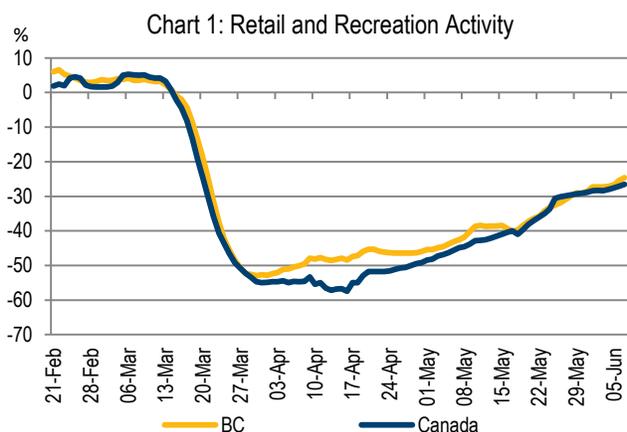


BC June 2020 Economic and Debt Management Update

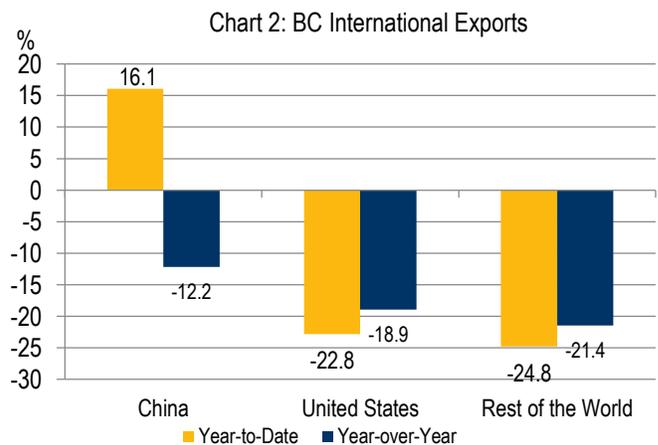
During a virtual presentation held yesterday, BC Minister of Finance Carole James presented an [update](#) on the economy and debt management amidst the coronavirus fallout. The presentation provided a qualitative assessment of the COVID-19 impact on the economy and quantitative estimates of Covid-19 related spending. While a more complete update including the revenue impact of Covid-19 will be provided to investors in September, we use this opportunity to provide additional context around BC's fiscal situation:

A deep recession but gradual improvement in specific areas

- Without providing a number, Finance Minister Carole James acknowledged that the province faces a severe recession. Most sectors of the economy have been affected by the crisis so far. Non-essential retail and food and accommodation services operations had to be closed during the shutdown. The public health measures put in place significantly reduced the Covid-19 transmission. The province implemented the second phase of its [Restart Plan](#) on May 19. As of June 7, retail and recreation activity in BC was 25% lower than pre-crisis levels according to Google Mobility Data compared to 55% at the trough (chart 1).
- The global demand shock and borders closures generated a negative supply shock on BC's international exports and tourism sector. However, the diversity of BC's export markets has been beneficial so far in 2020. China, the province's 2nd most important trading partner, reopened its economy in early Spring. Nominal exports to China are up 16% year-to-date as opposed to being more than 20% lower to the United States and other countries (chart 2). Geopolitical tensions between Canada and China remain a downside risk. The recent decision by BC Supreme Court to allow the extradition case against Huawei CFO Meng Wanzhou to move forward could exacerbate trade tensions. For instance, reports that China found pests in logs from Canada could be a prelude to additional sanctions on targeted Canadian exports.



Note: Relative to January baseline. Shown as a 7-day moving average.
 Source: Google Mobility Data, LBS Econ. Res. and Strategy.



Note: seasonally adjusted. Last data point is April 2020.
 Source: Statistics Canada.

- Employment, business and consumer confidence declined in the short-run. In contrast, the housing market showed resilience. Annualised housing starts briefly dipped to 30K in April but have increased to the dynamic level of 38K in May. On the resale market, the sales-to-listings ratio dipped from sellers' territory to a balance market, preventing benchmark prices from falling. Residential resale transactions hit an 11-year low in April but rebounded in May as the province progressively reopened.

Additional spending and revised borrowings

- Additional spending incurred to face the Covid-19 pandemic amounts to \$5B, representing a net 9% of program expenditures projected in the Mid-February Budget. From this amount, \$1.8B is dedicated to financially support affected workers through a one-time 1000\$ benefit and many payment deferrals (ICBC, electricity and student loans), \$1.7B is directed to frontline services such as health care and \$1.5B will be dedicated to support the recovery. Also, Finance Minister Carole James reiterated the government's decision to allow municipalities to borrow for operating purposes.
- All in all, the \$5.0B in additional spending increases the projected borrowing program for FY 2020-21 from \$8.6B to \$13.6B. To date, \$7.3B (54%) has been completed with a clear focus on the domestic market. The province also has access to a sizable \$7.4B in cash reserves and other liquidity facilities to cover additional revenue shortfalls.

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