Canada and COVID-19: Impact and Response

Along with all others in the Asia Pacific Region, Canada and the Canadian economy has been hit hard by the COVID pandemic. Beginning in mid-March when it became apparent that widespread community transmission of the virus was a real threat, large parts of the economy simply shut down as self-isolation and social distancing measures were imposed by the Canadian federal government and provincial and territorial governments. Since then the health impact of the virus has varied significantly, ranging from zero cases of COVID-19 in the far north territory of Nunavut to, at time of writing, more than 35,000 cases in the province of Quebec, the hardest hit of all Canada's jurisdictions. Overall, in early May Canada had 63,000 confirmed cases, with just over 4000 deaths. There have been significant outbreaks and disproportionate numbers of deaths in nursing homes for seniors in BC, Ontario and Quebec, but the largest single outbreaks have been in meat-packing plants in Alberta, potentially affecting the food supply chain. While the health impact has varied, what all regions have in common is the major negative economic impact as retail, tourism, travel, personal services and other industries shut down, leading to sudden, widespread unemployment.

The economic impact is still being tallied. The Bank of Canada estimates that Canada's GDP could drop by 15 to 30 percent in Q2 of 2020. The Bank reacted by lowering its key overnight interest rate to 0.25 percent, an unprecedented low, and began wide-scale purchase of government securities. Meanwhile the Government of Canada, in conjunction with the provinces, has rolled out a number of emergency economic programs, beginning with the Canadian Emergency Response Benefit (CERB) that was announced in early April with effect from mid-March. It provides $2000 every four weeks for up to four months to Canadians who have lost employment (through layoffs or business closures) because of COVID. So far over 9 million workers, more than one-third of the workforce, have applied for the benefit at an estimated cost to government, to date, of $75 billion (CAD).

The CERB was just the beginning for government response and subsequently a number of other targeted subsidy programs have been rolled out including the Canada Emergency Wage Subsidy, which provides employers with payments of up to 75% of their employees' pre-COVID weekly salaries, up to a maximum of $847 per week, provided they keep workers on the payroll. Employers are urged to provide the additional 25% top up but are not required to do so. Not-for-profits and charities are also eligible for the program. These programs have been modified and fine-tuned after implementation in order to rectify anomalies and ensure that certain groups initially made ineligible, (e.g. women on maternity leave) received benefits. Other programs include a wage top-up of $4 per hour for essential workers earning the minimum wage (a shared federal-provincial program) and targeted funding for cultural groups and businesses, assistance for the oil and gas industry, support for summer students and recent graduates, support for indigenous communities, rental assistance for tenants and landlords, loans (partially forgivable) for small businesses, and assistance for farmers in accommodating temporary workers. Income and sales tax deadlines have been deferred. More assistance is likely for industries such as aviation and air transportation and support for seniors. Here is a complete list to date of the various programs that have been announced. Estimated total cost of direct support programs is $145 billion, with an overall total of $817 billion when all direct and indirect costs are included. The aggregate amount of Canada's stimulus package is roughly ten percent of GDP, a very significant investment.

All this will lead to an unprecedented annual federal deficit combined with additional provincial deficits. Canada is in a relatively good position to weather this shock, r, as its debt to GDP ratio has been declining, but with predictions of a recession by Q3 and a decline in GDP in 2020 of six percent or more (IMF forecast), the situation will be challenging. (This compares with pre-COVID forecasts of modest GDP growth of 1.7 to 1.8 percent in 2020). Much will depend on how quickly business and the economy can resume, and whether or not there will be a second wave of shutdowns.

Generally at the present time the curve of infections is flattening leading to announcements of a staged, gradual re-opening of the economy in different ways in different provinces. Construction and some manufacturing is resuming, and limited reopening of some retail businesses, but with social distancing restrictions, is being permitted. Some sectors, such as tourism, air travel, international education, and mass entertainments and sports will take much longer to recover, and they may never regain pre-pandemic levels. While a limited restart of the economy will reduce some of the economic damage, much will depend on consumer confidence, especially for the SME sector for goods and services. Some small businesses will have already gone out of business or will be unable to operate profitably under social distancing restrictions. That will have a knock-on effect for landlords and municipal tax revenues. Employment figures for April have just been released indicating that the unemployment rate surged to 13 percent. Launch of major infrastructure projects, a typical stimulus measure, may have little impact on traditional small businesses which depend on consumer patronage and spending for survival.

In terms of trade, the collapse in oil prices has hit Canadian petroleum exports hard. Both imports and exports have dropped significantly as economic activity has declined and manufacturing has been suspended. Canada is heavily reliant on the US and to a lesser extent Mexico for key commodities and foodstuffs (the interdependence works both ways), and a major challenge was to keep the Canada-US border open for trade in essential commodities. Because of the surge of COVID-19 cases in the US, there was strong pressure in Canada to close the border with the United States (most of Quebec's cases came from Quebeckers visiting the US during an early spring break; other provinces had their breaks scheduled later in March and were able to discourage or block travel), but an agreement was reached with the US Government to voluntarily impose a mutual closure of the border to all non-essential travel but to leave it open to essential truck traffic.

Canada has joined the G20, its CPTPP partners and others, such as those in the Alliance for Multilateralism in calling for international cooperation to both fight the pandemic and keep supply chains open. Canada was a signatory to a joint statement with Australia, New Zealand, Singapore and South Korea, agreeing to expedite customs procedures, to facilitate the timely flow of essential goods and not impose export restrictions or implement unjustified trade barriers in a WTO inconsistent manner. Canada also signed onto another joint statement with twenty-three WTO members to reinforce international cooperation on trade in agricultural and agri-food products. This will help to protect and promote food security, nutrition and the health of people around the world. Additionally, Canada, Australia, Chile, Brunei, Myanmar, New Zealand and Singapore published a joint statement committing to keep supply chains open and to remove existing trade-restrictive measures on essential goods, especially medical supplies. Unlike many others, Canada has not imposed export controls on medical supplies or foodstuffs during the pandemic.

The lessons of COVID are many and the impact of the coronavirus pandemic on the Canadian economy—as on the economy of most other Asia Pacific economies-- will be profound. It will likely have an impact on social policy, and will require strong financial discipline in future budget planning and execution. Restrictive travel and trade policies imposed by governments as emergency measures to fight the pandemic threaten to have a lasting negative impact on open borders and international trade. As the world grapples with and eventually emerges from the health and economic challenge of COVID-19, it is important that Canada remain committed to maintaining its open economy and seeking opportunities to work with like-minded partners in support of a rebound in international trade and revitalization of the role of multilateral institutions.

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