

# ECONOMIC RESEARCH AND STRATEGY



LAURENTIAN BANK  
SECURITIES

November 23, 2021

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

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

## BC Second Quarterly Report: Deficit shrinks before significant flood costs

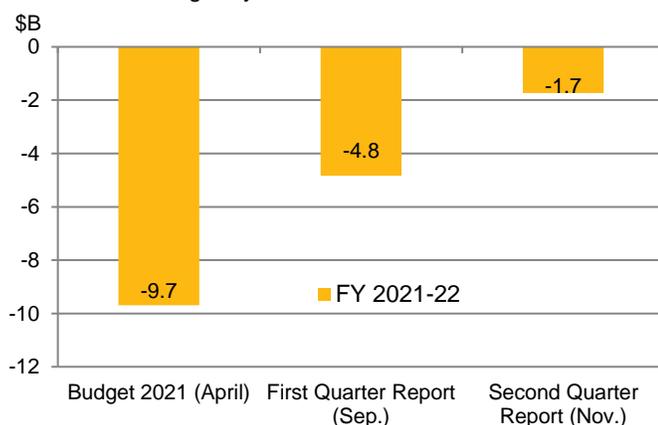
British Columbia presented on November 22<sup>nd</sup> its [Second Quarterly Report](#) showing an improved financial position as of September 30<sup>th</sup>. Before the heavy rain, floods and mudslides unfortunately hitting the Province, the government projected a \$1.7B deficit for FY 2021-22 (0.5% of GDP), merely a third of the First Quarter Report estimate and a fifth of the April 2021 Budget forecast (chart 1).

### Broad based upward revisions to revenue

Similar to other jurisdictions, stronger-than-expected 2020 preliminary income tax assessments for both households (+\$912M in PIT) and corporations (+\$214M in CIT) explain a significant part of upward revisions to revenues. The forecast for real and nominal GDP growth in 2021 is unchanged from the First Quarter Report, at 6.0% and 11.0%, respectively. Nonetheless, stronger-than-expected retail sales and housing market activity year-to-date drove up provincial sales (+\$200M) and property transfer (+\$665M) taxes. Meanwhile, higher commodity prices fuel natural gas royalties (+\$209M) and revenue from coal, metals, minerals and other mining-related sources (+\$242M). The Second Quarter report incorporates a \$50M downward revision to forestry revenue as a result of the decision to defer harvesting in old-growth forests, offset by higher stumpage rates. Higher investment income and lower claims and operating costs improve ICBC's net income by a large \$226M. At \$11.5B, federal transfers are mostly unchanged. Overall, BC projects total revenues at \$68B in FY 2021-22, 16% above the First Quarter Report and 10% more than in FY 2020-21.

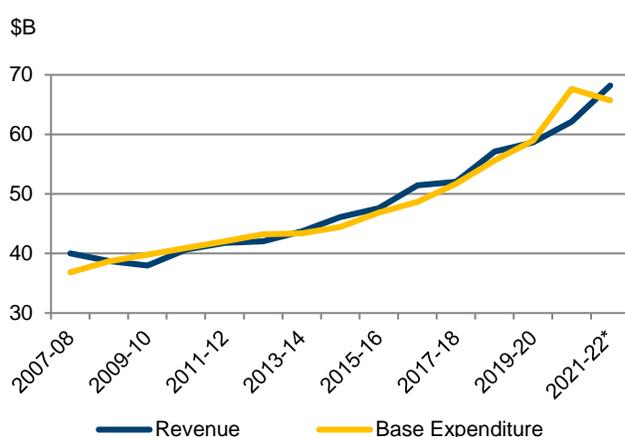
Minor revisions to expenditures leave total spending at \$65.7B, 3% lower than in FY 2020-21. Hence, before including the \$3.5B pandemic and recovery contingencies and the \$1.0B forecast allowance, as of the second quarter, revenues exceed expenditures, which bodes well to return to a sustainable balanced budget in outer years (chart 2).

Chart 1: BC Budgetary Balance Forecast



Note: Includes a \$1.0B forecast allowance.  
Source: BC Government.

Chart 2: BC Fiscal Framework



Source: BC Government, Govt of Canada fiscal reference tables.



### Lower debt burden and requirements before the floods

Mostly due to a lower-than-projected deficit for FY 2021-22, the Ministry of Finance revised down the taxpayer-supported debt (excluding crown corporations self-supported debt) by \$2.5B, to \$62.3B (18.2% of GDP). Net debt-to-GDP is forecast at 17.2%, among the lowest ratio across the country. It is also worth noting that BC reached back an accumulated surplus position (\$2.5B; net debt including non-financial assets). All in all, the borrowing program now stands at \$11.3B, including short-term financing, with only \$3.8B left to be completed by the end of the fiscal year.

### Recent floods deteriorate the near-term outlook

BC households are the most financially vulnerable in the country to adverse climate shocks according to a [Bank of Canada analytical note](#). The major floods currently affecting southern BC may end up one of the costliest natural disasters in Canadian history. The economic disruptions caused by the floods will shave between  $\frac{1}{4}$  and  $\frac{1}{2}$  percentage point to BC's 2021 real GDP growth, depending on the strength and rapidity of the recovery. We also expect a material short-term impact on labour market conditions. As a comparison, the June 2013 Alberta floods, relatively less severe, reduced the number of total hours worked by 4% over the following weeks. The path for real GDP growth in 2022 will depend on the rebuilding strategy for infrastructure. Port alternatives on the North American West Coast prevented what would have been a worse dislocation in merchandise transport. Rail and port activity could quickly resume over the next few days, but more rain is expected this week.

The largest adverse impact is not on the economic flow captured by GDP but damage and destruction to private and public assets. The mayor of Abbotsford said the estimated cost to rebuild the city could be \$1B. In this context, the \$1B forecast allowance will unambiguously be insufficient to offset the loss of taxation revenue, the financial compensation for households and businesses and the cost to rebuild critical infrastructures that these floods entail. Unless a significant part of the \$3.5B COVID-19 support fund ends up alleviating the costs related to the floods, we see an upside risk to BC's borrowing program in both FY 2021-22 and FY 2022-23. Finally, a key risk relates to asset repricing. For instance, a recent [Stanford University paper](#) showed that single-family homes in floodplains are generally overvalued.

**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.

