Provincial Recoveries: Ready to Move Back Into The Fast Lane?
by Andrew Grantham

A surge in virus cases in the fall, continuing into the winter, has resulted in a further tightening of physical distancing restrictions and a dampening of near-term economic prospects, particularly for the largest provinces of Ontario and Quebec. However, with new Covid numbers falling from the Autumn’s highs out west, case numbers still quite low (albeit in some cases rising) in Atlantic Canada and all provinces starting to vaccinate the most vulnerable in the population, the near-term pull back in economic activity should hopefully be a speed bump on the road to a faster recovery later this year and in 2022.

A Misty Rear-View Mirror

As they say, to know where you are going, you have to know where you have been. However, that’s easier said than done when it comes to the contractions in economic activity among provinces in 2020. Some areas of the country navigated the spring wave of virus infections easier than others, and were able to reopen earlier and more fully. However, some of those same provinces saw larger second-waves in the fall and, in terms of economic activity, gave back part of that earlier advantage.

Only the two largest provinces of Quebec and Ontario release estimates of GDP on a quarterly basis. The latest readings for those (up to Q3 2020) show the Quebec economy suffering a slightly larger/earlier drop in economic activity over the spring, but then a quicker rebound to put it modestly ahead on a full year basis (Chart 1, left). Recent hours worked data suggest that, despite both slipping a little from October highs, Quebec remained slightly ahead (Chart 1, right).

For other provinces, the most complete data that we have for 2020 (both in terms of the

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<th>Provincial Forecast Table</th>
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<td>Real GDP</td>
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<td></td>
<td>Y/Y % Chg 2019A</td>
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<tr>
<td>BC</td>
<td>-5.6 4.4 4.6</td>
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<tr>
<td>Alta</td>
<td>-7.1 4.5 6.0</td>
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<tr>
<td>Sask</td>
<td>-5.2 4.1 4.6</td>
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<td>Man</td>
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<td>NB</td>
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<td>NS</td>
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Canada 1.9 4.0 5.1 3.6 -4.8 6.8 7.2 5.7 9.5 7.9 6.2

Source: Statistics Canada, CMHC, CIBC
number of months available and sectors covered) is the aforementioned hours worked data from the Labour Force Survey. A glance at these numbers highlights not just which provinces appear to have out or under-performed during 2020, but also which ones finished the year with a smaller hole relative to end-2019 levels.

The clear stand-out on the downside is unfortunately Alberta, where the negative impact of Covid-19 not just on close-contact services but also on oil demand/production was more acutely felt. The province also saw a large spike in case numbers in the autumn, which led to physical distancing measures having to be re-imposed.

For the two other major commodity-producing provinces of Newfoundland & Labrador and Saskatchewan, the results aren’t as bad. The latter actually fared better than the national average for total hours worked over 2020 as a whole, albeit finishing with a bigger hole due to a larger outbreak of Covid-19 cases in the fall. For Newfoundland, the opposite was true. While it was the weakest performing province in terms of working hours over the year as a whole, greater success in keeping Covid cases down allowed more of the economy to remain open during the autumn period.

That greater success in keeping case numbers down is true across Atlantic Canada as a whole, with New Brunswick and Nova Scotia also finishing 2020 with total working hours much closer to end-2019 levels than the national average. BC also managed to finish the year strong, or at least stronger than most, due to early and more decisive action in stemming the autumn outbreak. However, softness earlier in the year meant that it was still the third-worst performing province for hours worked over 2020 as a whole (Chart 2).

**Virus Infests Early 2021 Outlook**

For Manitoba, which along with New Brunswick saw the smallest decline in working hours over 2020 as a whole, the year ended with a comparative thud. A surge in virus cases over the autumn, well above what was seen last spring, was met with stricter physical distancing measures than those applied in other parts of the country. Indeed, based on two measures of the strictness of such restrictions, Manitoba was the only province to apply measures before Christmas that were even close to those introduced in most areas of the country in March/April (Chart 3).

**Chart 3**

**Autumn Lockdown in Manitoba Stricter Others Less So Relative to Spring**
The results of those lockdown measures, though, in terms of getting case numbers down, have been better than the less-strict measures attempted in areas such as Ontario and Quebec (Chart 4). And having already lifted lockdown measures slightly, Manitoba may be in the position to further ease restrictions earlier than other areas over the spring and early summer. On the other side of the lockdown-strictness measure, the measures taken by Saskatchewan so far haven’t appeared to be strict enough to bring case numbers much lower (Chart 4 again).

For Ontario and Quebec, however, the further tightening of restrictions necessary since the start of the year will take a bite out of economic activity in the first quarter of 2021, and limit the extent of the full year rebound relative to our prior forecasts. Mobility data suggest that Ontario and Quebec have certainly seen a greater pull-back in activity relative to other parts of the country, with the latest readings for both provinces now actually in line with the average seen during the first wave (Chart 5). Saskatchewan, where case numbers per capita have also remained high, hasn’t seen much of a change in mobility since the autumn.

Let’s Get Ready to Rebound

By the second half of the year, with virus case numbers hopefully contained in all areas and the vaccination process well underway, we should see a more complete and faster recovery in all provinces.

Just how well certain provinces are positioned relative to others will be determined, in large part, by how much spare cash households have on the sidelines ready to be redeployed and also how much (or how little) scarring the economies have suffered outside of the immediately impacted close-contact service sectors.

Examining the increase in personal deposits by province suggests that, while still rising, households in Saskatchewan and Alberta may have a little less extra room for spending than those in, for example, Manitoba and BC (Chart 6). That would make sense given that more of the job losses in those areas appear to have come in sectors outside of those close-contact services (Chart 7) with some of that focused in the high-paying oil sector. As a result, Federal government support measures weren’t quite as generous relative to lost income, particularly for those households in Alberta.
Interesting, there appears to be a greater degree of pain outside of the most impacted service industries in Ontario rather than in Quebec. Indeed, for Quebec hours worked in industries outside of the high-contact services were actually higher at the end of 2020 than they were a year previously. The same was true in Nova Scotia and New Brunswick.

In contrast, less than half of the year-over-year decline in working hours for Ontario could be explained by such service industries. That could suggest a greater degree of scarring into other industries, which would be a headwind for the post-vaccine stage of recovery. Note though that part of the explanation could be differences in sentiment towards schooling and childcare during the pandemic. And with schools in Ontario shut since the start of January, impacting the ability of some parents to work, the weaker trend for working hours in those “other” sectors could widen relative to elsewhere in the country in the first quarter of 2021.

For the oil-producing province of Alberta, that has seen a greater decline in working hours outside of the most impacted service industries, there is some good news ahead. While it is true that the lack of investment in the oil sector during 2020 has impacted potential output and GDP growth (Chart 8, left), production is still expected to rise in 2021. Moreover, while only clawing back roughly half of the big decline seen last year, investment within the oil sector is expected to rise and be a positive to GDP growth in 2021 (Chart 8, right). Of course, plans could change with movements in oil prices, any further announcements from the new administration stateside or other factors.

The rise in global oil prices will also aid the recovery in nominal GDP within oil-producing areas of the country, particularly relative to what was included within provincial fall fiscal updates. Due to conservative assumptions for commodity prices and also, we think, the hit to real GDP as well, provincial estimates for Alberta and Saskatchewan placed the level of nominal GDP still around 6% below its 2019 level this year. While we also don’t expect to see those provinces return to the same level of GDP, even in nominal terms, that was recorded in 2019, the gap in our forecasts is much narrower (Chart 9) which would be a positive for provincial revenues.

Relative to budgetary projections, there is also greater scope for upside surprise for nominal GDP in BC and Nova Scotia. In contrast, our projected level of GDP in 2021 for Quebec, while among the highest we have relative to 2019 and versus other provinces, isn’t that different from provincial estimates. In other words, the good news we expect in terms of growth in the second half of this year appears to already be baked into revenue projections. Note that due to the extraordinary circumstances and elevated level of uncertainty in the current period, not all provinces had released forecasts for nominal GDP growth in 2021.

**Ready to Move Into the Fast Lane?**

The recovery in all provinces will move into a higher gear again later this year, but some will hit the fast lane earlier than others and reach a higher speed. Ontario, Quebec and Saskatchewan, where case numbers have yet to fall materially during the second wave, could potentially have to keep restrictions in place longer than...
other areas. However, for Quebec there appears to have been a lesser degree of pain outside of the close contact service industries most impacted by physical distancing measures, which should be a good sign for the recovery later in the year.

In most western provinces, case numbers that spiked in the fall are on the decline now, and as such restrictions could start being eased again soon — potentially providing a bit of a head start relative to Ontario and Quebec. While the lack of investment in 2020 negatively impacted potential oil production and GDP growth relative to its prior path, a partial rebound in that sector would still place Alberta growth (particularly in nominal terms) ahead of the Canadian average and the most recent budgetary assumptions.

In Atlantic Canada, provinces have generally been better at keeping Covid-19 cases in check, although recent increases in New Brunswick could bring a tightening of physical distancing measures again. That success in 2020 meant that, with the exception of oil-producing Newfoundland, those provinces saw a smaller dent to their economies last year. It also means, however, that there is less scope for a big rebound in 2021, particularly until international tourists return in larger numbers — something we believe will be more of a summer 2022 story.