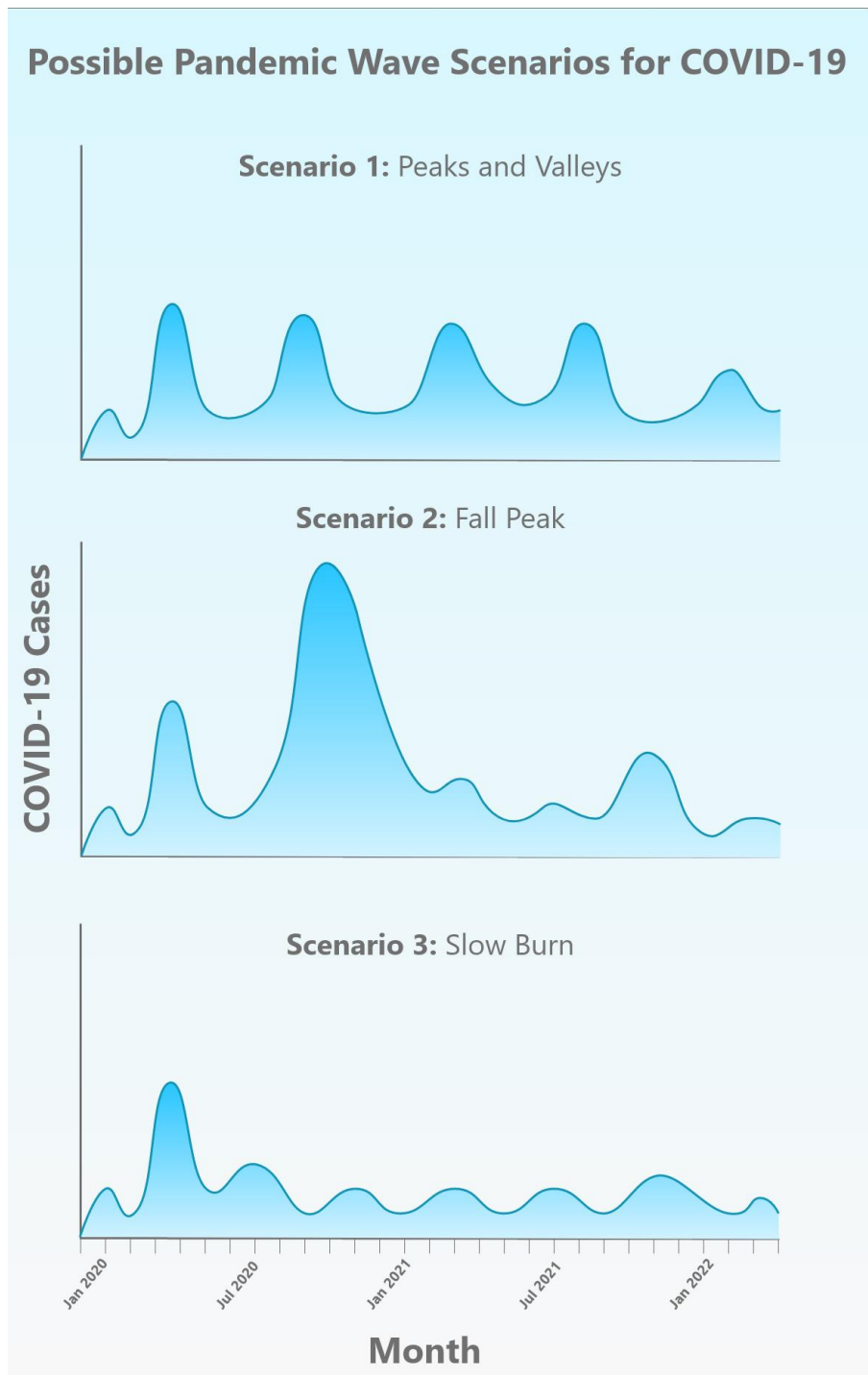
There are risks associated with this outlook. The pandemic could take a turn for the worse and last much longer, requiring more stringent measures and more government support. Over time, there may be long term structural changes to economies. The pandemic may trigger permanent changes, such as significantly lower business and household confidence, leading to: lower investment and lower consumer spending; a change in attitudes towards global supply chains and international trade; increased business bankruptcies; and a permanently higher unemployment rate. With unprecedented government spending adding to debt levels, taxes may rise, along with significant reductions to government programming, in an effort to balance budgets. This all remains to be seen.

TABLE 1

Economic Outlook Forecasts - Real GDP											
(Forecasted (f) Growth in Real Gross Domestic Product (GDP), QoQ annualized % change, under coronavirus conditions in spring 2020)											
Jurisdiction	2019		2020				2021		2019	2020f	2021f
Forecast Organization	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f			
Manitoba											
TD Economics									1.2	-4.3	3.9
RBC Economics									1.1	-3.7	3.1
Conference Board of Canada										-3.9	6.0
Average									1.2	-4.0	4.3
Canada											
TD Economics	1.1	0.3	-4.4	-24.8	9.9	8.7	7.6	2.3	1.6	-4.2	3.6
RBC Economics			-4.0	-32.0	20.0	8.0	4.0	3.0	1.6	-4.9	3.4
CIBC Economics	1.1	0.3	-10.2	-40.5	33.4	18.5	7.0	4.9	1.6	-6.9	6.8
Conference Board of Canada			-5.0	-25.0					1.6	-4.3	6.0
Parliamentary Budget Officer		0.3	-2.5	-25.0	0.0	5.0				-5.1	
Deloitte	1.1	0.3	-10.2	-51.5	19.3	36.7	13.2	8.6	1.6	-10.8	9.3
OECD									1.6	1.3	1.9
IMF									1.6	-6.2	4.2
Average	1.1	0.3	-6.1	-33.1	16.5	15.4	8.0	4.7	1.6	-5.1	5.0
United States											
TD Economics	2.1	2.1	-1.9	-27.0	12.8	9.0	6.0	3.5	2.3	-3.5	3.6
RBC Economics			-3.0	-35.0	10.0	20.0	7.0	5.0		-5.5	5.1
CIBC Economics	2.1	2.1	-5.8	-39.4	25.8	12.3	12.0	8.1	2.3	-6.2	7.0
Conference Board		2.1	-4.8	-44.5	24.4	18.9			2.3	-7.2	
European Commission									2.3	-6.5	4.9
OECD									2.3	1.9	2.1
IMF									2.3	-5.9	4.7
Average	2.1	2.1	-3.9	-36.5	18.3	15.1	8.3	5.5	2.3	-4.7	4.6
China											
European Commission									6.1	1.0	7.8
OECD									6.1	4.9	6.4
IMF									6.1	1.2	9.2
Average									6.1	2.4	7.8
Japan											
European Commission									0.7	-5.0	2.7
OECD									0.7	0.2	0.7
IMF									0.7	-5.2	3.0
Average									0.7	-3.3	2.1
European Economic Area											
European Commission									1.2	-7.7	6.3
OECD									1.2	0.8	1.2
IMF									1.2	-7.5	4.7
Average									1.2	-4.8	4.1
World											
European Commission									2.9	-3.5	5.2
OECD									2.9	2.4	3.3
IMF									2.9	-3.0	5.8
Average									2.9	-1.4	4.8

Sources: TD, RBC, CIBC, Conference Board of Canada, Parliamentary Budget Office, Deloitte, Conference Board, European Commission, OECD, IMF

FIGURE 1



Source: COVID-19: The CIDRAP Viewpoint: The Future of the COVID-19 Pandemic.
https://www.cidrap.umn.edu/sites/default/files/public/downloads/cidrap-covid19-viewpoint-part1_0.pdf

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