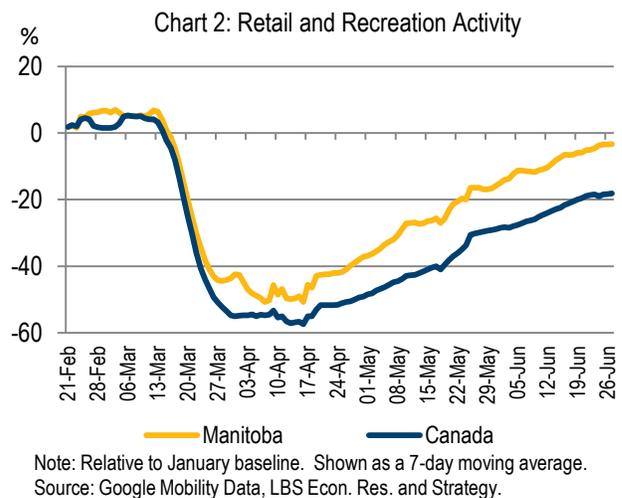
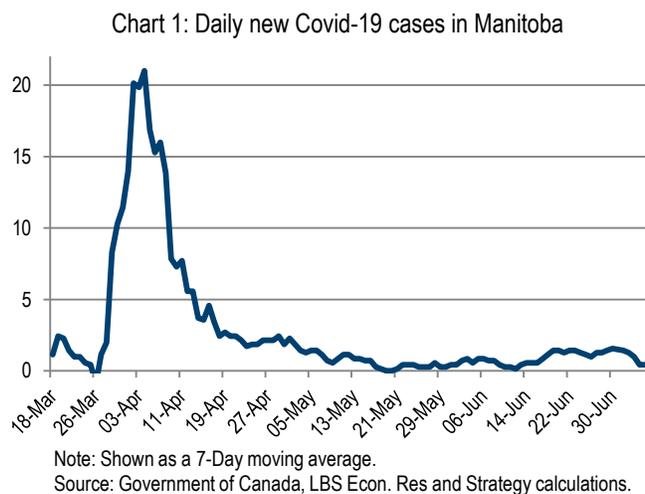




Manitoba June 2020 Fiscal Update – Scenarios for a recovery

Severe recession despite successful pandemic control

On June 30, the Manitoba government published an economic and fiscal update assessing the impact of Covid-19 on the province relative to the March Budget. The initial supply shock triggered by public health-related shutdowns unsurprisingly led to a significant downward revision to the provincial outlook. Broadly in line with our forecast, the government expects real GDP to contract 5% in 2020, down from the +0.6% March estimate. The magnitude of the recession will not be as severe as in some other provinces because the number of new coronavirus cases receded earlier, in mid-April (chart 1). Also, as of July 6, as much as 304 out of 325 known cases had recovered. The positive development on the epidemic front allowed the province to reopen many segments of its economy in a timely fashion. The final phase of the government’s reopening plan started on June 21. It allows travel between residents of Western provinces without imposing a 14-day quarantine period. All non-essential businesses and child care services can operate without a capacity limit but physical distancing measures must remain in place. Google mobility data confirms the reopening of the economy: as of June 27, retail and recreation activity stood only 3% below its January baseline, as opposed to 18% for the entire country (chart 2).

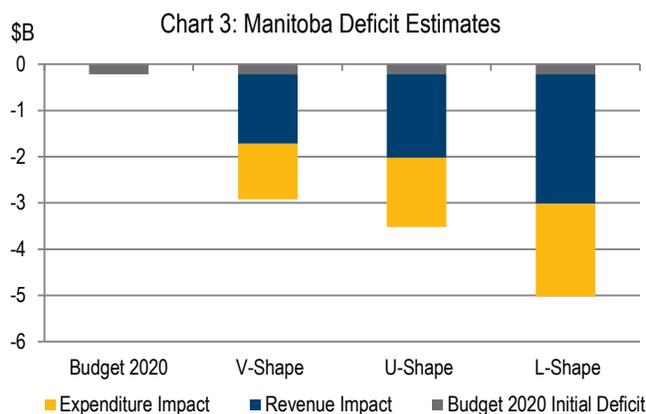


Various economic scenarios and fiscal estimates

Without providing a detailed economic forecast, the province anticipates a “V” shaped recovery starting in the second half of 2020. However, it advises against “significant downside risks that could set back the recovery, changing a “V” shaped recovery to a “U” or a “L” shaped recovery.” While a second wave of coronavirus infections this fall would hurt the domestic economy, the current aggravation of the pandemic south of the border remains a major downside risk to Manitoba’s export industries.

Importantly, as the economic scenario becomes more pessimistic, the marginal negative impact on revenue becomes more important than the impact on expenses. Under a “V” shaped recovery, a \$1.5B decline in revenue relative to Budget 2020 is expected in FY 2020-21 (12.1% of FY 2019-20 own-source revenues). The loss in revenues would be

twice as large (\$2.8B, 22.5%) under the most pessimistic “L” shaped recovery (chart 3). Incremental spending related to Covid-19, mainly due to additional health and senior care expenses, ranges from \$1.2B (7.2% of FY 2019-20 program expenditures) under the “V” shaped recovery to \$2.0B (12.1%) under the “L” shaped recovery. Overall, the deficit for FY 2020-21 increases to \$2.9B (4.7% of 2019 GDP), \$3.5B (5.7% of GDP) and \$5.0B (8.1% of GDP) under the “V”, “U” and “L” shaped scenarios, respectively, from an initial \$220M estimate in Budget 2020. As of March 31 2019, Manitoba had accumulated \$572M in its fiscal stabilization account, a “rainy day fund”. The fund could only offset between one-fifth and one-tenth of the deficit estimates proposed under the various scenarios. As a result of a higher deficit, borrowing requirements move up from \$5.1B in Budget 2020 to over \$9.5B in the fiscal update under the “V” shaped scenario. As of July 3, \$4.9B (52%) of the program had been completed.



Note: Deficit scenarios based on page 17 figure of Manitoba June 2020 Economic and Fiscal Update.

Source: Manitoba Government.

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