Bank of Canada moves to shore up financial system, cushion economy from downturn

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Canadian policy makers moved on Monday to shore up the financial system and cushion the economy against a downturn that is virtually without precedent as businesses close down, workers stay home and travel bans intensify.

The Bank of Canada said it will "backstop" financial institutions' funding needs by broadening a program under which the central bank temporarily buys treasury bills from the country's major securities dealers.

Meanwhile, the government said it will buy up to $50-billion of insured mortgage pools through the federal housing agency, a move aimed at providing stable funding to banks and mortgage lenders. Canada's big banks reduced their prime lending rates to 2.95 per cent from 3.45 per cent on Monday in response to Friday's Bank of Canada rate cut.

Prime Minister Justin Trudeau acknowledged on Monday how quickly the economic situation is changing. He announced that the border will be closed to most foreign nationals, and later, Ontario moved to shut down restaurants and bars, save for takeout and delivery.

"The economic impact of this pandemic is shifting hourly," Mr. Trudeau said. "We recognize the stress and anxiety that it is causing."

Already, an increasing number of Canada's biggest lenders project the country will take a steep drop into recession. But as the COVID-19 outbreak worsens, and as policy makers around the world shut down sectors in an effort to curb the spread of the virus, economic forecasts are being ripped up to reflect rapidly worsening prospects.

"It's a bit like trying to put a price on your home when the kitchen's on fire," said Doug Porter, chief economist at Bank of Montreal.

"I can't recall ever shutting down large parts of the economy for a material length of time," said Avery Shenfeld, chief economist at Canadian Imperial Bank of Commerce. "There are obviously countries that have gone through wars and other disruptions. But in terms of the developed world – in Europe and North America – this is quite unprecedented."

In a regular recession, Mr. Shenfeld noted, companies' sales might drop by 10 per cent or 20 per cent. "You don't go into a blackout on your business. And that's what we're doing here," he said. "How do you maintain solvency of both the household sector and the business sector so that they can reawaken?"

How long the downturn lasts before the economy turns a corner, economists say, will depend on how quickly health authorities can reverse the growth of the COVID-19 spread and how long the enforced shutdowns of consumer and business activities continue.

"This is a case where the economic curve is going to depend on the coronavirus curve," said economist David Rosenberg, head of Rosenberg Research.

The labour market is set to endure a brutal shakeup. CIBC projects Canada's jobless rate will rise to 7 per cent from its current 5.6 per cent. In the event of a shutdown of non-essential services, the unemployment rate could immediately spike to 9 per cent, said Vancouver-based labour economist Jim Stanford of the Centre for Future Work. The hospitality, energy and airline industries look particularly vulnerable.

Quebec Premier François Legault pledged on Monday to provide non-taxable financial assistance worth $573 per week to workers who need to self-isolate but do not qualify for federal Employment Insurance or other programs offered by their employers. The Ontario government said on Monday it is drafting legislation to protect the jobs of those who are forced into quarantine or self-isolation because of the virus, along with parents affected by school and daycare shutdowns. Mr. Trudeau has also said that affected workers not covered by Employment Insurance will get money as part of an emergency economic stimulus package that could be unveiled as soon as Tuesday.

As it stands, many part-time and gig workers don't qualify for EI benefits. In a report released on Monday, the Canadian Centre for Policy Alternatives (CCPA) said about one-third of the unemployed received EI benefits in 2018, with lower rates of access for the self-employed and part-time workers.

"You don't want gig-economy workers coming to work sick," said David Macdonald, senior economist at CCPA. "You don't want to force them into an impossible situation, which is on the one hand protecting public safety, while on the other hand seeing a massive drop in income."

Signs of financial distress are starting to trickle out. Scott Terrio, manager of consumer insolvency for Hoyes, Michalos licensed insolvency trustees in Ontario, said he's receiving calls from people worried they'll be unable to meet the terms of their insolvency payments.

"People are living so close to the edge," he said. "If you're living paycheque to paycheque, you can't handle an income disruption."