



## ECONOMICS

# Provincial Outlook: All In The Same Boat?

by Andrew Grantham

Avery Shenfeld  
(416) 594-7356  
avery.shenfeld@cibc.com

Benjamin Tal  
(416) 956-3698  
benjamin.tal@cibc.com

Andrew Grantham  
(416) 956-3219  
andrew.grantham@cibc.com

Royce Mendes  
(416) 956-6527  
royce.mendes@cibc.com

Katherine Judge  
(416) 956-6527  
katherine.judge@cibc.com

Taylor Rochweg  
(416) 594-7355  
taylor.rochweg@cibc.com

The phrase “we’re all in this together” has become commonplace in describing how everyone’s way of life has been impacted to at least some degree by the COVID-19 outbreak, and how everyone has at least some part to play in flattening the curve.

Provincial economies have also been in this together, in terms of having seen big negative impacts from social distancing measures, including those that haven’t seen particularly severe outbreaks. However, as we look forward to the speed at which provincial economies will likely reopen and recover, larger discrepancies will become apparent, particularly when thinking about some of the lasting scars from this crisis as relates to energy prices and tourism.

### The Near-Term

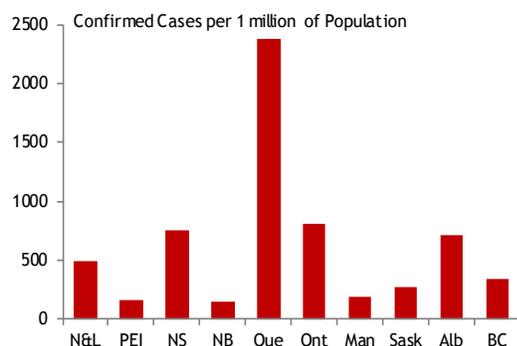
The severity of the COVID-19 outbreak has varied between provinces. While BC appeared to be headed towards a severe outbreak in its early stages, the province was

able to flatten the curve fairly quickly. On the other hand, and more recently, Quebec has been the epicenter of the COVID-19 outbreak in Canada (Chart 1). Other parts of the country have been severely impacted to, including Ontario, Alberta and Nova Scotia.

All provincial economies have been impacted by social distancing measures. Official Statistics Canada figures for retail sales, etc. for the month of March are still almost a month away. That means that one of the only pieces of official news we have for the post-lockdown effect on provincial economies is working hours from the Labour Force Survey. This survey, of course, is a very volatile series, but is shown to have been severely impacted.

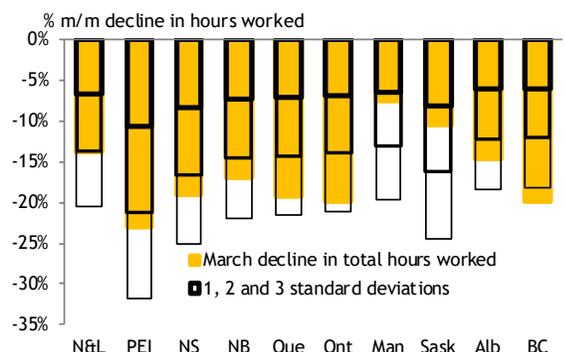
Judging the declines seen among provinces against the usual volatility in this data series, the sharp falls in BC, Ontario and Quebec still seem more meaningful than others (Chart 2). The decline in PEI, for example, could have been exaggerated more by typical monthly volatility.

Chart 1  
**Quebec Sees Biggest COVID-19 Outbreak**



Source: Government of Canada, Statistics Canada, CIBC

Chart 2  
**Hours Worked Show Severe March Decline in Most Provinces**

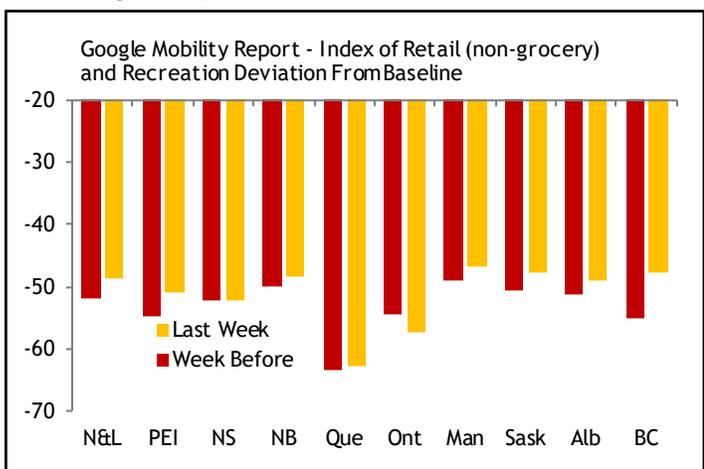


Source: Statistics Canada, CIBC

<http://economics.cibccm.com>

Chart 3

**Mobility Data Suggests Biggest Negatives in Ont, Que. Slight Improvement in BC**



Source: Google, CIBC

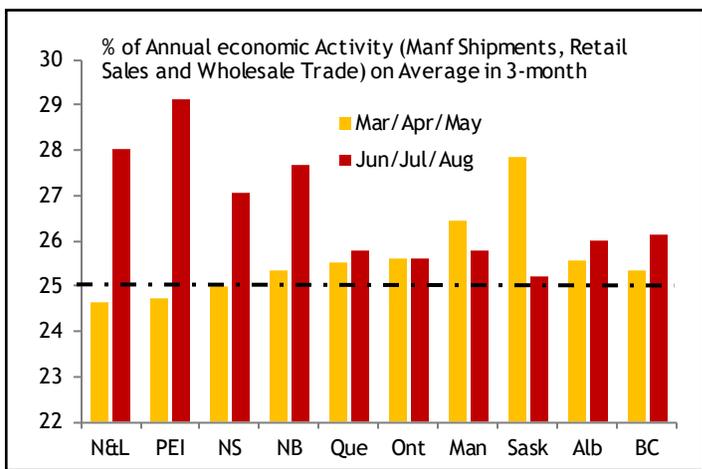
Because of the speed at which the downturn in global and provincial economies has hit, the economics profession has had to be more creative in identifying the data upon which we can rely. Weekly and daily figures related to traffic congestion and the mobility of the population have become increasingly important in economic forecasting. For example, recently released mobility data that track movements of smartphones point to a bigger decline in activity versus the baseline in Ontario and Quebec (Chart 3).

However, potentially more interesting is that these figures appear to point to a slight improvement in BC, which suffered an early outbreak of COVID-19, but also had early successes in flattening the curve and reducing case numbers. While there’s been no official change in stance yet, and as such this slight pick-up could be due to people being more confident venturing out to shops that were always allowed to be open, being a week or two ahead of other areas of the country could have significant implications in terms of economic damage over the year as a whole.

In Manitoba and Saskatchewan, the low case numbers and not quite so bad reduction in economic activity relative to other areas of the country suggested by the last two charts is important given the usual seasonal patterns in their economies. Relative to other areas of the country, a greater proportion of economic activity (judged by summing together non-seasonally adjusted retail sales, manufacturing shipments and wholesale trade) occurs during the March-May months. As such, what we expect will be the worst of the economic impact from the COVID-19 social distancing measures is coinciding with

Chart 4

**March-May Period of Greater Importance to Manitoba/Saskatchewan**



Source: Statistics Canada, CIBC

this timeframe (Chart 4). This is the result of wholesale trade related to agricultural products ahead of planting season, which shouldn’t be greatly affected by the current restrictions in place.

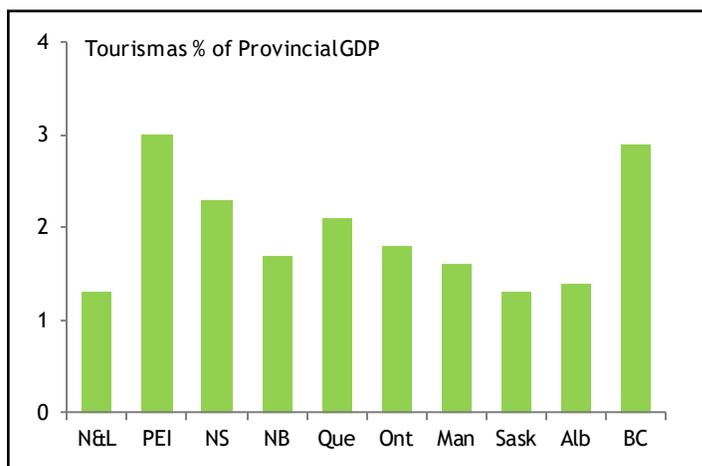
**The Lasting Scars**

For a few provinces, the three months of summer are of greater importance to the full year’s total economic activity and income. However, while it’s likely that more businesses will be open by that time, there will most likely still be restrictions in place regarding staffing and customer numbers.

It’s also hard to envisage a quick rebound in the key summer source of income for many such provinces—tourism. As a proportion of GDP, tourism has been a

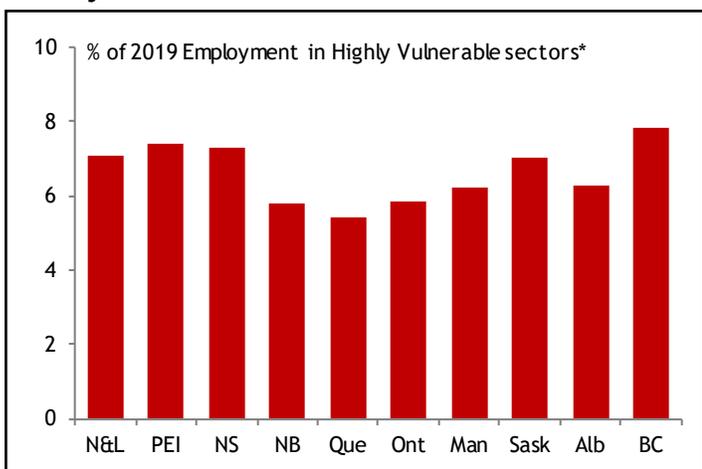
Chart 5

**Tourism a Greater Share of GDP in Coastal Areas**



Source: Statistics Canada, CIBC

**Chart 6**  
**Share of Employees in Highly Vulnerable Areas Closely Correlated With Tourism**



\*arts, entertainment, accommodation, food service  
 Source: Statistics Canada, CIBC

much bigger contributor to growth in coastal areas such as PEI, Nova Scotia and BC (Chart 5). However, the impact of a slow recovery in tourism runs deeper than just that direct channel.

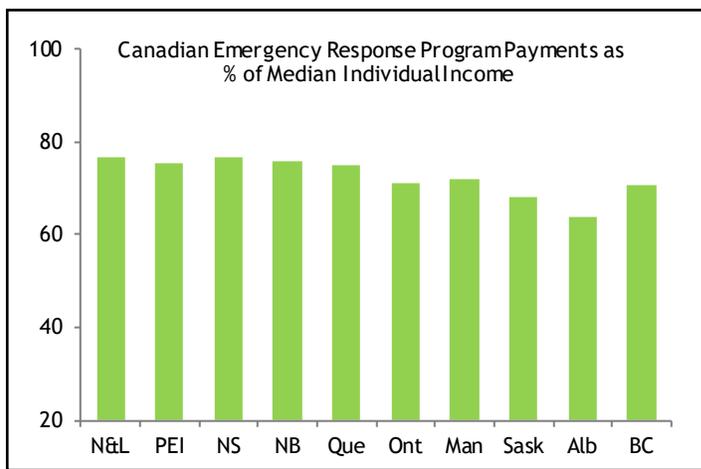
In a previous research article, we identified a number of “highly vulnerable” sectors which would firstly see a bigger reduction in employment in the near term and secondly take longer to recover than other areas of the economy. These included many either directly related to tourism (accommodation services) or highly influenced by spending from travelers (museums, restaurants etc.). To little surprise, provinces with a greater proportion of such workers also tend to be ones with a larger reliance on tourism (Chart 6).

In the short-term, workers laid off in these areas should be well protected by the response plans of the Federal Government. For the Eastern-most provinces, payments under the Canadian Emergency Response Program would equate to almost 80% of the median wage in such provinces (Chart 7). With many of these most vulnerable industries paying below-average incomes, the proportion being covered would be even higher.

The problem is that these support programs can’t and won’t last forever, and a full recovery in these industries will likely take much longer than 3-4 months, leaving a scar on employment levels, aggregate incomes and consumer spending.

Travel restrictions will also have a negative impact on another important source of growth for many provinces over recent years—immigration trends. The fact that new

**Chart 7**  
**Support Program Covers Higher Proportion of Median Income out East**

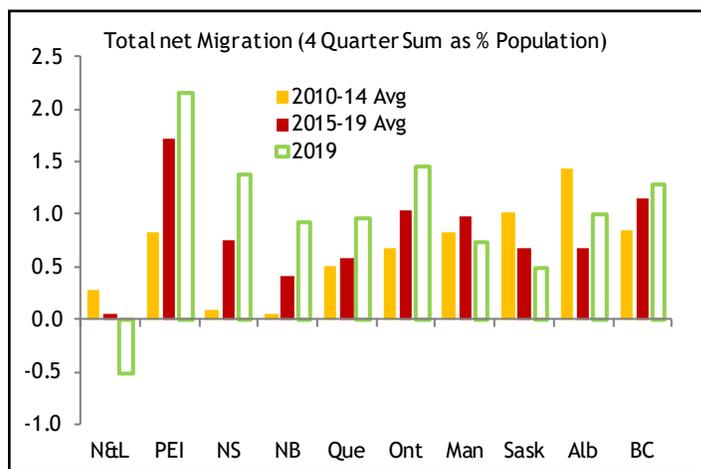


Source: Statistics Canada, CIBC

immigrants tend to see greater spikes in unemployment rates during recessionary periods may also result in a lower desire of would-be new Canadian’s to move during these uncertain times. Those inflows of people have been a key contributor to population growth and housing demand in recent years, not just in the Maritimes, but in many other provinces including Ontario (Chart 8).

Another facet of the recovery that could take longer than others is a rebound in international trade. After a big fall this year that the IMF projects to be more than three times as sharp as the decline in world output, global trade volumes aren’t expected to recoup as much ground in 2021. Given some concerns about global supply chains due to the pandemic, along with the potential for less spending on discretionary items, those areas with

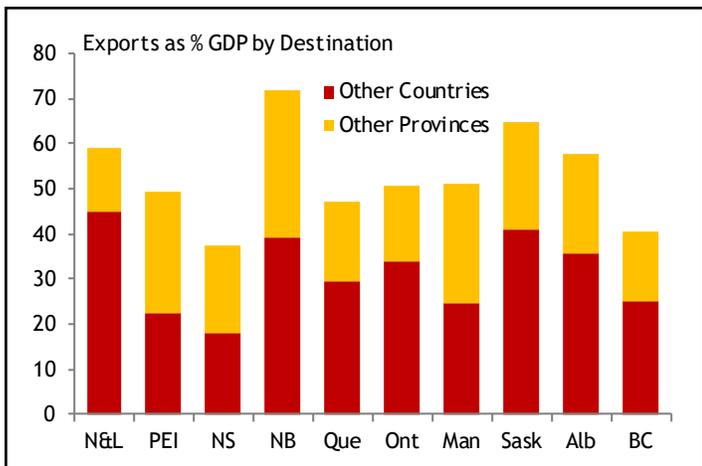
**Chart 8**  
**Immigration a Key Contributor to Population Growth**



Source: Statistics Canada, CIBC

Chart 9

**Domestic Exporters Manitoba and PEI Could Fare Better Than Others**



Source: Statistics Canada, CIBC

a greater leaning towards domestic trade and essential products will likely fare better in terms of manufacturing and exports.

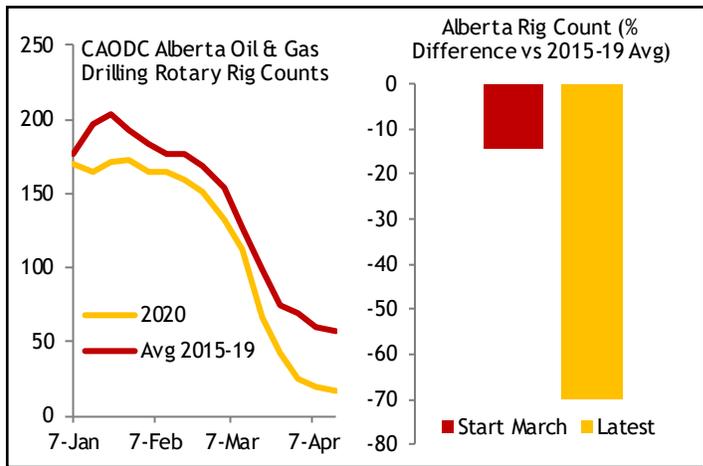
In that respect, PEI and Manitoba, where a greater proportion of exports are focused on the domestic market and essential goods such as food products, should see less weakness in their manufacturing sectors than others (Chart 9). While larger provinces such as Quebec and Ontario would seem to be poorly placed on this score, for the latter at least the strong trade links with the US should soften the blow, while for both the retooling of some factories to produce medical equipment should also help.

Another longer-term impact will be the spending restraint that needs to be enacted by provinces once the worst of the crisis is over in order to reduce deficits. With respect to the near-term hit to provincial revenues from the COVID-19 crisis, all regions of the country will be in the same boat. However, some were better placed heading into the crisis than others with respect to debt levels, for example BC and Saskatchewan, and as such may not feel the need to be quite so severe in restraining spending during the economic recovery stage.

The final and most obvious hangover from the COVID-19 crisis to provincial growth rates is of course the ultra-low (and on occasion while writing this even negative) oil prices that we are seeing. Even before the crisis, low oil prices were having an impact on investment and production within oil producing provinces; but the problem now has become considerably worse. For example, in Alberta, new rig counts have almost entirely

Chart 10

**Rig Counts Show Big Shortfall in Oil Investment vs Prior Years**



Source: CAODC, CIBC

dried up and are some 70% below the average since the 2014 oil price shock (Chart 10).

Meanwhile, our colleagues in Equity Research recently estimated that production would be 16% down year-over-year in Q2, with a full year decline which would itself shave about 1.5%-pts from Alberta GDP this year. Unfortunately, there's downside risk to even that forecast based on most recent price trends.

**All In The Same Boat?**

While all provinces have been in the same boat recently, divergences regarding the near-term opening up of economies and longer-term implications are starting to be seen. Success in stemming the spread of COVID-19 in areas such as BC, Manitoba and Saskatchewan could see their local economies start to open back up a little faster than Ontario and Quebec's, for example (Table 1). In some respects, recent mobility data suggests that

Table 1

	Real GDP Y/Y % Chg			Nominal GDP Y/Y % Chg			Unemployment Rate %		
	2019F	2020F	2021F	2019F	2020F	2021F	2019A	2020F	2021F
BC	1.9	-6.1	7.5	3.8	-4.7	10.0	4.7	9.7	7.8
Alta	0.5	-8.4	5.4	2.5	-12.9	11.6	6.9	11.1	9.8
Sask	0.5	-6.4	6.3	2.5	-9.4	12.1	5.4	10.1	8.4
Man	1.4	-5.9	6.5	3.3	-4.5	9.0	5.3	9.4	7.5
Ont	1.6	-6.8	7.1	3.5	-5.4	9.6	5.6	9.9	8.1
Qué	2.7	-6.9	7.3	4.6	-5.6	9.8	5.1	10.0	7.9
NB	1.1	-6.3	6.2	2.9	-5.0	8.6	8.0	12.4	10.8
NS	1.5	-7.4	6.3	3.3	-6.0	8.7	7.2	12.1	10.4
PEI	2.3	-7.1	6.4	4.1	-5.7	8.8	8.8	13.1	11.2
N&L	1.9	-7.7	5.8	3.9	-10.7	11.6	11.9	16.9	15.2
<b>Canada</b>	<b>1.6</b>	<b>-6.9</b>	<b>6.8</b>	<b>3.6</b>	<b>-6.7</b>	<b>10.0</b>	<b>5.7</b>	<b>10.3</b>	<b>8.4</b>

Source: CMHC, Statistics Canada, CIBC

trend could already be starting. Given the severity of the economic paralysis, a couple of weeks could make a big difference to year-end growth rates (or rather contraction rates) and government revenue.

Looking out more than a month or two, however, there are certain elements of this downturn that will persist longer than others and also lead to divergences in the rates at which provinces recover. The most obvious is oil, which of course will weigh most heavily on Alberta. However, it's not the only one. Travel restrictions will remain in place to at least some degree, impacting tourism and potentially immigration trends as well—two important drivers of growth recently in the maritime provinces. As such, the bounce back in 2021 could look stronger in Quebec, for example, than Nova Scotia and PEI.

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2020 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.