



Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

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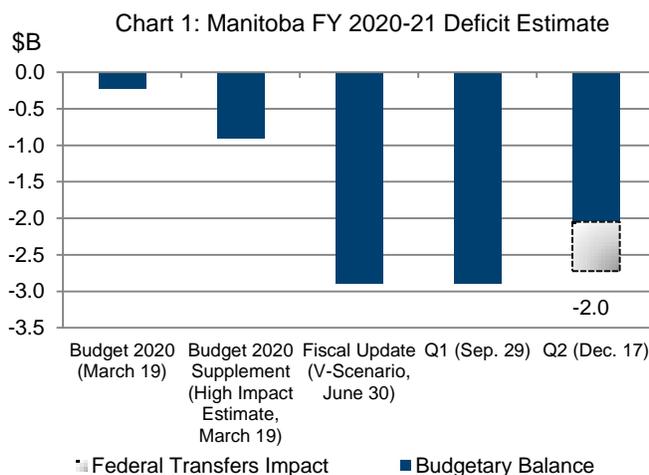
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Manitoba Mid-Year Report: Federal Transfers Provide Near-Term Relief But the Second Wave Remains Challenging

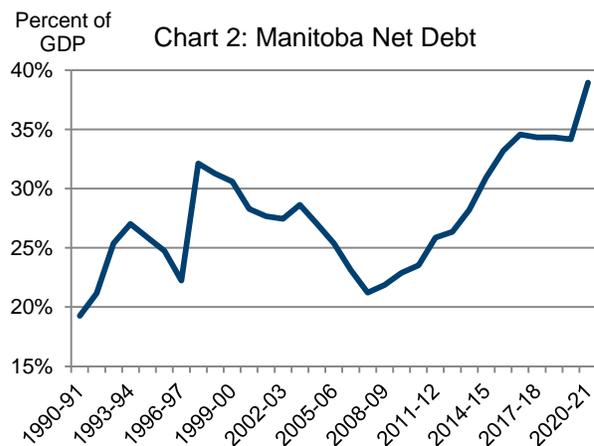
Manitoba published today its [Mid-Year Economic and Fiscal Update](#). The report shows a moderate improvement in the FY 2020-21 deficit, now pegged at \$2.0B (2.9% of GDP), relative to the Q1 Update published in late September (chart 1). The FY 2020-21 deficit will nonetheless be the highest in the Province's history. The situation would have been worse without the deficit reduction efforts realized between 2015 and 2019. In other words, Manitoba entered the pandemic from a relative position of strength.

In the mid-year update, total revenues are revised up by \$1.2B (+7.3%); \$648M comes from additional federal transfers. Overall, the federal government covers 20% of the Province's response to the pandemic. Other upward revisions stem from a smaller-than-expected real GDP contraction in 2020 (-4.6%). Additional expenditures of \$298M (+1.6%) to fight COVID-19 partially offset the extra revenue intake.

The Manitoba government plans to commit \$3.2B in COVID-19 response (\$1.8B in FY 2020-21 and \$1.4B in future years), the third largest on a GDP and per capita basis among provinces, behind Quebec and Ontario. Consistent with the deficit improvement, net debt is revised down by almost \$1B compared to the Q1 Update. Nonetheless, it won't prevent the net debt-to-GDP figure to reach an all-time high this year (chart 2).



Source: Manitoba Government.



Source: Manitoba Government, Government of Canada Fiscal Reference Tables and LBS Econ. Res. and Strategy calculations.

The province retains some flexibility regarding its borrowing needs

As of today, the province has borrowed \$6.5B of a \$7.9B program to cover its operating, capital financing and refinancing needs in FY 2020-21. The Mid-Year Fiscal Update reveals that "the government has been able to fulfill its 2020-21 borrowing program objectives to date, inclusive of the additional borrowing required to meet the expenditure increase and revenue decrease pressures from COVID-19". Still, if the ongoing second wave of infections requires additional borrowing, the province retains the flexibility to



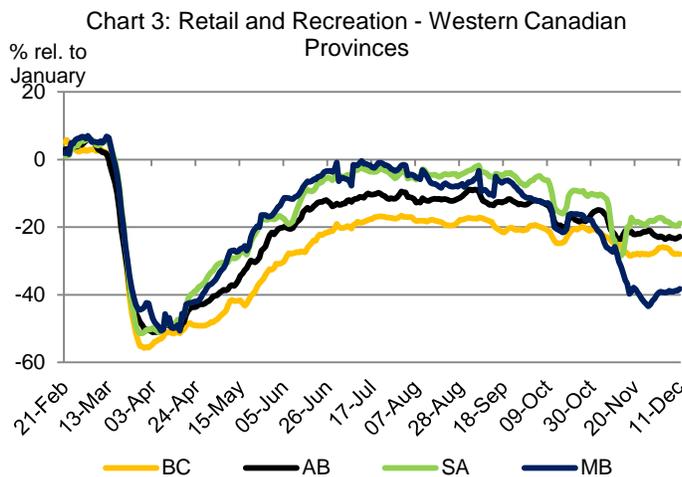
conduct additional financing operations in FY 2020-21. Manitoba intends to “stay ahead of its borrowing requirements in an effort to weather liquidity challenges arising on the back of the pandemic”. The fiscal stabilization account, the “rainy day fund”, estimated at \$800M this year, provides another layer of prudential liquidity against the materialization of a more pessimistic pandemic outcome.

The second wave forms a major downside risk to the near-term outlook

In summary, the Mid-Year Update reveals a moderate improvement from the previous September Update. The deterioration in public finances is nonetheless significant, led first and foremost by the increase in spending. The mid-year update rightly flags the virus second wave as a significant downside risk to the outlook. Manitoba has been registering among the highest number of new coronavirus cases per capita across provinces for several weeks now. The good news relates to the 7-day moving average showing signs of a downtrend in the number of new cases, contrasting with the uptrend observed in Quebec, Ontario and Alberta. Stricter restrictions have been put in place before other Provinces did this fall. Thus, economic activity, approximated by Google’s mobility data on retail and recreation movements, contracted more significantly than in other provinces (chart 3). As a result, we anticipate downward revisions to revenue in future fiscal updates.

The vaccination campaign, started across the country and including in Manitoba, will eventually end the protracted recovery and lead to a sustainable uptrend. The update assumes a 4.1% real GDP rebound in 2021. Over the course of FY 2021-22, the Manitoba government will be in a position to start the process of balancing its budget within two terms, as mentioned in the November Throne Speech.

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Source: Google Mobility, LBS Econ. Res and Strategy calculations.