

ECONOMIC RESEARCH AND STRATEGY



LAURENTIAN BANK
SECURITIES

September 13, 2021

Sébastien Lavoie,
Chief Economist
LavoieS@vmbml.ca
514 350-2931

Dominique Lapointe, CFA,
Senior Economist
LapointeD@vmbml.ca
514 350-2924

BC First Quarter Update: Higher Revenues Cut the Deficit in Half but the Fourth Wave Clouds the Outlook

The BC government published today its [First Quarterly Report](#) for FY 2021-22. The updated \$4.8B deficit (1.5% of GDP) was cut by half relative to the \$9.7B budget shortfall projection. Similar to other provinces, a better-than-expected performance across several revenue categories improves the bottom line so far in FY 2021-22.

First, the combination of a shallower nominal GDP contraction in 2020 (-3.2% vs -4.5% expectation) and a stronger restart in 2021 (+11.0% vs +6.4% expectation) leads to a \$4.0B upward revision to taxation revenue, at \$37.8B. As of August, BC's total employment stood 1.1%, or 28K above pre-COVID levels, the only province with a positive net position relative to February 2020. However, labour market slack persists in full-time positions and high contact services sectors hard hit by the pandemic. Beyond the boost to PIT (+\$2.2B) and CIT (+\$1.2B) in FY 2021-22, the housing market has proven resilient. MLS homes sales have come down by about 35% from their March 2021 peak, to a still dynamic level consistent with the 2016 hype, just before the introduction of the first foreign buyer tax. Accordingly, property transfer taxes are up \$360M relative to Budget 2021.

Second, similar to other provinces, one-time health care pandemic relief funding from Ottawa increases federal transfers by \$0.9B, to \$11.4B in FY 2021-22. Of this amount, \$87M relates to the federal-provincial childcare agreement recently announced by the federal government, offset by corresponding provincial spending. Third, the temporary jump in lumber prices at the beginning of the fiscal year contributed to drive up natural resource revenue by \$647M, to \$3.2B this fiscal year. Furthermore, stronger natural gas and electricity prices were also higher than projected due to lower water levels and smaller electricity supply in the western U.S. due to climate change and wildfires.

Altogether, market participants will welcome the \$6.2B improvement to revenues, now projected at \$64.4B. Expenses were revised up by \$1.4B, to \$65.7B. The BC government does not anticipate major changes to regular program expenditures. However, severe forest fires largely explain the large \$0.8B upward revision to natural resources and economic development expenditures. Before 2021, 2017 and 2018 consisted of the previous worst wildfire seasons, respectively costing \$649M and \$615M. In the longer run, the effect of climate change will have a disproportionate effect on British Columbia due to its geographical localisation. Indeed, a recent Bank of Canada [analytical report](#) estimates that households in BC are the most financially vulnerable and exposed to the increasing frequency and intensity of natural disasters among provinces. Accordingly, we favourably view the \$3.3B pandemic and recovery contingencies as well as the \$1.0B forecast allowance imbedded into the fiscal framework since last April.

In summary, the larger upward revision to revenues relative to expenses leads to a gentler 19.6% taxpayer-supported debt to GDP ratio, versus 22.8% in the 2021 budget and 14.7% in FY 2019-20. At 21.7%, BC net's debt-to-GDP remains the second lowest in Canada behind Saskatchewan. Of course, the fiscal year is far from over. The fourth pandemic wave caused by the delta variant led us to recently trim our forecasts. We notably revised down our Canadian 2021 real GDP growth forecast from 6.0% to 4.9%. We plan to revisit our provincial forecasts soon, implying downward revisions to our previous [BC economic projections published last July](#). Particularly, China, a larger trading partner for



BC than for other provinces, has failed to show signs of acceleration so far in 2021H2, following a relatively weak first half of this year. One upside to the medium-term outlook is the LNG market with several projects in development. Earlier this summer, we learn additional details relative to the Ksi Lisims \$10B LNG project. The Nisga'a First Nation is partnering with a consortium of energy companies to propose a net-zero emission natural gas export facility. The consortium is in the filing process at this stage.

Dominique Lapointe, CFA | Senior Economist
514 350-2924 | lapointed@vmbi.ca

This document is intended only to convey information. It is not to be construed as an investment guide or as an offer or solicitation of an offer to buy or sell any of the securities mentioned in it. The author is an employee of Laurentian Bank Securities (LBS), a wholly owned subsidiary of the Laurentian Bank of Canada. The author has taken all usual and reasonable precautions to determine that the information contained in this document has been obtained from sources believed to be reliable and that the procedures used to summarize and analyze it are based on accepted practices and principles. However, the market forces underlying investment value are subject to evolve suddenly and dramatically. Consequently, neither the author nor LBS can make any warranty as to the accuracy or completeness of information, analysis or views contained in this document or their usefulness or suitability in any particular circumstance. You should not make any investment or undertake any portfolio assessment or other transaction on the basis of this document, but should first consult your Investment Advisor, who can assess the relevant factors of any proposed investment or transaction. LBS and the author accept no liability of whatsoever kind for any damages incurred as a result of the use of this document or of its contents in contravention of this notice. This report, the information, opinions or conclusions, in whole or in part, may not be reproduced, distributed, published or referred to in any manner whatsoever without in each case the prior express written consent of Laurentian Bank Securities.

