



Economics

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Provincial Outlook: Brighter Past; Still Uncertain Future

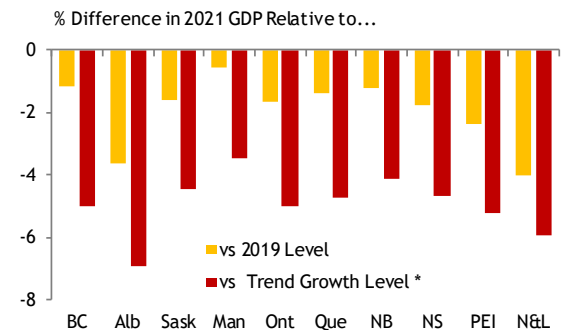
by Andrew Grantham

The Canadian economy as a whole outperformed our prior forecasts during the first part of the recovery phase, and is running near the top end of the Bank of Canada's range of possible outcomes provided back in April. As a result, 2020 rates of contraction in provincial economies are expected to be less severe than our prior June projections, although some forecasts (for example Ontario) have been raised more than others (BC).

That said, with Covid-19 cases rising again and restrictions starting to tighten (marginally at the moment) rather than loosen further in the most populous provinces, the recovery is likely to flatten out in the near term. The level of GDP in 2021 will remain below that seen in 2019 and well below what would have been reached had prior growth trends continued (Table and Chart 1). Given its success, so far, in keeping case counts low

Chart 1

Real GDP Still Below 2019 Level and Well Below Trend in 2021



*Based on 2% trend for BC, 1.75% Alb/Ont/Que, 1.5% Man/Sask/NB/NS/PEI, 1.0% N&L

Source: Statistics Canada, CIBC

and it's greater leaning toward essential goods/services, Manitoba should get closer than others, while oil producers will lag before catching up some ground in 2022.

Table 1

Provincial Forecast Table

	Real GDP Y/Y % Chg				Nominal GDP Y/Y % Chg				Unemployment Rate %			
	2019E	2020F	2021F	2022F	2019F	2020F	2021F	2022F	2019A	2020F	2021F	2022F
BC	2.8	-5.3	4.4	4.2	4.7	-3.7	6.3	6.2	4.7	9.8	8.7	6.5
Alta	-0.6	-7.5	4.2	6.1	1.4	-13.0	7.4	9.9	6.9	11.5	10.5	8.4
Sask	-0.8	-5.0	3.6	4.5	1.2	-9.5	6.1	7.7	5.4	8.4	6.8	5.8
Man	1.0	-4.0	3.6	3.6	2.9	-2.4	5.5	5.5	5.3	8.0	6.3	5.4
Ont	1.9	-5.5	4.0	4.7	3.8	-3.9	5.9	6.7	5.6	9.5	8.2	6.9
Qué	2.7	-5.3	4.1	4.6	4.6	-3.7	6.0	6.6	5.1	9.0	7.7	6.2
NB	1.0	-4.3	3.2	4.2	2.8	-2.7	5.1	6.1	8.0	9.5	8.7	8.2
NS	2.1	-5.0	3.4	4.9	3.9	-3.4	5.3	6.8	7.2	10.1	9.1	7.7
PEI	4.5	-5.4	3.2	5.2	6.3	-3.8	5.1	7.1	8.8	10.8	9.7	9.0
N&L	4.0	-7.8	4.1	5.9	6.0	-12.8	6.9	9.3	11.9	14.1	12.7	12.4
Canada	1.7	-5.6	4.0	4.8	3.6	-5.4	6.1	7.0	5.7	9.7	8.4	6.9

Source: Statistics Canada, CMHC, CIBC

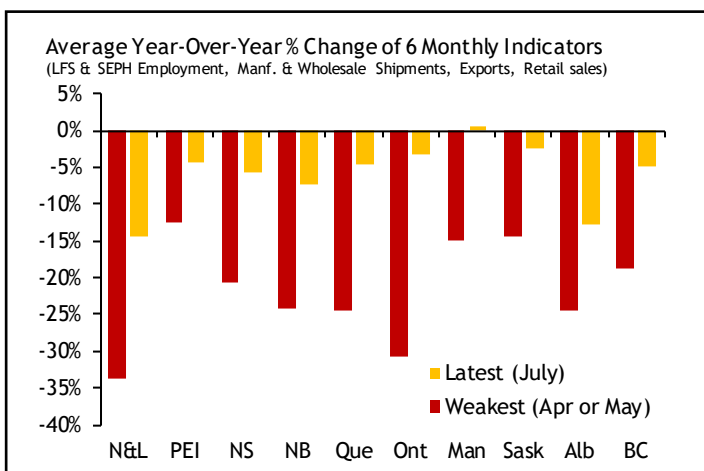
The Past—A Stronger Initial Recovery

Relative to our prior forecasts, Ontario has seen the biggest upgrade to 2020, with the rate of contraction now seen as broadly in line with the national average. While the weakness in key indicators earlier in the year was more stark, even compared with Quebec on some measures which saw a bigger Covid-19 outbreak, and the initial recovery was slower, more recently measures of activity have moved ahead of the national average. Indeed, the average annual rate of contraction in six key indicators as of July was around 4% – well above the lows recorded over the spring and actually the third “best” among provinces at the current time (Chart 2).

Moreover, those averages exclude one of the largest surprises of the post-lockdown period – housing. While we had expected that home sales would rebound due to low interest rates and pent-up demand following the almost non-existent spring market, we hadn’t anticipated homebuilding to be as vigorous as recent data have shown. While this may be due to the building of pre-sold properties, housing starts in Ontario have not just been above our prior forecast but have actually been running hotter than 2019 levels (Chart 3).

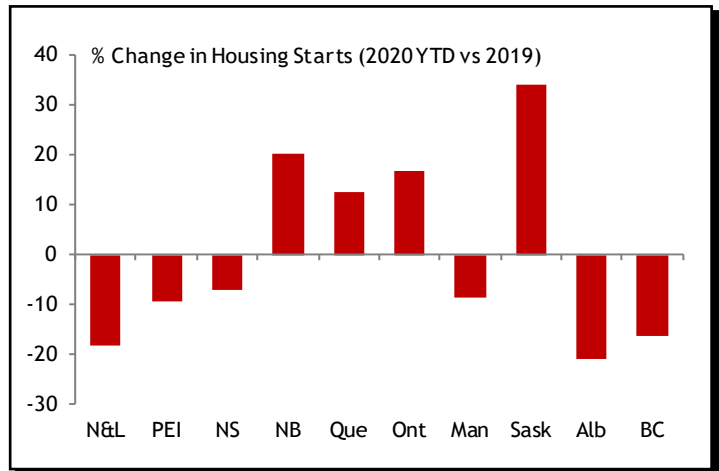
Ontario hasn’t been the only area of the country to see a big turnaround in housing. In fact, some provinces have also seen the resale market rebound above and beyond what can be explained by just the delaying of purchases from spring to summer. Indeed, in four provinces, led by Saskatchewan, sales volumes weren’t just up year-to-date in August but also on aggregate in 2020 versus 2019 (Chart 4). With the exception of Quebec, these are

Chart 2
Improvements Seen in Ontario, Not So Much in Alberta, N&L



Source: Statistics Canada, CIBC

Chart 3
Housing Starts Now Up on Year-to-Date Basis in Some Areas



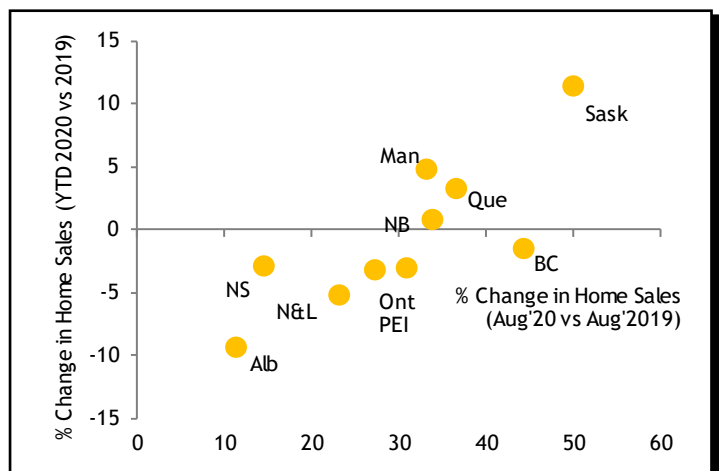
Source: CMHC, CIBC

in areas of the country that generally saw smaller Covid outbreaks, and therefore less of a hit from lockdown measures.

The Present—Rising Case Numbers

Unfortunately, like summer, that good news about the pace of recovery is largely in the past. In the present, we are facing rising Covid-19 case numbers in the most populous areas of the country, making the future uncertain. In BC, where case numbers have risen above their spring peaks (Chart 5), some restrictions have been re-imposed on bars to try and stem the tide. In other areas, stricter limits and enforcements on private parties have applied, but the risk is that these prove insufficient,

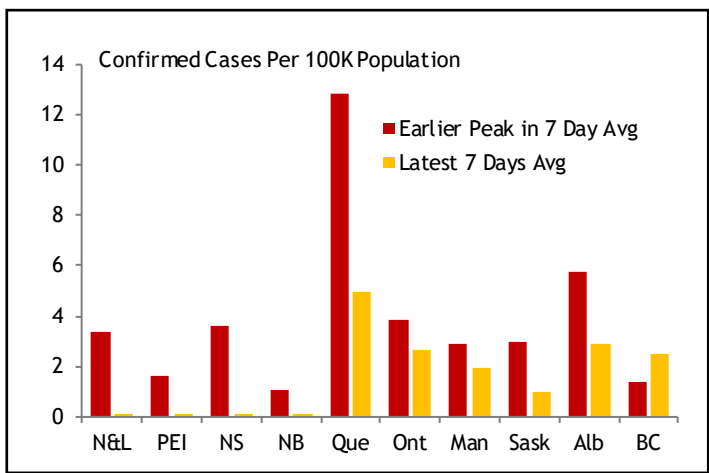
Chart 4
Home Sales Now Higher Year-to-Date Versus 2019 in Some Provinces



Source: CREA, CIBC

Chart 5

Covid Cases Closing Back in on Earlier Peaks in Ontario, Surpassing Them in BC



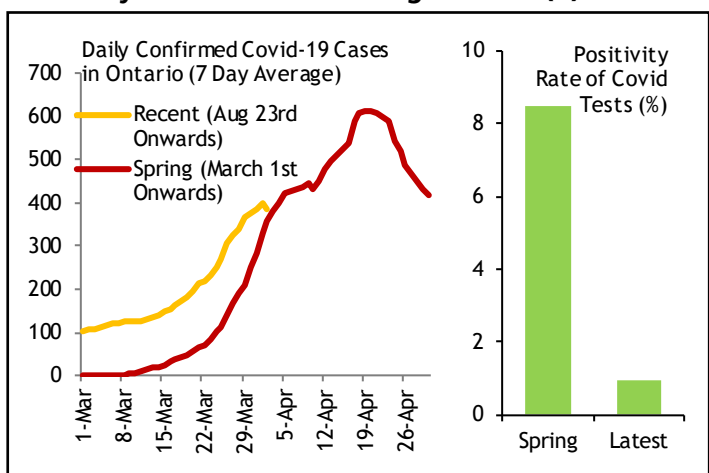
Source: CTV, CIBC

and that renewed restraints on economic activity will be imposed, although these are likely to be more targeted than what we saw in the spring.

Even though case numbers in Ontario have risen disturbingly back to where they were in early April (Chart 6, left), there are some key differences in the current environment. Testing is much higher, and the positivity rate on those tests much lower (Chart 6, right). There may have been many more cases that slipped through the system in March and April — something that shouldn't be as big a factor today. And because of that, we are picking up a greater number of milder cases in younger cohorts, which explains why, even accounting for the lag in hospitalizations and Covid-related deaths, they haven't risen as quickly thus far.

Chart 6

Ontario Cases Matching Early April (L), But Positivity Rates Shows Testing Greater (R)



Source: PublicHealthOntario.ca, CIBC

The Future—Winter Not Such a Wonderland

As we discussed in our Forecast publication, second waves of infections that we have seen globally have not always brought harsh lockdown measures. With more known regarding how the virus spreads, more localized or industry specific restrictions have been used instead.

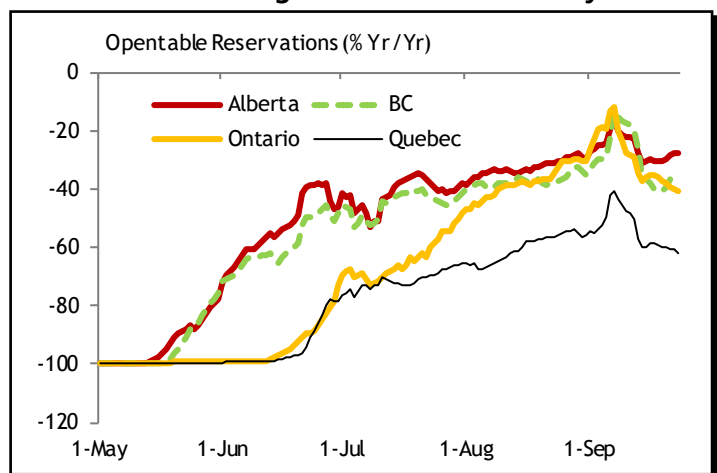
However, there are clearly industries which are more at risk from either government restrictions being re-imposed or, even if that isn't necessary, a souring of consumer sentiment. These unfortunately are industries such as restaurants and hotels which are already operating at depressed levels. We may already be seeing signs of that in restaurant bookings, which have slipped in the major provinces as summer neared its end and as case numbers climbed again (Chart 7). Note that in Quebec, this sector didn't rebound as far as other provinces even up to early September – one of the reasons why our upgrade to that province's 2020 forecast wasn't quite as large as the adjustment made to the national average.

Spending at food and restaurant establishments is typically a greater share of GDP in coastal areas such as PEI and BC (Chart 8), suggesting a greater threat to the overall economy in those areas. However, in PEI, a greater majority of that activity takes place over the summer months, so the greatest risk from any renewed uneasiness towards indoor dining would likely be in BC and Nova Scotia.

One area where BC should fare better than other areas of the country, though, is in investment spending. While this won't be the big positive that was expected previously, owing to pandemic-related delays in key areas such as

Chart 7

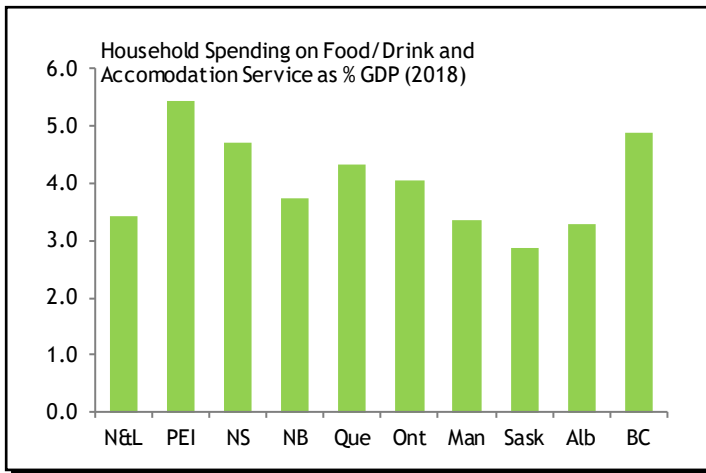
Restaurants Starting to Feel a Chill Already



Source: Opentable, CIBC

Chart 8

Spending on Higher Risk Services as Proportion of Provincial GDP



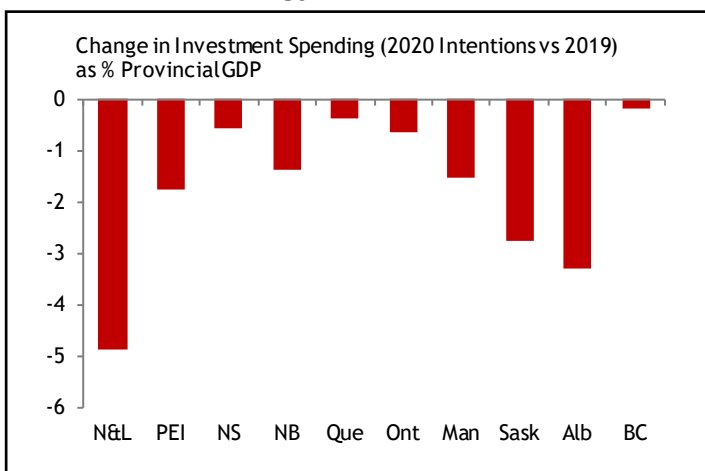
Source: Statistics Canada, CIBC

LNG, revised investment intentions data suggest that BC will suffer only a small decline as a percentage of GDP relative to other areas — particularly energy-producers (Chart 9). Note that these revised investment intentions were collected in June/July and released in mid-August, so sentiment may have improved slightly with the quicker-than-expected economic recovery seen subsequently.

Finally, as we have mentioned previously, one “positive” for the economy over the winter months could be domestic spending by snowbirds who would typically fly (or drive) south for the winter. It is difficult to determine which areas of the country could benefit most from this, but examining the typical bump higher in cars returning from the US in April or May suggests that Ontario and Manitoba could be among the largest beneficiaries

Chart 9

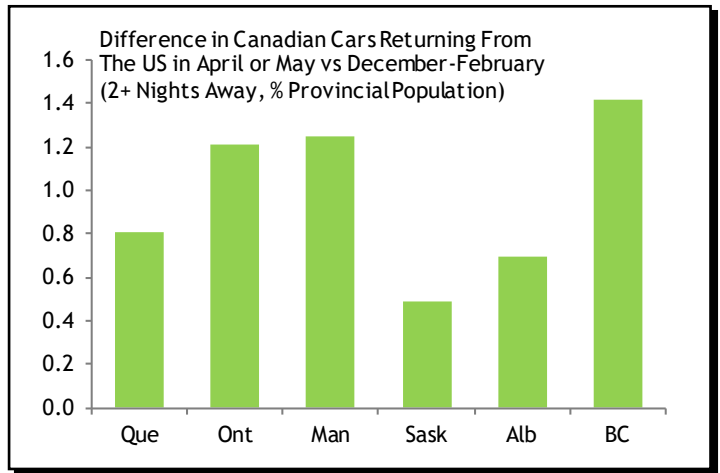
Revised Investment Intentions Show Sharp Reductions For Energy Producers



Source: Statistics Canada, CIBC

Chart 10

Ontario and Manitoba Could Benefit Most From Snowbirds Staying North



Source: Statistics Canada, CIBC

(Chart 10). Note that because the data are collected by point of entry rather than province of residence, we are unable to use this methodology for maritime provinces.

Brighter Past; Uncertain Future

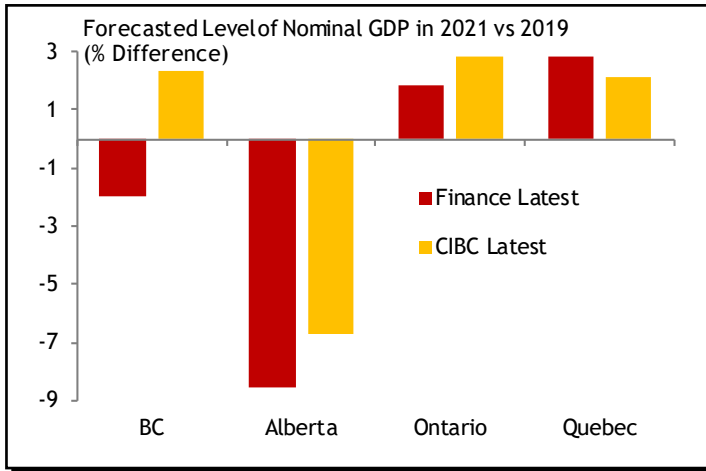
Overall, economic contractions experienced this year won’t be quite as bad as we had previously expected across the country. Moreover, for the four largest provinces, the average rate of contraction in nominal GDP (which tracks closer to revenues than real GDP) could be around 1½% less severe than was penciled into the most recent provincial fiscal updates.

However, with case counts rising again and restrictions on social gatherings being tightened, provincial governments will be wise not to assume that a somewhat less dark 2020 means a brighter 2021 — particularly with most planning to lay out multi-year budget revenue projections for the first time post-pandemic this Fall.

While we don’t see BC as a clear economic leader anymore, with our upgrade to 2020 less than the national average, our forecast for 2021 is still higher than the fairly conservative forecasts set out by the government most recently (Chart 11). For Ontario and particularly Quebec, however, we don’t see the level of economic activity being markedly different than recent government estimates in 2021, even though the contraction this year appears to be shallower than previously feared and even though our Ontario forecast has seen the biggest upward revision versus the June projections.

Chart 11

Quebec Forecasts May be a Little Bullish For 2021, Scope For Beat in BC



Source: Provincial Finance Departments, CIBC

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