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British Columbia Second Quarter Update – FY 2023-24

Last Wednesday, the province of British Columbia released its second quarter update for FY 2023-24. The province now expects a $5.6B deficit this year, a reduction from the $6.7B forecasted in the first quarter update, though still a considerable shortfall relative to NGDP (1.4%) and surpassing by $2.9B the expected shortfall at budget.

The $1.1B improvement relative to the first quarter update primarily arises from a higher total revenue forecast of $77.7B, in-line with the budget, and $1.4B higher than the projection in the first quarter update. The increase in revenue mainly comes from upward revisions to Corporate income tax (+$0.6B) and Personal income tax (+$0.6B) revenue. In contrast, volatile natural gas royalties declined by $1.1B relative to the budget, reflecting an oversupply in the North American market and persistent expectations of warm temperatures. Notably, natural gas prices declined by 17% between March and September. The province cut down its natural gas price forecast by half for FY 2023-24, from $3.04 to $1.40 ($Cnd/gigajoule).

Expenses were also revised higher to $81.5B, marking a steep $1.3B increase from the budget and a $318M rise from the first quarter forecast. Most of the upward revision from budget stems from a $2.6B increase in health spending, reflecting salary revisions and improvements to health care services. Additionally, the province estimates fire management costs related to the record wildfires this past summer will amount to $782M in additional spending. However, an estimated $358M in federal government transfers was provided, partially offsetting the cost for the Province. According to B.C. authorities, the 2023 wildfire season is the worst in the province's history, unfortunately doubling the previous 2018 record in terms of burned square footage.

Borrowing requirements for FY 2023-24 declined by $1.3B to $17.7B relative to the budget. This revised bond issuance includes $1B in pandemic contingencies and a forecast allowance of $700M to help mitigate the impact of future unexpected negative shocks. The province estimates $8B in funding remains to be completed this year, with only $2.6B or about one-third to be funded through long-term issuance. To note, $6.5B or two-thirds of the total debt issuance done so far this year was outside of Canada. Additionally, a lower-than-expected capital spending forecast reduces taxpayer supported debt by $6.3B compared to budget, bringing the taxpayer-supported debt-to-GDP ratio down by 1.9pp to 17%.

Higher interest rates have softened consumer spending in British Columbia to a greater extent than other provinces and led to a rapid rebalancing in housing market conditions this year. Resale market conditions are balanced, and the pace of homebuilding, led by Vancouver, is near its highest on record. Also, last week, the B.C. government decided to expand the speculation tax to 13 communities to bring additional supply to the market. Earlier this Fall, the B.C. government tightened conditions for short-term rentals to bring more long-term supply to the market. Additionally, weaker global demand, port strikes in July, and wildfires in the summer all contributed to a 16% decline in the value of merchandise exports year-to-date compared to the same period last year. Consequently, these factors have led to downward revisions to real GDP growth for 2023 to 1.0% from 1.2%, and for 2024, adjusted to 0.7% from 0.8%, compared to the first quarter update. Finally, medium-term prospects are favorable as progress continues in respect to LNG projects. Three projects, LNG Canada, Cedar and Woodfibre projects are confirmed, and poised to start their production phase between 2025 and 2027. A fourth project, KSI Lisims, is currently at the stage of environmental approval.

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