Canada

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Good

Canadian farmers have faced labor shortages due to lockdown measures, as they strongly rely on seasonal workers from abroad. This has adversely affected crop yields, reducing supply and revenues. Additionally, increased sanitation requirements and scrutiny have affected production and distribution efforts. While sector value added is forecast to decrease by 9.5% in 2020, a rebound of more than 10% is expected in 2021.

Automotive/Transport

Remains Poor

Automotive manufacturing, including tier I –III supplier production, is a significant industry sector in Canada. Globally deteriorating demand for vehicles has led to liquidity strains and cash shortfalls among many businesses. Automotive value added is forecast to contract by more than 37% in 2020. The credit risk of tier 2 and tier 3 suppliers has especially increased, as businesses active in those segments often produce low-tech/substitutable products and have weaker financials. Particularly among those players the number of non-payments and insolvencies could substantially increase after the expiry of current fiscal measures implemented to support smaller businesses.

Chemicals/Pharmaceuticals

Remains Fair

Chemicals businesses remain financially resilient compared to their peers in other sectors. However, due to the significant decrease in oil prices, the energy/fuel subsector continues to suffer from a severe decline in investments and revenues. There will be strong pressure on profit margins of businesses in the coming months. Other chemicals subsectors suffer from deteriorating demand from key buyer sectors like automotive. After annual growth in 2018 and 2019, chemical value added is expected to decrease 10% in 2020. However, in 2021, a 13% rebound is expected. Pharmaceuticals demand should benefit from rising health expenses.

Construction/ Construction Materials

Remains Fair

Businesses have been affected by supply chain problems, postponement of projects and reduced order volumes due to the lockdowns and the ongoing economic recession. Construction value added is expected to shrink by more than 5% in 2020, followed by a rebound of about 6% in 2021. While downside risks have increased, especially for smaller businesses, there have not been any signs of a deterioration of payment behaviour yet. However, the number of non-payments and insolvencies could increase after the expiry of current fiscal measures meant to support smaller businesses.

Consumer Durables

Remains Fair

Private consumption of non-food consumer goods has deteriorated due to the coronavirus impact, and retail value added is expected to decrease by more than 18% in 2020. However, comprehensive support to consumers and SMEs provided by the government has mitigated the negative effects on retail businesses for the time being (e.g. in mid-June it was announced that more small businesses would be able to access interest-free loans of up to CAS 40,000). Other measures, such as the ban on commercial evictions in certain provinces, aim to keep businesses from being forced out for failing to pay rent. Consumer sentiment has started to rebound recently among strong employment gains over the past three months.

Electronics/ICT

Remains Fair

The performance of businesses operating in this sector differs widely, depending on the diversification of supply chains and the impact of coronavirus-related lockdowns and factory closures on manufacturing operations and supply availability. At the same time, spending from businesses and employees on digital goods and services has increased due to the sharp rise of remote working. While ICT value added is forecast to contract 6.5% in 2020, a 10% rebound is expected in 2021.

Canada

September 2020

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Financial services

Remains Good

In June of 2020, it was expected that a prolonged economic decline, with many businesses temporarily shut down or operating at lower activity levels and high unemployment/low consumer confidence, could cause higher past dues, loan defaults and bankruptcies. However, this has not materialized, and the Canadian government has a strong financial support system program in place, with the Canadian banking system remaining resilient for the time being.

Food

Remains Fair

Competition in the sector is persistently fierce, especially in the distribution and retail segments. Increasing costs of raw materials and energy, as well as changing consumer preferences due to healthier lifestyles, are having a negative impact on margins and profitability of many businesses active in food manufacturing. Food distributors shipping to restaurants and hotels remain particularly vulnerable, while restaurant business closures and insolvencies have increased. So far, there has been no increase in payment delays among food manufacturers or distributors. Food value added is expected to decrease 5% in 2020, followed by a 13% rebound in 2021.

Machines/Engineering

Remains Fair

The sector has been rather resilient so far, with most businesses in a stable financial situation, until recently benefitting from robust demand from construction and automotive. However, a persistent downturn of demand from those key buyer industries would pose a major downside risk. After annual growth in 2018 and 2019, engineering value added is expected to decrease by 15% in 2020, followed by a 14% rebound in 2021.

Metals

Remains Fair

The sector has been rather resilient, with most businesses in a stable financial situation, until recently benefitting from robust demand from construction and automotive. However, a persistent downturn of demand from those key buyer industries would pose major downside risks. The adverse effect of a 10% additional tariff recently imposed by the US on certain aluminum products manufactured in Canada remains to be seen.

Paper

Remains Poor

The ongoing digitalization process structurally affects paper producers and printing businesses, and supply chain disruptions due to lockdown measures have had an additional negative effect. Paper value added is expected to contract by more than 16% in 2020 after decreasing 8% in 2019.

Services

Remains Fair

Some subsectors like hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators have been heavily affected by decreased footfall and closures due to the coronavirus pandemic. Hotel and catering value added is forecast to decrease by more than 24% in 2020. Most other service subsectors are impacted by decreasing demand from their customers. For instance, advisors and consultants are expected to experience difficulties renewing contracts with key accounts. Service value added is forecast to contract by almost 7% in 2020.

While comprehensive support to consumers and SMEs provided by the government somehow mitigate the negative effects, insolvencies amongst restaurants, smaller hotel operations, nightclubs and tour operators have increased.

Steel

Remains Poor

The steel industry is impacted by decreased demand from automotive, oil and gas as key buyer industries, while iron ore prices have increased. Turnover and margins are deteriorating for steel producers and traders alike. Iron and steel value added is expected to contract by more than 33% in 2020. The number of non-payments and insolvencies could increase after the expiry of current fiscal measures intended to support businesses.

Textiles

Remains Bleak

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Deteriorating sales due to the lockdown have exacerbated the market crisis. The amount of both smaller and larger clothing retailers´ insolvencies has increased. In June of 2020, Canadian retailers recorded a large increase in sales, but it remains to be seen in the coming month if this rebound will last, or if it was simply the result of a temporary spending spree from consumers immediately after restrictions were lifted. Textile value added is forecast to contract by almost 20% in 2020 after shrinking 2.7% in 2019.