



Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

December 17, 20

BC Fall Update – Additional Financial Support Leads to a Short-Term Deterioration in Public Finances

Selina Robinson served BC for several years as the Minister of Municipal Affairs and Housing. She is now the New Finance Minister. The Fall Update released earlier today is the first snapshot of the province's financial situation since the NDP won a majority status on the October 24th general elections.

The state of public finances deteriorated moderately. Additional financial support provided to people and businesses during these challenging times more than offset the improving outlook on the economy and revenues. The deficit, estimated at \$12.8B in the September First Quarter update, was revised up to \$13.6B in the Fall Update.

Total revenues were revised up by \$1.4B relative to September, to \$57.4B. Multiple sources contributed to the improvement. Vibrant regional housing markets in the province, particularly outside of Vancouver's core sectors, led to a \$479M upward revision in property transfer tax revenues. Despite the disproportionately bigger impact of the pandemic on youth employment, 360K of the 400K job losses from the spring's lockdown have been recovered, contributing to a \$249M upward revision to personal income taxes. Higher federal transfers of \$363M mostly reflect BC's share of Ottawa's Safe Restart Agreement, not included in the First Quarter Update. Crown corporations were another source of improvement. Most notably, financial woes at ICBC, an issue we highlighted in previous years, appear over. Lower auto claim costs and a recovery of previous investment losses will allow the crown corporation to move from a large net loss to a modest net income position in FY 2020-21.

Also, some segments of revenues were not revised up in the Fall Update since the government recently provided additional breathing room to individuals and businesses. For instance, businesses benefit from a tax break on the purchases of selected M&E since mid-September. Accordingly, provincial sales tax revenue was revised down by \$135M in today's update. Other temporary relief measures include school tax reduction for commercial properties and a delay in the carbon tax increase.

Total expenses were revised up by \$2.4B, to \$70.1B. The lion's share of this revision relates to the new Recovery Benefit promised during the election campaign. 90% of households are eligible to this one-time financial support. They will be able to apply for it tomorrow. Families and individuals will receive a check of \$1000 and \$500, respectively, before the end of the year. This new Recovery Benefit will cost the government about \$1.7B. Many British Columbians could get another dose of relief next May as the crown corporation ICBC applied for the largest reduction in auto insurance premiums in 40 years, representing \$400 in savings on average for a driver. Our understanding is that this reduction will not deteriorate public finances as changes to the current litigation system will lower legal costs by \$1.5B in 2022.

In summary, the BC government has allocated more than \$10B in spending and support programs so far to mitigate the adverse impact of the pandemic and to support the recovery. The \$13.6B deficit projected for FY 2020-21 is unambiguously large, contributing to end a long period of ultra-low taxpayer debt-to-GDP ratio. The public debt burden is poised to slightly surpass 20% this year, compared to 15.1% in FY 2019-20. Furthermore, this deficit is also subject to revisions, particularly due to short-term uncertainty linked to COVID-19 cases in the coming months even though vaccination started.

Finally, the 2021 budget will be released in April, not in February as usual. By then, everyone will have a better idea if the second wave is over and if the world is getting closer to herd immunity. Less uncertainty



will make it easier for Minister Robinson to provide a reliable economic and fiscal outlook for the post-COVID era. For now, the 3.0% real GDP rebound forecast for next year appears prudent following the 6.2% estimated contraction of 2020. The recovery is notably supported by the \$10B capital spending program for FY 2020-21. However, some of BC's key sectors, including tourism and entertainment, could take several years to fully recover.

Sébastien Lavoie | Chief Economist
514 350-2931 | lavoies@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.

