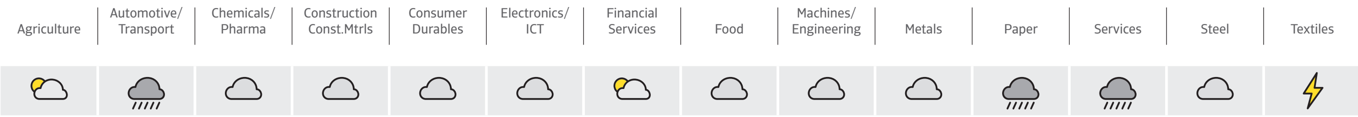
Canada

January 2021



Source: Atradius

Industry performance

Changes since September 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Good

Canadian farmers faced labour shortages due to lockdown measures, as they strongly rely on seasonal workers from abroad. In some cases, this has adversely affected some operations and revenues. However, the 2020 crop harvest has been excellent, with a record wheat crop and large canola harvest.

Automotive/Transport

Remains Poor

Automotive manufacturing, including tier I – III supplier production, is a significant industry sector in Canada. Globally deteriorating demand for vehicles due to the pandemic has led to liquidity strains and cash shortfalls among many businesses. The credit risk of tier II and tier III suppliers has especially increased, as businesses active in those segments often produce low-tech/ substitutable products and have weaker financials.

Due to comprehensive government assistance programs (which have been extended until June 2021), there have been only some minor payment delays and few insolvency cases so far. A rebound in production started since Q3 of 2020, but automotive value added is expected to have decreased 32% in 2020.

Chemicals/Pharmaceuticals

Remains Fair

Chemicals businesses remain financially resilient compared to their peers in other sectors. However, due to the significant volatility in oil prices, the energy/fuel subsector suffered from a decline in investments and revenues. After a 6% contraction in 2020, chemicals value added is expected to grow by the same number in 2021. About 80% of Canada's chemical production is exported, mainly to the US. It is expected that the industry will benefit from coronavirus measures and policy changes pursued by the new US administration. Pharmaceuticals demand benefits from rising health expenses, with value added expected to increase further in 2021 after a 5% increase in 2020.

Construction/ Construction Materials

Remains Fair

Infrastructure and construction have seen large growth over the past decade in Canada, primarily in the major cities, such as Toronto, Vancouver and Calgary. In addition, there have been various large-scale infrastructure projects supported by the federal government to build and repair highways across the country. While the pandemic has slowed this growth in 2020, overall construction starts are projected to rebound in 2021. However, achieving pre-2020 construction activity levels will most certainly depend on a quick, successful and sustained vaccine rollout. While the 2021 outlook remains positive for most segments (residential, industrial, engineering and roadwork), it is expected that office and retail construction will lag in their recoveries.

Consumer Durables

Remains Fair

Private consumption of non-food consumer goods deteriorated due to the coronavirus impact in H1 of 2020, and retail value added is expected to decrease by 6% in 2020. While consumer spending and demand recovered towards the end of Q2 of 2020 and in Q3, many provinces in Canada have returned to a state of lockdown since December 2020, with closures of shops selling non-essential goods. The impact of those measures on business performance remain to be seen. So far, comprehensive support to consumers and SMEs provided by the government (e.g. access to interest-free loans for small businesses and rent relief programs) have mitigated the negative effects on retail businesses, and avoided a sharp increase in payment delays and insolvencies.

Electronics/ICT

Remains Fair

The performance of businesses operating in this sector differs widely. It has depended on the diversification of supply chains, 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 expected to contract 1.5% in 2020, a rebound of more than 5% is forecast in 2021.

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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 September 2020 · Sources: Atradius, Oxford Economics

Financial services

Remains Good

At the height of the pandemic, 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 vulnerable. So far, there has been no increase in payment delays among food manufacturers or distributors. Food value added is expected to decrease 1.5% in 2020, followed by a 4% rebound in 2021.

Machines/Engineering

Remains Fair

The sector has been rather resilient so far, with most businesses in a stable financial situation. Furthermore, it will benefit from rebounding demand from construction and automotive in 2021. The credit risk situation of the industry has not deteriorated during the recession.

Metals

Remains Fair

The sector has been rather resilient, with most businesses in a stable financial situation. The 10% tariff on Canadian aluminium exports has been removed by the US, and while the Trump administration did threaten to reinstate them if there was a surge in imports, this threat is now irrelevant. The metals sector benefits from the ongoing rebound in building permits, mainly in the residential segment. Metals value added is expected to increase 11% in 2020 after a 7% contraction in 2021.

Paper

Remains Poor

The ongoing digitalization process structurally affects paper producers and printing businesses. Furthermore, supply chain disruptions due to lockdown measures have had an additional negative effect.

Services

Down from Fair to Poor

Hotel and catering value added is expected to decrease by more than 33% in 2020. Service segments 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. Payment delays and business closures have increased across all those subsectors. While some businesses had opportunities to reopen and try to make up some of the revenue lost in H1 of 2020, lockdowns imposed in larger cities like Montreal and Toronto since mid-November have further damaged the performance of many companies. The outlook for a rebound in early 2021 remain muted.

In contrast, logistics and supply chain service segments (e.g. customs brokers, freight forwarders, supply chain management and warehousing) continue to see demand.

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Industry performance

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Steel

Up from Poor to Fair

In H1of 2020, the steel industry was impacted by decreased demand from automotive and oil and gas, while iron ore prices have increased. Turnover and margins deteriorated for steel producers and traders alike. Steel value added is expected to decrease 19% in 2020. However, due to ongoing government assistance programs (which have been extended until June 2021), there has been no increase in payment delays or insolvencies. The sector has started to benefit from the rebound in some key buyer industries, like construction.

Textiles

Remains Bleak

Textile valued added is expected to contract 16% in 2020. 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. In June of 2020, Canadian retailers recorded a large increase in sales. However, at the beginning of Q3, with coronavirus cases rising substantially in the majority of provinces, footfall decreased again, and this has worsened due to temporary lockdowns of “non-essential” businesses at the end of 2020. The complete impact on holiday season sales remains to be seen. Business insolvencies have increased, including amongst larger players, and this trend is expected to continue in 2021.