



HIGHLIGHTS

- **Severe flooding in the Prairies in late June has had a significant impact on the agriculture sector, particularly in Saskatchewan.**
- **With several acres likely to be left unseeded this year, the negative impact on GDP growth in the province could be as large as 2 percentage points.**
- **Some mitigating factors, including crop insurance, government financial aid and reconstruction, will soften the blow but will not likely be enough to fully offset the lost output.**
- **We have revised our forecasts accordingly, with real and nominal GDP in Saskatchewan now expected to grow at 2.1% and 6.8% respectively.**

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ECONOMIC IMPACT OF FLOODING IN THE PRAIRIES

Excessive rains in June – about 70% more rainfall than normal – have led to severe flooding in the Prairies. Central and Northeast Saskatchewan were the hardest hit regions, although southern parts of Alberta and Manitoba were also affected. Many of the areas hit were small rural communities. However, some larger cities, such as Medicine Hat, Lethbridge, Brandon and Saskatoon were also flooded, affecting roughly a fifth of Saskatchewan’s total population, 10% of Alberta’s and 5% of Manitoba’s. The floods caused damage to several homes, roads, railways and bridges. Even a stretch of the Trans-Canada highway between Medicine Hat (AB) and Maple Creek (SK) was forced to close, forcing trucks, trains and motorists to take detours of up to 200 kilometers. The water has begun to recede; however, many regions are still under water.

While many areas of the economy were undoubtedly adversely affected by Mother Nature, the sector hit hardest by the flood is agriculture, with farmers now facing a very challenging growing season. Roughly 20% of total acreage in the Prairies has yet to be seeded, and with the seeding deadlines having passed, these areas – estimated to be as large as 5 million hectares – are likely to remain unseeded this year. Crop insurance will cover what was planted prior to June 20th, and late planting runs the risk of frost in the fall. So even if farmers were to seed later in the season once conditions improve, the risk of crop damage or no production at all from these seeds would be very high – and there would be no insurance coverage for this lost harvest. For the acres that have been seeded, the picture is not much brighter as excess moisture has put the crops at risk of lower yields, poorer quality, and disease – if they produce at all. As well, managing weeds and pests is also proving to be a big challenge for farmers this year, since it is too wet to spray.

Saskatchewan feeling the brunt of the flood

Among the provinces affected by the adverse weather conditions, it appears as though Saskatchewan’s agriculture sector has been hit hardest, as it is left with the largest area of unseeded acreage – about one third. The economic impact will be especially hard on Saskatchewan as well, given that crop production accounts for roughly 9% of total real GDP, compared to about 1% in Alberta and 3% in Manitoba. Early estimates suggest that crop output in the province could be as low as half of the long-run average this year. This means that crop sales will also be cut this year, with an estimated loss of about \$1.6 billion in gross revenue for farmers. Lower farm incomes could trickle through to other parts of the economy, such as less consumer spending, which could lead to a slower pace of consumption growth in the province. In fact, with agricultural output falling by nearly a third, and taking these indirect effects into account, real GDP could drop by about 2%. Comparable estimates for Alberta and Manitoba are not yet available, but the overall impact on these provincial economies will likely be much smaller.

Several factors mitigating the losses

Notwithstanding the massive hit to agricultural output and incomes, the impact of the flood on total economic growth may not be as great as some might fear, as there are several factors that will mitigate this loss. Crop insurance will



provide some offset for farmers who are eligible, but it will not likely be enough to entirely make up for the lost sales. Other farm assistance programs, including the Agri-Stability, Agri-Invest and Agri-Recovery programs, will also provide some relief. In addition to these programs, the federal and three provincial governments have announced \$450 million in aid to help farmers deal with the aftermath of the flood, with 80% of that total going to Saskatchewan since it bore the brunt of the bad weather. This fund will provide farmers with \$30 per acre for areas they were unable to seed or areas that were seeded, but washed away by the deluge.

As well, the recent concerns regarding growing conditions in western Canada over the past couple of weeks has helped to give crop prices a little boost. These higher prices will benefit farmers who are able to harvest a good crop, thereby softening the blow somewhat. However, Canadian output accounts for only 1-2% of total global production, so growing conditions in the Prairies are not the main factor driving prices. Indeed, wheat prices have also found support from adverse weather in other parts of the world, such as Russia and Kazakhstan. But while prices have gained ground since the flooding began, we caution that global inventories of most crops are still quite elevated after the past two years of bumper harvests – so any further meaningful increases in prices from current levels will be harder to come by, barring any new major supply setbacks around the world. And with prices still below the average seen over the past three years, prices will have only a minor offsetting impact. Nonetheless, these mitigating factors will cushion the blow to nominal GDP, as farmers will have some cash coming in despite the loss in output.

Outside of agriculture, there are some sectors of the economy that will actually see output increase as a result of the flood. While obviously devastating, all the homes, buildings and infrastructure that were destroyed in the flood

will have to be repaired or replaced, as well as any furnishings and appliances inside the homes and buildings that were ruined. Already, repairs have begun on the Trans-Canada highway, and there are still plenty of other roads and bridges that will need to be fixed. In fact, cost estimates suggest that damage to homes, businesses and infrastructure will be close to \$300 million. So construction activity, as well as the retail sales industry (durable goods in particular), is likely to pick up in the regions that were hit by the flood, providing a boost to economic growth that would otherwise not have occurred.

Net economic impact

Given the significance of the agriculture sector in Saskatchewan, these mitigating factors – crop insurance, financial assistance programs, higher prices and reconstruction – will not likely be enough to completely offset the loss from lower output. We expect the net impact of the flood to shave about 1.1 percentage points from real GDP growth this year, leaving our forecast for economic growth in the province at 2.1% for 2010. In nominal terms, we are downgrading our GDP growth forecast by a lesser 0.5 percentage points, to a still-healthy 6.8% for the year. However, assuming that normal growing conditions return next year, the province will likely see a larger bounce back in economic growth. As such, we have upgraded our real and nominal GDP forecasts by 0.5 and 0.3 percentage points, respectively for 2011, bringing the corresponding growth rates up to 3.8% and 5.5%.

As for Alberta and Manitoba, however, the sector accounts for a much smaller portion of GDP, and was not hit as hard. Thus, for these provinces, the net impact will likely be too small to induce any change to our forecast. For a more detailed provincial forecast, please see the *Quarterly Economic Forecast - Canada* (pg 8), available on our website.

REAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	95-08	2007	2008	2009E	2010F	2011F
CANADA	3.0	2.5	0.4	-2.5	3.6	2.5
N. & L.	3.7	9.1	0.5	-9.5	4.4	1.3
P.E.I.	2.6	2.5	0.5	0.7	2.5	2.0
N.S.	2.4	1.2	2.2	-0.3	2.7	2.1
N.B.	2.4	0.4	0.0	-0.5	3.0	2.4
Québec	2.5	2.8	1.0	-0.8	3.6	2.2
Ontario	3.1	2.3	-0.5	-2.9	4.0	2.3
Manitoba	2.5	3.6	2.0	0.0	2.9	3.0
Sask.	2.4	3.6	4.2	-5.9	2.1	3.8
Alberta	3.6	2.5	0.0	-4.9	2.8	3.5
B.C.	2.8	2.9	0.0	-2.0	3.8	2.5

E: Estimate; F: Forecast by TD Economics as at July 2010
Source: Statistics Canada / Haver Analytics

NOMINAL GROSS DOMESTIC PRODUCT (GDP)						
Annual average per cent change						
	95-08	2007	2008	2009E	2010F	2011F
CANADA	5.4	5.5	4.6	-4.5	6.8	4.4
N. & L.	8.4	12.2	7.0	-15.5	8.8	3.5
P.E.I.	4.5	5.7	3.0	0.9	4.5	3.5
N.S.	4.4	3.7	3.8	-0.5	4.7	3.6
N.B.	4.3	4.3	1.4	-0.6	4.9	4.0
Québec	4.2	5.4	1.6	-0.2	5.6	3.8
Ontario	4.7	4.5	0.4	-2.5	6.5	4.0
Manitoba	4.9	8.2	4.3	0.6	4.8	5.0
Sask.	7.2	11.7	25.0	-10.0	6.8	5.5
Alberta	9.1	7.8	13.4	-12.0	8.8	6.1
B.C.	5.0	5.1	3.3	-4.4	7.3	4.5

E: Estimate; F: Forecast by TD Economics as at July 2010
Source: Statistics Canada / Haver Analytics



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