

ECONOMIC RESEARCH AND STRATEGY



**LAURENTIAN BANK
SECURITIES**

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Sébastien Lavoie,
Chief Economist
LavoieS@vmbi.ca
514 350-2931

Dominique Lapointe, CFA,
Senior Economist
LapointeD@vmbi.ca
514 350-2924

Manitoba First Quarter Update: Small Improvement for Now, More Expected to Come

Manitoba released today its [First Quarter Report](#) for FY 2021-22 as well as the [Public Accounts](#) for FY 2020-21. In both years, the provincial deficit remains virtually unchanged relative to Budget 2021: \$2.1B in FY 2020-21 (3% of GDP) and \$1.6B in FY 2021-22 (2% of GDP). This fiscal year, a \$327M upward revision to revenue, to \$18.2B, mostly comes from higher-than-budgeted federal transfers for the national childcare program and emergency drought assistance. A \$200M downward revision to Government Business Enterprises net income, mainly Manitoba Hydro and the Liquor and Lotteries Corporation, reflects the impact of economic restrictions imposed during the third wave of coronavirus infections last spring.

Of note, Manitoba did not revise its tax forecasts in the First Quarter Update. Considering the large 5.2 ppts upward revision to the 2021 nominal GDP forecast, from 4.9% to 10.7%, we expect significant improvements to provincial revenues in the mid-year update, due in December. For instance, in the public accounts released today, Manitoba estimates its total revenue sensitivities to nominal GDP at \$130M for each 1 ppt change in nominal GDP growth. This yields approximately \$0.7B in additional revenue in FY 2021-22, all else equal, offsetting an important portion of the province's \$1.6B deficit.

On the expenditure side, the government allocated \$0.7B of its \$1.2B (6% of total expenditures) COVID-19 FY 2021-22 appropriations in the first quarter, leaving \$480M for the possible adverse impact from the fourth wave of infections. Since the appropriations were already included into the fiscal framework, this has no impact on the forecast deficit. As of September 22nd, Manitoba only registered 30 cases per 100K population, one of the lowest infection rates across the country and significantly above the 79 national average. Meanwhile, the childcare agreement boosts education expenditure by \$129M. Combined to other minor changes, total expenditures are revised up by \$293M (+1.5%) relative to Budget 2021, to \$19.7B. The government also uses its \$100M revenue contingency included in Budget 2021 to partly offset the increased expenditure and leave the forecast deficit broadly unchanged.

Finally, the large upward revision to nominal GDP growth forecast in 2021 significantly lowers the net-debt-to-GDP prevision to 37.7%, from 39.9% in FY 2021-22. The First Quarter Report did not update Manitoba's \$4.9B borrowing program in FY 2021-22. While the province only completed 27% of that total so far, we anticipate the better-than-projected fiscal results will lead to a reduction in borrowing requirements in the mid-year fiscal update.

Dominique Lapointe, CFA | Senior Economist
514 350-2924 | lapointed@vmbi.ca