April 27, 2020

Opening The (Local) Taps

SURVEYING PROVINCIAL POLICY RESPONSES TO COVID-19

- **Canada's provincial governments are implementing a range of policy measures to mitigate COVID-19's economic fallout.**
- **Provincial moves thus far amount to 2.8% of Canadian GDP—far less than the federal support exceeding 13%—and is the largest in Quebec and the smallest in Saskatchewan and Atlantic Canada** (chart 1).
- **A host of factors account for the differences in spending across provinces, including the severity of the local outbreak, the suite of measures deployed, and the fiscal capacity to respond.**
- **Even if the re-opening of economies proceeds smoothly, further spending will likely be needed as the fallout from shutdowns becomes evident and re-invigoration of activity is required.**
- **Elevated deficit and debt levels—with strong potential for record highs in Canada's four largest provinces—will put pressure on Ottawa to further loosen the purse strings.**

ECONOMIC DEVASTATION, GLOBALLY AND LOCALLY

The COVID-19 pandemic and efforts to contain it are set to drive the worst global economic downturn since the Great Depression, and we anticipate that all of Canada's provinces will witness deep recessions in 2020 (chart 2). Our current forecasts call for every province to witness its steepest output drop on record, as well as its greatest-ever annual decline in total employment (real GDP and jobs data date back to 1981 and 1976, respectively).

Net oil-producing regions should witness the sharpest downturns as they grapple with both economy-wide lockdowns and depressed medium term crude prices. As shutdowns are lifted, drilling and energy sector investment activity are expected to remain weak, prolonging the recoveries and extending a period of economic softness that began during the 2014–15 commodity price rout.

In this environment, we review policy responses to COVID-19 by Canada's provincial governments. Our tallies are limited to policies for which cost estimates have been provided, acknowledging that more support and more information on nascent initiatives is likely forthcoming.

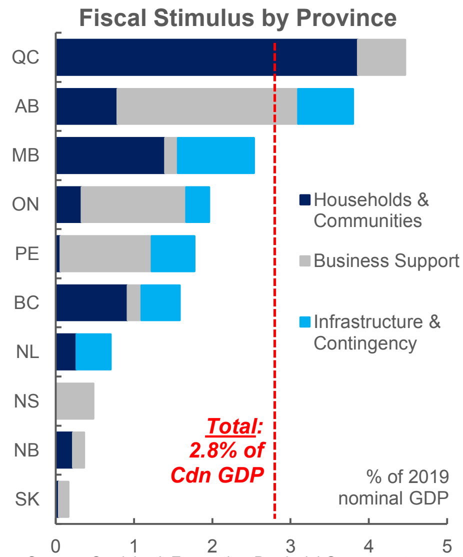
POLICY MEASURES VARY BY REGION, DIFFERENT FROM 2008–09

Provincial policy support to mitigate the virus' economic damage thus far amounts to 2.8% of Canadian GDP—less than federal efforts exceeding 13% —and accounts for the largest share of provincial output in Quebec (4.5%). Not far behind, Alberta's publicly announced supports of about $13 bn approach 4% of the province's GDP. COVID-19 response measures thus far account for the smallest share of output in Atlantic Canada and Saskatchewan.

CONTACTS

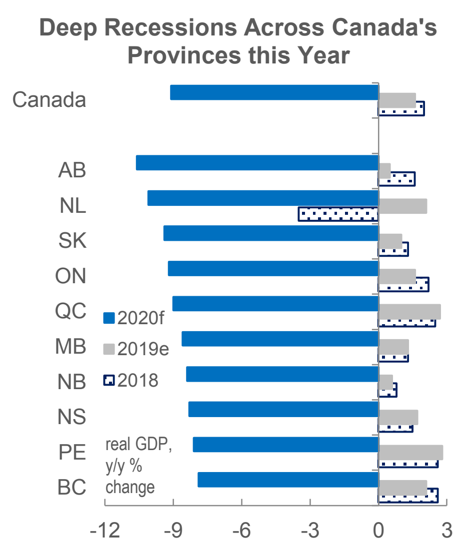
Marc Desormeaux, Senior Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Provincial Governments..

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

A few policy measures stand out. BC will offer tax-free transfers to households—beyond federal-level benefits—has allocated funds specifically for post-pandemic stimulus, and will allow cities to run deficits—which is usually verboten. PEI's $50 mn in loan guarantees for its staple tourism industry represent its single largest measure to date. Alberta purchased a $1.5 bn stake in the Keystone XL pipeline to expedite construction, while Saskatchewan's oil and gas sector supports include extended mineral rights terms and reduced industry levies. Manitoba has upped its efforts in the last two weeks with extra emergency funding, gap financing for small businesses, and a wage subsidy program for post-secondary students.

Still in the early stages of this downturn, a number of provinces' efforts thus far lag those implemented during 2008–09. Quebec's sizeable total 2020 support, for instance, is not as large as the $15 bn (4.9% of GDP) injection outlined in its 2009 budget. New Brunswick's tax cuts totalling $143.5 mn introduced in its fiscal plan in the same year accounted for a larger share of nominal GDP than the province's current tally of measures. The federal government's relatively fast and far more substantial fiscal support this time around (chart 3) has likely enabled provinces to focus on gap-filling and reinforcements to the federal approach rather than shoulder a larger share of the burden.

Measures unveiled to date are concentrated in tax and fee deferrals, while support during the 2008–09 Global Financial Crisis (GFC) tended towards infrastructure outlays and tax cuts. That reflects the reality of this downturn. Virus containment measures limit the extent to which major project activity can be ramped up, while any boost from tax reductions would likely be minimal given the scope and breadth of job losses expected amid the current crisis.

Public accounting treatment of initiatives announced to date has implications for provincial budget balances and debt levels. Tax cuts, transfers, and new spending—more prevalent in responses to the GFC—have a direct, persistent impact on balances and debt loads. On the other hand, tax and fee deferrals—used in 2020 to boost liquidity—theoretically have only a temporary fiscal cost because the government is eventually repaid (though borrowing requirements shift higher in the interim). That distinction was highlighted in the IMF's April 2020 *Fiscal Monitor*.

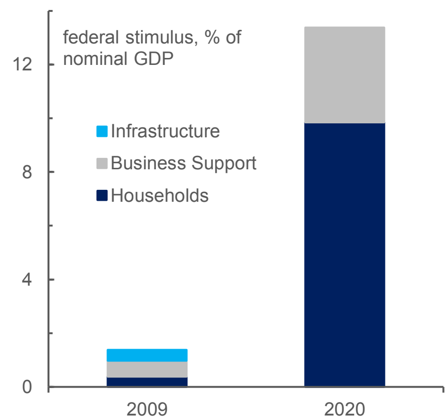
FISCAL PRESSURES INTENSIFY

Still, policy supports and a considerably downgraded economic outlook will unquestionably weigh on the provinces' finances. We use government fiscal sensitivities with respect to nominal GDP (and WTI prices for Alberta) for ballpark estimates. Our back-of-the-envelope calculations of FY21 balances indicate that Ontario and Alberta would face fiscal shortfalls of $35 bn and $20 bn, respectively, with a return to red ink for BC and Quebec from previously solid surplus positions (chart 4). As a share of GDP, deficits would represent the largest since data were first recorded in 1986–87 for all four jurisdictions.

Debt levels should similarly come under fire. Under our current set of assumptions, Ontario would carry a net debt burden of more than 50% of nominal GDP this fiscal year, with Quebec (51%), BC (25%), and Alberta (26%) likewise experiencing far more elevated debt relative to the pre-virus outlook. All of those levels would be the highest ever recorded, and for Quebec would undo nearly a decade of consolidation efforts.

Chart 3

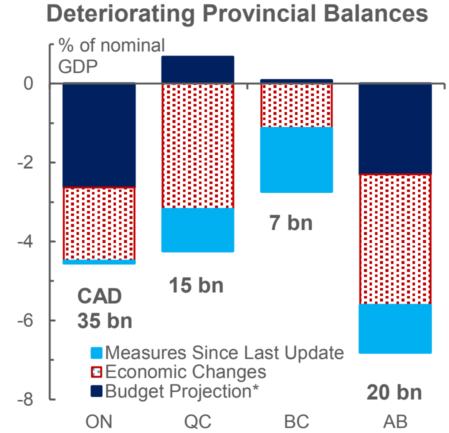
Federal Government Steps Up Stimulus Efforts in this Downturn



Sources: Scotiabank Economics, Finance Canada.

Chart 4

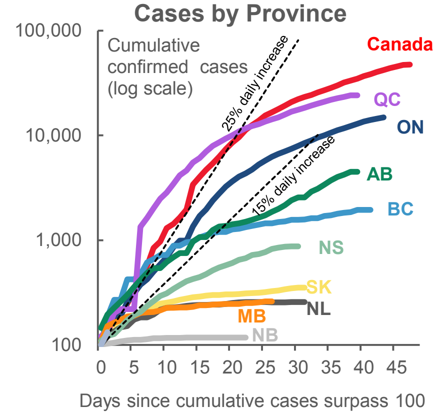
Deteriorating Provincial Balances



* Ontario figure based on March 25 Update, which includes stimulus measures. ** Pre-*Generations Fund* Deposits.
Sources: Scotiabank Economics, Provincial Governments.

Chart 5

Confirmed Cumulative COVID-19 Cases by Province

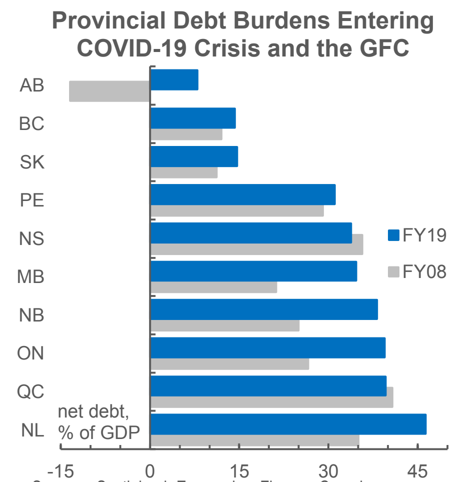


Sources: Scotiabank Economics, Government of Canada.

COVID-19 CASELOADS, ECONOMIES, FISCAL ROOM TO DRIVE POLICY

COVID-19's spread will continue to play an important role in the size and timing of future policy measures in each province. Having seen more initial infections and more rapid initial growth rates, Ontario and Quebec (chart 5, p. 2), moved early with stringent business restrictions; they complemented those moves with a suite of policy supports. PEI, Saskatchewan, and New Brunswick, with lighter caseloads and evidence that infections have peaked, were among the first provinces to announce plans to lighten lockdowns in the coming weeks. BC and Nova Scotia, witnessing a shift towards flatter slopes, may be in a position to re-open their economies earlier as well. These provinces may move earlier than others to bolster their economic recoveries, but need less stimulus over the longer-run.

Chart 6



Sources: Scotiabank Economics, Finance Canada.

Given the particularly challenging economic outlook, we suspect that need for additional fiscal support will be most acute in net oil-producing provinces. Expectations of an especially pronounced downturn certainly motivated the Alberta government's purchase of KXL and increase in infrastructure spending. In an emergency legislative session, Newfoundland and Labrador outlined $200 mn in contingency funding to address the impacts of the virus and plunging oil prices.

By the same token, industries most vulnerable to lockdowns—such as food services, accommodations, hospitality, entertainment and recreation—face fragile recoveries. These segments accounted for the bulk of March's record employment losses in most provinces. A host of supports at federal and provincial levels have been released including income benefits, wage and rent subsidies, and concessional loans but it is not yet clear how these sectors will emerge on the other side of the crisis. PEI's loans for the tourism industry acknowledge the vital role of the sector in the local economy. Provinces such as BC, Quebec, Nova Scotia, and Newfoundland and Labrador—with the largest retail and wholesale trade workforces—may need to offer further industrial support.

Of course, provinces' fiscal positions entering the crisis (chart 6) **remain a constraint to borrowing capacity.** Even though most provinces have made progress in recent years with respect to consolidation, most begin FY21 carrying larger debt burdens than in the months preceding the GFC. Newfoundland and Labrador's borrowing ability, for instance, could be impacted by its already heavy debt load, cratering oil prices, rapidly aging population, and uncertainty with respect to the Muskrat Falls generating station. Alberta and Saskatchewan, on the other hand, have more fiscal flexibility despite very challenging economic outlooks. Manitoba and Ontario, entering the COVID-19 downturn in the process of consolidation, may be forced to forgo longer-run fiscal objectives in an effort to support the recovery.

On that front, the Bank of Canada's efforts to buy provincial paper, starting at $50 bn, is already lowering financing costs for most provinces. However, there may be limits to this approach. The cost of financing is but one consideration in a province's debt position.

FINAL THOUGHTS

The COVID-19 economic crisis is far from over. Our national forecast calls for the Canadian output to only reach its Q4-2019, pre-virus peak in early 2022; we expect this to be the case for most provinces as well. As the ripple effects of this crisis begin to emerge, more financial gaps and sector vulnerabilities will undoubtedly surface. It is important that provincial governments be nimble in addressing these challenges; as we've argued many times, the cost of providing 'too little' is likely greater than that of offering 'too much.'

Measures announced at the provincial level are largely of the stop-gap variety, intended to address short-term liquidity constraints. Stimulus efforts may include more infrastructure spending as the curve flattens and the recovery progresses. The federal government will likely shoulder most of these costs given current provincial debt levels and that the depth and widespread nature of this crisis will most likely necessitate cross-jurisdictional collaboration.

Annex—Select Costed COVID-19 Response Measures by Province

NEWFOUNDLAND AND LABRADOR

Measure	Amount (CAD)	Notes
Contingency funding to address the impacts of COVID-19 and reduced oil prices	200 mn	
Support for Community-Based Organizations	120 mn	

PRINCE EDWARD ISLAND

Measure	Amount (CAD)	Notes
Top up to Emergency Contingency Fund	25 mn	To support the self-employed and small business
Increase to Emergency Contingency Fund	15 mn	Builds on previous $25 mn increase
Loan guarantees for Tourism Sector	50 mn	
Supports for primary industries	13.5 mn	Details: • $4.7 mn assistance on shipping and storage costs of potatoes for processing • $3.2 mn for 10% discount on producer's share of Agri-Insurance Program premiums • Increased coverage for producers under Agri-Stability Program

NOVA SCOTIA

Measure	Amount (CAD)	Notes
Help for Nova Scotia Businesses, Students	176 mn	Details: • $161 mn for SMEs to address cash flow and credit challenges • $15 mn to Internet Providers for infrastructure development
Help for Citizens, Businesses Affected by COVID-19	40 mn	Details: • $20 mn for Worker Emergency Bridge Fund • $20 mn for Small Business Impact Grant

NEW BRUNSWICK

Measure	Amount (CAD)	Notes
Job Protection for Workers	50 mn	
Working Capital Increases	50 mn	Details: • $25 mn for small business owners • $25 mn for medium-sized to large employers

QUEBEC

Measure	Amount (CAD)	Notes
Deferral of income tax return filing and the payment of tax balances payable and tax instalments	8.3 bn	
Postponement of QST payment	7.3 bn	
***Programme d'action concertée temporaire pour les entreprises* (PACTE)**	2.5 bn	Provides emergency liquidity support for Quebec businesses impacted by COVID-19
Support for low-income workers in essential sectors	890 mn	Receive additional $100 per week

ONTARIO

Measure	Amount (CAD)	Notes
Tax and Fee Deferrals to Support Households and Businesses	9.7 bn	Details: • $6 bn exempts firms that miss filing/remittance deadlines from penalties and interest until Aug. 31 • $1.9 bn for relief from Workplace Safety and Insurance Board (WSIB) payments • $1.8 bn to defer remittance of education property tax by 90 days
Support for Health Care System	3.3 bn	Details: • $2.1 bn to bolster response to COVID-19 • $1.2 bn to meet demand for services in the health and long-term care sector.
Electricity Cost Relief	1.5 bn	For eligible residential, farm and small business consumers

MANITOBA

Measure	Amount (CAD)	Notes
Increased Spending Authority	1 bn	Details: • $500 mn to Health Services Insurance Fund • $400 mn internal gov't service adjustment appropriations • $100 mn emergency spending
Manitoba Protection Plan	400 mn	• Refers to range of initiatives to support Manitobans throughout COVID-19 pandemic • $100 mn followed by $300 mn increase
Support for small- and medium-sized businesses	120 mn	
Summer Student Recovery Plan	120 mn	Wage subsidies for high school and post-secondary students employed in private and non-profit sectors

SASKATCHEWAN

Measure	Amount (CAD)	Notes
Emergency support for Saskatchewan small business	50 mn	
Reducing the industry portion of the Oil and Gas Administrative Levy by 50%	11.4 mn	
Financial Support Plan For Saskatchewan Employers And Employees	10 mn	

ALBERTA

Measure	Amount (CAD)	Notes
ATB Financial Customer Relief Program	3.6 bn	Loan payment deferral for qualifying ATB Financial consumers and businesses
Stake in Keystone XL Pipeline	1.5 bn	Government will accelerate construction
Corporate Income Tax Payment Deferral	1.5 bn	Until Aug. 31, interest-free
FY21 Infrastructure Spending Increase	963 mn	We include only incremental increase since Budget 2020; total projected spend is $1.9 bn
Increased Health Care Funding	500 mn	Beyond amount apportioned in Budget 2020

BRITISH COLUMBIA

Measure	Amount (CAD)	Notes
Funding Boost for Critical Services	1.7 bn	Includes investments in housing, income and disability assistance programs, health services
Investing in a Longer-Term Economic Plan	1.5 bn	Stimulus to be delivered once the pandemic has passed
Financial Support for British Columbians	1.1 bn	Includes: • One-time, tax-free $1k payment to workers affected by outbreak • Expanded BC Climate Action Tax Credit in July 2020
Relief for commercial property owners and tenants	500 mn	50% reduction in school tax rate for business, light- and major-industry property classes