



# Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

Sébastien Lavoie • Chief Economist  
514 350-2931 • [LavoieS@vmbi.ca](mailto:LavoieS@vmbi.ca)

Dominique Lapointe, CFA • Senior Economist  
514 350-2924 • [LapointeD@vmbi.ca](mailto:LapointeD@vmbi.ca)

30 September 2020

## Newfoundland and Labrador Budget 2020: The Challenging Oil-Pandemic Shock

Following the resignation of former Premier Dwight Ball in February and the coronavirus outbreak in March, the Liberal government of Newfoundland and Labrador postponed the publication of a full budget in 2020. Andrew Furey was sworn in as Premier on August 16<sup>th</sup>. Despite a temporary \$1.1B (3.3% of GDP) surplus registered in FY 2019-20 because of the renewed Atlantic Accord, the Province remains in a structural and unsustainable deficit position reinforced by the pandemic. Delivering her first budget, the new Finance Minister Siobhan Coady anticipates a \$1.8B deficit (6.2% of GDP) for FY 2020-21, similar to the size of the shortfall registered during the 2015-16 oil shock (chart 1). It represents a \$309M improvement relative to the July Update deficit estimate. Thanks to the stronger-than-expected global economic reopening last summer, the nominal GDP contraction forecast turned out to be less severe. Additional federal transfers also contributed to the improvement.

Chart 1: Newfoundland and Labrador Budgetary Balance

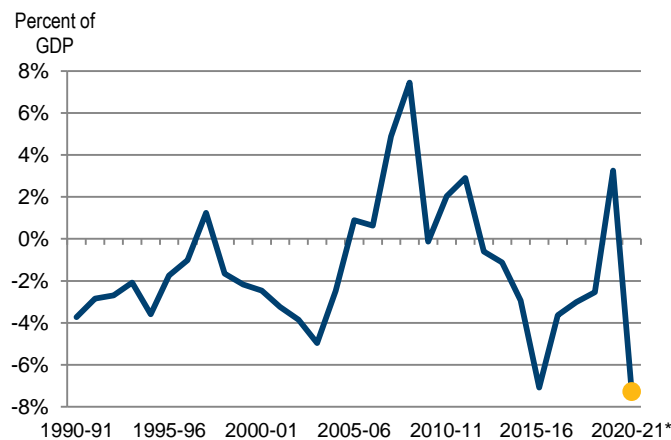


Chart 2: N&L Offshore Oil Royalties



Source: NL Government, Statistics Canada, LBS Econ. Res and Strategy.

## Low Oil Royalties but Possible Upside Surprise Next Year

The collapse in global oil prices caused by the pandemic explains most of the 4.0% drop in own-source revenue this year. Indeed, the province expects a 45% decline in offshore oil royalties in FY 2020-21, estimated at \$533M and close to the multi-year low of \$515M reached in FY 2015-16 (chart 2). As a comparison, royalties reached an all-time high of \$2.8B in FY 2011-12 when worries existed about long-term oil supply. The budget document relies on a conservative US\$39/bbl Brent crude oil price forecast for this fiscal year. In our view, some potential upside risk to the royalties outlook for next year exists if Saudi Arabia and other OPEC+ members, sitting on an unprecedented amount of spare production capacity, drain down existing global oil inventory as a response to stronger oil demand instead of increasing production. This would



eventually push up Brent crude oil prices. The province forecasts a strong 7.8% increase in oil production in 2020 but the long term outlook is less rosy. Husky Energy recently announced a review of its \$3.2B White Rose Extension project, potentially jeopardizing 250 permanent full-time jobs and 75K oil bbl/day in the future.

### COVID-19 Under Control in N&L, Preventing Enormous Cost Pressures

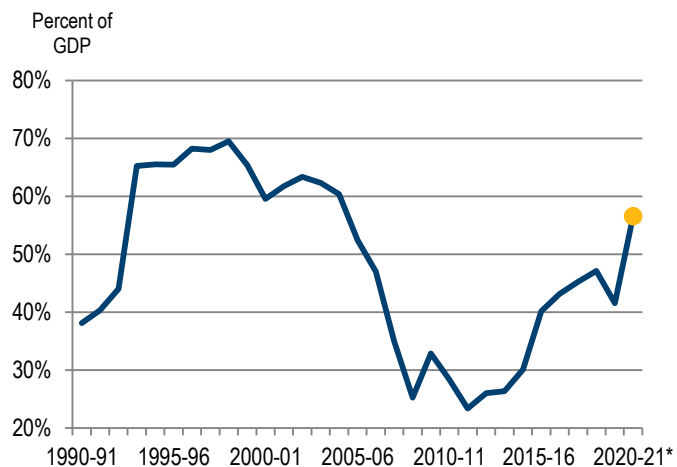
Several Canadian provinces face a second wave of coronavirus cases. So far, N&L, like other Atlantic provinces, has been largely spared with less than 1 new case per 100K people registered over the last seven days (table 1). This allows the province to remain comfortable with a modest \$100M COVID-19 public health response plan driven by the acquisition of PPE and a \$30M small business assistance program. Overall, program expenditures are projected to increase by 6.7% in FY 2020-21, significantly below what we noticed in recent fiscal updates published by many other jurisdictions.

**Table 1: No coronavirus second wave yet in Atlantic Canada.**

	Cases per 100K in the last 7 days
Quebec	59
Ontario	25
Alberta	25
Manitoba	25
British Columbia	15
Saskatchewan	7
Prince Edward Island	1
<b>Newfoundland</b>	<b>&lt;1</b>
New Brunswick	<1
Nova Scotia	0

Source: NY Times.

**Chart 3: Newfoundland and Labrador Net Debt**



Source: NL Government, Statistics Canada, LBS Econ. Res and Strategy.

### Higher Debt Burden and Borrowing Requirements

N&L anticipates borrowing requirements at \$3.0B in FY 2020-21, 2.5 times last year's tally but \$200M less than expected in the July Update. Favorable market conditions, supported by the Bank of Canada Provincial Bond Purchase Program, allowed N&L to complete 63% of this year's program as of last Friday, all in Canadian dollar debentures. Net debt is forecast to soar by \$2.2B, driving up the key net debt-to-GDP ratio to a 16-year high of 57% (chart 3). The Muskrat Falls hydroelectric project represents a third of the provincial public debt and continues to weigh down on the province's long-term fiscal outlook. Nalcor recently [announced](#) that the pandemic and software problems add \$435M to costs, now totaling \$13.1B. A silver lining resides in the potential Atlantic Loop project mentioned in the Federal Government's Throne Speech from last week. The project would use hydroelectricity from Labrador (and Quebec) to displace coal-generated energy consumption across Atlantic Canada, therefore providing a stable source of demand for electricity generated at the Muskrat Falls station.

**Dominique Lapointe, CFA | Senior Economist**

514 350-2924 | [lapointed@vmbi.ca](mailto: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.