



Annual Report
2020-21

FARM CREDIT CANADA

Economic environment

Global economic trends shape the business environment of Canadian agriculture and agri-food. COVID-19 resulted in a significant contraction of the global economy in 2020 as global gross domestic product (GDP) declined 3.3%.² Although vaccine deployments are raising optimism about an economic recovery in 2021, new waves and variants of the virus are likely to continue hampering growth.

COVID-19 created significant domestic and trade disruptions in 2020, leading governments to close portions of the Canadian economy which resulted in declining GDP and higher unemployment. In 2020, Canada's GDP contracted 5.4%, the steepest decline since 1961.³ With the economy contracting, unemployment surged to nearly 14% in May 2020. As people transitioned to work from home and the economy slowly re-opened, the national unemployment rate dropped to 8.5% but a resurgence of the virus in November resulted in further closing of businesses. Unemployment stood at 8.8% at the end of 2020. With the economy partially shut down, more people working from home, and significant government support to help those who had lost their jobs, household savings increased. Household debt as a percentage of disposable income ended 2020 at 175%, slightly down from 181% at the end of 2019.⁴

The contraction of the Canadian economy and higher unemployment levels led the Bank of Canada to cut its policy interest rate to 0.25% in the first quarter of 2020 and implement an aggressive quantitative easing program. Record low borrowing costs and strong demand for food and cash crops created investment opportunities across the agriculture and food value chain.

Demand for agriculture commodities and food remains strong

Despite the global economic contraction, global demand for food and agricultural commodities has remained strong through the pandemic. Many countries have taken steps to ensure food security, such as implementing export restrictions or

stockpiling, which amplified export opportunities for Canada. Business shutdowns in various economic sectors have shifted food consumption away from food services toward grocery stores and online channels. For food processors, this has created a major shift in business strategies such as adjusting packaging, building an online presence and finding new customers.

The United States remains Canada's largest export market, accounting for about 30% of our agriculture exports and more than 70% of our food and beverage manufacturing exports.⁵ The U.S. economy quickly rebounded from COVID-19 disruptions. The Federal Reserve lowered its key interest rate twice in 2020 to near zero and injected liquidity in the financial markets. Initially, global uncertainty resulted in investors retreating to "safe-haven" currencies and a strengthening of the U.S. dollar. As COVID-19 spread, global uncertainty increased and investor demand declined, leading to a steady weakening in the U.S. dollar. The Canadian dollar averaged slightly below US\$0.75 in 2020, trading between US\$0.69 and US\$0.79. Overall, Canadian agriculture benefits from a low dollar as it supports farm revenues by lifting prices paid to Canadian producers and making Canadian products competitive in the world market.

Canada-China trade relations are facing difficulties as China restricts market access for a few Canadian agricultural products, including canola and pork. In contrast, U.S.-China trade tensions eased in 2020, with China making a commitment to purchase more agriculture products. As China continued rebuilding its domestic hog herd, demand for agriculture and food products remained strong through most of 2020. Improvements in U.S.-China relations will create more opportunities for Canadian commodities, notably corn, soybeans and pork.

² https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEO/WORLD

³ <https://www150.statcan.gc.ca/n1/daily-quotidien/210302/dq210302a-eng.htm>

⁴ <https://www150.statcan.gc.ca/n1/daily-quotidien/210312/cg-b004-eng.htm>

⁵ <http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home>



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