NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

Canada Economic Update - 19 April 2021

Market Report

19
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2021

Prepared by the New Zealand High Commission in Ottawa with assistance from NZTE.

RĀPOPOTO – Summary

- One year on from the first impacts of the COVID-19 pandemic, overall New Zealand exports to Canada have fallen, from $1.2 billion (to year end 2019) to $1.09 billion (to year end 2020). Tourism and transportation services have contributed most to this fall – but other key goods exports such as beef/lamb, and wine have increased.

- The Canadian economy has taken a huge hit over the course of the COVID-19 pandemic – but some key indicators saw signs of improvement in late 2020. Generally speaking, the sectors most impacted in Canada by COVID-19 are similar to those impacted in New Zealand (air transportation, accommodation, tourism) whereas other sectors (finance and insurance, technology, real estate and agriculture) have bounced back from the initial shock.

PŪRONGO – Report

All figures are in CAD unless otherwise stated.

Impact on New Zealand exporters

Canada remained New Zealand's 14th largest trading partner for goods and services in the year ending June 2020, with two-way trade valued at just over NZ$2 billion. Traditionally, our key goods exports sectors to Canada have been beef/lamb, wine, dairy and machinery. All of these sectors were impacted in various ways by COVID-19, with growth in some sectors – but overall exports declined over the course of 2020, from $1.2 billion (to year end 2019) to $1.09 billion (to year end 2020). Tourism and transportation services have contributed most to this fall. Despite the historic levels of assistance to Canadian business, there has only been one specific measure introduced by Canada to help with importing – goods needed for emergency use in response to COVID-19.

Table: New Zealand exports to Canada by product, in Millions (NZD), Year ending December 2019 and 2020

Export sector	Year ending December 2020	Year ending December 2019
Meat products	256.18	192.2
Travel	183.47	310.63
Beverages	146.29	139.69
Dairy	76.6	90.55
Machinery	57.82	72

Source: Statistics New Zealand (as at 7 April 2021)

- An already growing market for New Zealand pre-COVID, wine has continued to be a key export throughout the pandemic, with an increase in consumer demand. New Zealand wine has adapted well to online sales and benefited from liquor retailers largely remaining open.

- Milk and butter consumption has increased in Canada during the past year, including due to 'baking from home'. However, overall New Zealand dairy exports have reduced.
- With digitisation forming a key part of the pandemic response, New Zealand technology businesses are either growing or maintaining their position in the Canadian market.
- In the Government sector, there is funding available for COVID-19 initiatives, but it comes with longer lead-times.

- Many meat exporters have pivoted from food service to retail due to the pandemic, with relative success. As our best performing export sector to Canada in 2020, meat exports increased by around $64 million (NZD) over the course of 2020.
- Other key horticulture exports also had increases despite the overall downward trend.

Impact of COVID-19 on the Canadian economy, from March 2020 to March 2021

Canada is now in a third wave of the COVID-19 pandemic, with cases continuing to rise across the country due to the presence of more contagious variants of concern. Provinces and territories have taken diverse approaches to public health measures (and corresponding closures of businesses). Many parts of the country are now seeing the highest level of community transmission since the beginning of the pandemic. In Ontario (Canada's largest province) cases are ten times higher than the first wave (April 2020) peak, and the province is back in another month long shut down.

The Canadian economy has started to rebound from the pandemic driven recession of 2020, despite continued pandemic and political uncertainties. In the last quarter of 2020, the Canadian economy grew at an annualised rate of 9.6%, after a spike of 40.6% in the third quarter as the country first emerged from strict lockdown restrictions (albeit since reinstituted in many provinces). The economy is expected to continue to rebound, with Statistics Canada predicting a 5.2% increase in GDP over the course of 2021.

Key indicators

GDP: Real GDP shrank 5.4% over the year ending December 2020, (the steepest annual decline since data was first recorded quarterly in 1961). Although there was a steep drop off at the beginning of the pandemic in March, real GDP grew by 2.3% in the fourth quarter of 2020. Canada's **trade surplus** hit $1.4 billion in January 2021, the first surplus since May 2019 and the largest surplus since July 2014 following a stark drop in 2020 (Statistics Canada data can be found here). But although there has been some initial signs of recovery in 2021, in 2020 overall export volumes were down 9.8% compared to 2019, as were import volumes (down 11.3% in 2020 compared with 2019).

Employment: Compared with 12 months earlier, in February 2021 there were 3.1% fewer people employed, and 50% more people working less than half of their usual hours. But the stark drops early on in the pandemic have mostly rebounded, with the unemployment rate falling 1.2% to 8.2% in February, the lowest rate since March 2020. Of the 5.2 million Canadians working from home in February 2021, more than half (3.1 million) were doing so temporarily in response to COVID-19.

National debt: Over 2020, the federal government announced significant COVID-related financial support packages (amounting to around $240 billion). This increase in expenditure played a role in Canadian federal debt reaching $ 1.069 trillion in December (compared to $783,727 billion in January 2020). Government revenues (3.9% lower than in 2019) were outstripped by expenditures throughout 2020, with the fourth quarter showing an increase in the federal governments' net borrowing from the second-quarter peak of $443.8 billion. Despite this record increase, the most recent parliamentary budget office (PBO) report from January projects that the Government's debt service ratio (public debt charges relative to tax revenues) will reach 7% in 2023-24, its lowest recorded level.

Specific sectors: Activity was down in 17 of 20 industrial sectors in 2020 due to COVID-19 restrictions. Both goods and services producing industries declined, goods by 6.2% (the largest decrease since 2009) and services contracting by 4.9% (the biggest drop since records began in 1961).

For **services**, the decline hit across the board, having a more adverse effect on those where online delivery was unfeasible or not economically viable. Amidst continued COVID restrictions throughout 2020, air transportation dropped by 73.7%, accommodation and food services by 33.4%, and the public sector by 4.3% (driven mostly by healthcare and social assistance). Finance and insurance, and real estate, rental and leasing were the only two sectors in the services-producing industries to have positive growth in 2020 (at 3.8% and 1.7% respectively).

For **goods**, the main impact was in manufacturing, falling 9.5% in 2020, due to the transportation equipment subsector. The annual decline for mining, quarrying, and oil and gas extraction was 9.7% over the year and 3.7% for construction. Agriculture, forestry, fishing and hunting was the only goods sector reporting gains with a 4.7% increase, as some subsectors were deemed essential and remained exempt from lockdown measures.

Consumer price index (CPI): This rose 1.1% in February, with the acceleration in consumer prices largely due to higher prices for durable goods (up 1.7%) and petrol (up 6.1%) compared with December 2020. The Bank of Canada does not expect inflation to return to 2% on a sustainable basis until 2023, but has acknowledged that economic activity has held up better than expected during the second wave of COVID. On 1 April 2021, Canada introduced a Digital Services Tax, which will mostly impact customers of Netflix, Amazon and Spotify.

OECD review: The most recent economic snapshot from the OECD on Canada was released on 11 March 2021 and gave a relatively positive review. It noted that the fiscal and monetary support provided to the economy was substantial compared to other countries, and was well used by families and firms. Canada still had a lower public debt than the OECD average, despite the deficit increasing by 11% of GDP, due to previous fiscal prudence. This debt was expected to decline in every risk scenario examined by the OECD, partly due to the fact that Canada entered the pandemic in a strong position, with the lowest net debt to GDP ratio among the G7 - a position it still retains. One area raised as a concern was housing prices, which have continued to increase despite the demand and supply shocks from the pandemic. Canada (whilst having a smaller increase than New Zealand) has one of the highest in the OECD for this metric, owing mostly due to price hikes in Toronto and Vancouver.

The New Zealand High Commission in Ottawa and New Zealand Trade and Enterprise in Vancouver continue to work with Canadian officials, amongst market uncertainties to implement the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. We would be happy to speak with any New Zealand exporters about doing business in Canada. For further information please contact: info@nzhcottawa.org or vancouveroffice@nzte.govt.nz.

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