



## ECONOMICS

# In Focus

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## Provincial Outlook: Who Fell Harder, Who's Faster Off the Starting Line

by Andrew Grantham and Avery Shenfeld

If misery loves company, then Canada's provinces at least could get comfort that they were sharing in the economic pain that befell their region as the coronavirus spread from coast to coast. Even areas of the country that saw few cases still had to cope with the sharp tumble in demand from beyond their borders and the restrictions needed to contain the outbreak.

However, we are now getting greater clarity on how severe the initial hits to different provincial economies were, what the initial recovery speed will be and what the longer-term implications are. All of these factors have implications not just for GDP figures, but also for revenues as provincial governments sum up the cost of the Covid-19 outbreak on their budgetary projections.

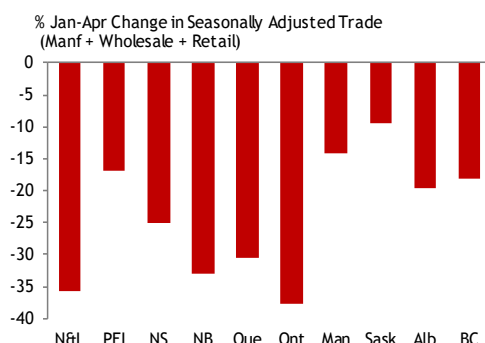
### The Harder They Fall

Recently available economic data show some differences in the severity of the initial

shockwaves. Measured by the overall change in manufacturing shipments, wholesale trade and retail sales from January to April, Ontario suffered the largest contraction, while two prairie provinces, Saskatchewan and Manitoba had lighter declines (Chart 1). These were also provinces that had reasonably contained run-ins with the virus. Note, however, that in this definition we are missing changes in Saskatchewan's energy output, which of course is also a big missing piece of the Alberta puzzle.

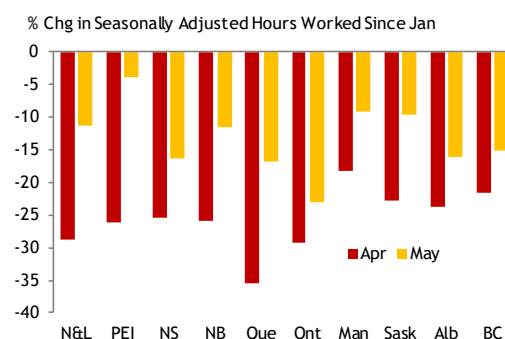
Quebec surpassed Ontario in a different benchmark — the total decline in hours worked from January levels to where we stood in April (Chart 2). That reflects the fact that the auto sector's nearly complete stall in April hit Ontario harder in shipments than hours, due to higher import content and lower labour intensity in the auto sector relative to services. Again, some provinces with lower Covid caseloads, including Manitoba, also lost fewer hours worked.

Chart 1  
**Monthly Data Confirm Bigger Declines in Ont, Que; Lighter Ones in Sask, Man.**



Source: Statistics Canada, CIBC

Chart 2  
**Hours Worked Highlight Faster Reopening in Quebec vs Ontario**

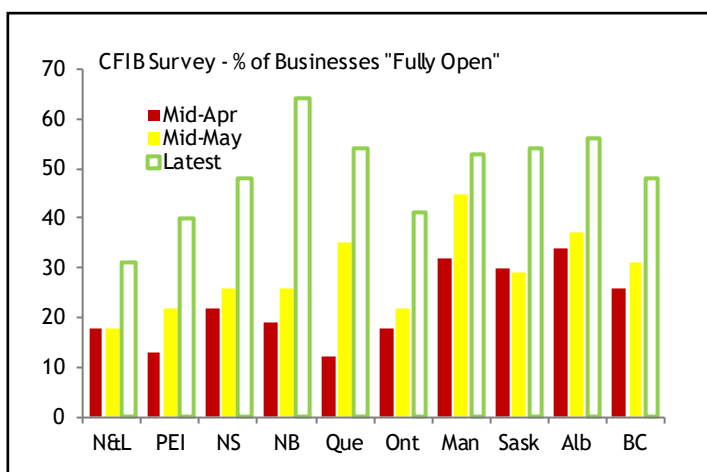


Source: Statistics Canada, CIBC

<http://economics.cibc.com>

Chart 3

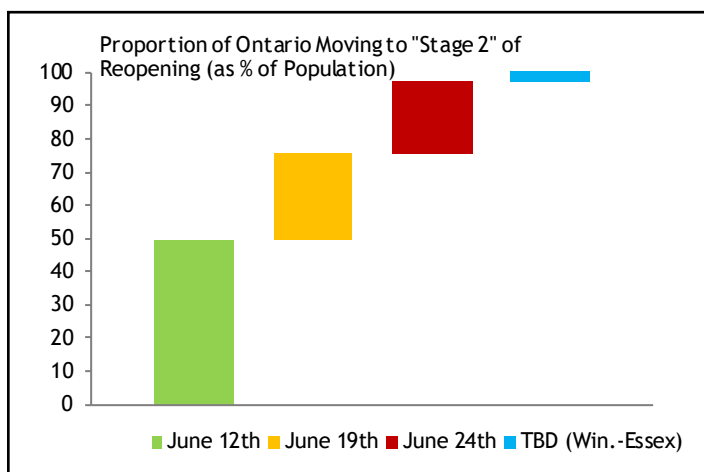
### CFIB data shows Ontario continued to lag in June, Not as Positive For Maritimes



Source: CFIB, CIBC

Chart 4

### Ontario Reopening Gathered Pace Late in June



Source: Province of Ontario, Statistics Canada, CIBC

A week or a month isn't usually a big deal for an annual growth rate, but then again, these times are anything but usual. Economic activity was so severely repressed at the height of the Covid-19 lockdowns that provinces which got an earlier start in reopening will garner a non-trivial advantage in 2020 output overall.

Looking at hours worked as of May, Quebec has made a more notable rebound than Ontario, as it opened up activity like construction sooner, while as of mid-May Ontario was sticking with tighter constraints. Again, some of the provinces that had seen lesser reductions in hours

worked to April were able to hang onto that advantage in May.

While we don't have similar data yet for June, a survey from the CFIB of its independent business members confirms that Ontario was still lagging behind all provinces except N&L (Chart 3). Owing to that later restart, we nudged down our 2020 forecast for Ontario from what we had penciled in back in April, when the timing of economic restarts across Canada was still unknown (Table 1).

However, Ontario should close the gap with other provinces as June data become widely available, given that by the end of this week most of the Province will have been allowed to enter "Stage 2" of the reopening process that will see hair salons and restaurant patios among other businesses reopen (Chart 4).

Table 1

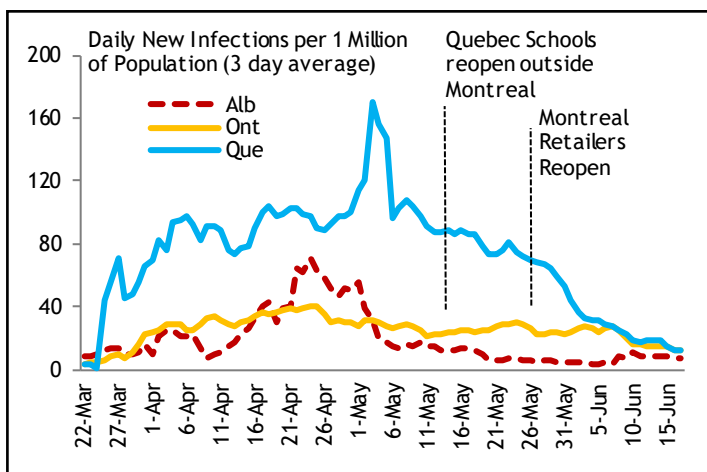
	Real GDP Y/Y % Chg			Nominal GDP Y/Y % Chg			Unemployment Rate %		
	2019E	2020F	2021F	2019F	2020F	2021F	2019A	2020F	2021F
BC	2.8	-6.1	5.9	4.7	-4.1	7.6	4.7	9.4	8.0
Alta	-0.6	-8.4	5.1	1.4	-12.0	8.3	6.9	10.7	9.5
Sask	-0.8	-6.7	5.5	1.2	-9.2	7.7	5.4	9.3	7.8
Man	1.0	-5.5	5.4	2.9	-3.7	7.0	5.3	8.7	7.0
Ont	1.9	-7.4	5.9	3.8	-5.4	7.6	5.6	9.7	8.3
Qué	2.7	-6.9	6.3	4.6	-4.9	8.0	5.1	10.0	8.1
NB	1.0	-6.0	5.0	2.8	-4.2	6.6	8.0	10.3	8.5
NS	2.1	-6.5	5.4	3.9	-4.7	7.0	7.2	10.9	9.3
PEI	4.5	-6.7	5.5	6.3	-4.9	7.1	8.8	11.4	9.4
N&L	4.0	-9.0	4.5	6.0	-12.0	6.9	11.9	15.0	12.8
<b>Canada</b>	<b>1.7</b>	<b>-7.1</b>	<b>5.7</b>	<b>3.6</b>	<b>-6.2</b>	<b>7.6</b>	<b>5.7</b>	<b>9.9</b>	<b>8.4</b>

Source: CMHC, Statistics Canada, CIBC

### Is an Early Lead Sustainable?

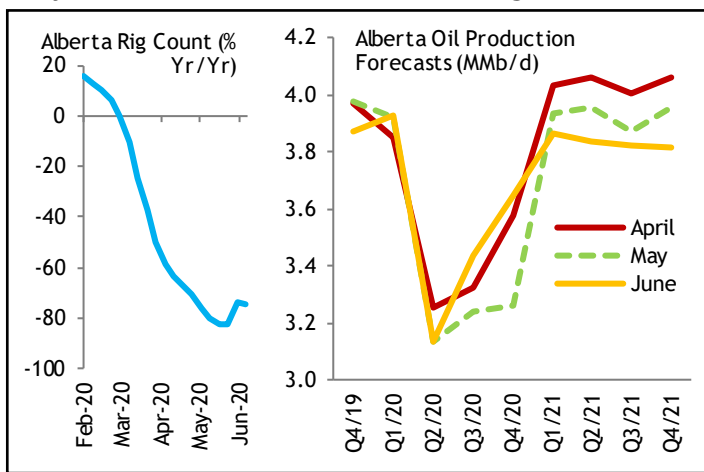
We caution that those first off the starting line for reopening economic activity might not sustain that advantage if in doing so they are taking somewhat greater risks of triggering an escalation of the virus. Quebec started its reopening with per-capita case levels running well above those in Ontario and Alberta at the time (Chart 5). That said, thus far, despite some localized flare ups, the overall level of new cases has continued to ebb away, suggesting that Quebec may have avoided excessive risks by taking a slower approach in Montreal, where case counts were higher.

Chart 5

**Quebec Reopening — So Far So Good vs Case Counts**

Source: Department of Health, CIBC

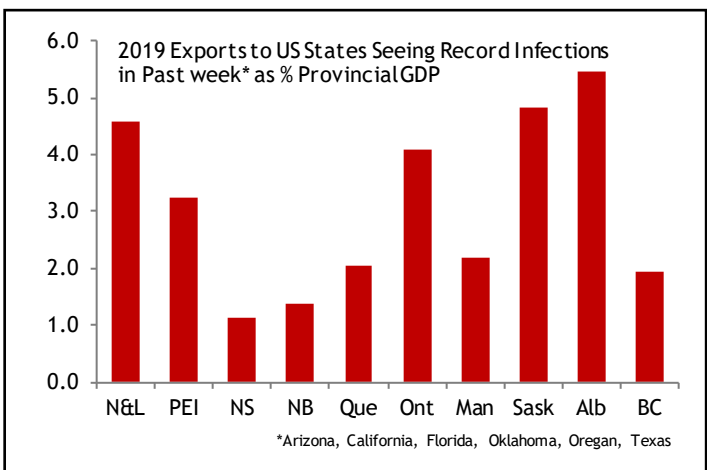
Chart 7

**Oil Investment Still Depressed (L), Production Projections Not as Bad as a Month Ago (R)**

Source: CAODC, CAPP, CIBC Equity Research

US states that were even more aggressive in opening activity before the first wave of the coronavirus had peaked haven't been as fortunate. And if, as we expect, they are forced to put tighter reins on activity in the weeks ahead, Canada will feel some of that in export demand. As a share of GDP, the highest exposures of exports to states hitting new peaks in daily cases are for energy producers, which likely overstates the risks unless refining activities have to be shut down due to employee illness (Chart 6). Trade with southern states that have become more important in the auto manufacturing process over the past decade also risks potential disruption for Ontario plants.

Chart 6

**Trade Exposure to Southern US States Mainly Oil-related**

Source: Statistics Canada, CIBC

**Oil Price Rebounds, But...**

It remains an uphill battle in terms of an energy sector recovery. True, oil prices have recovered, and our expectation that prices could settle in the mid-\$40/bbl range in 2021 still looks to be on target. But the route to those firmer prices has only been partially demand driven.

The rest of the story has come from a reduced production outlook, and that pain is being shared by both OPEC+ countries as well as the US and Canada. Alberta rig counts are still sitting down 70 percent from the same time last year, most recent production forecasts from our colleagues in Equity Research still show a big dive this year despite not being quite as bad as where they stood a month ago when prices were near the trough (Chart 7). That still has the oil producing provinces of Alberta and N&L lagging behind the two-year average growth rate for the country as a whole.

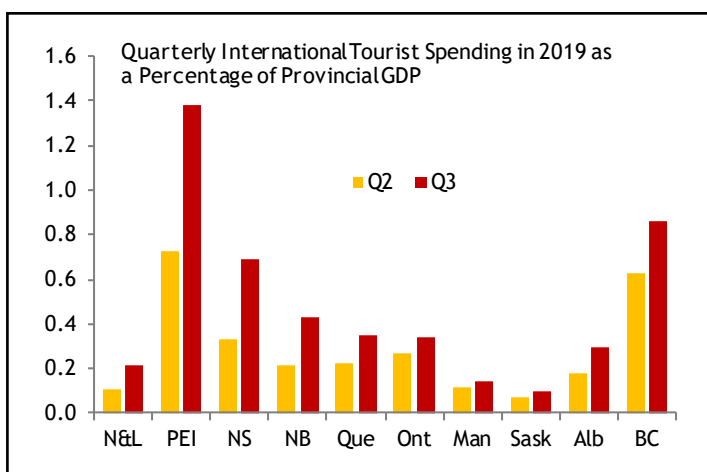
**Lots of Room at the Inn**

Canada's west and east coast have been fortunate to have seen lighter peaks in illness, but their dependence on tourism, particularly in the spring and summer months, still leaves them vulnerable. Local car-based vacations will provide some relief for hotels, particularly from weekenders. But mid-week travel from outside Canada is of importance to the Maritimes (PEI, NS and NB), particularly during the summer months, and BC (Chart 8).

Overall, with the border closure dragging on, the hit to this year's GDP is estimated at roughly 1% for BC

Chart 8

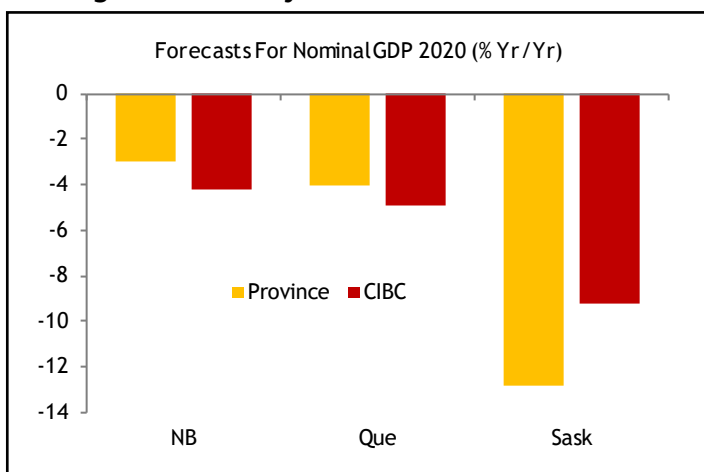
### Lack of International Tourists a Bigger Problem in Summer Months



Source: Statistics Canada, CIBC

Chart 10

### Available Provincial Forecasts Show GDP Downgrades Already in Correct Ball Park



Source: Provincial Governments, CIBC

and even more than that for PEI (Chart 9). That explains why the CFIB survey data in chart 3 showed so many businesses not up and running in those two provinces. For BC, however, continuing investment in a large LNG facility as well as strong infrastructure spending should see the provincial economy fare better than the national average, despite the higher reliance on tourism.

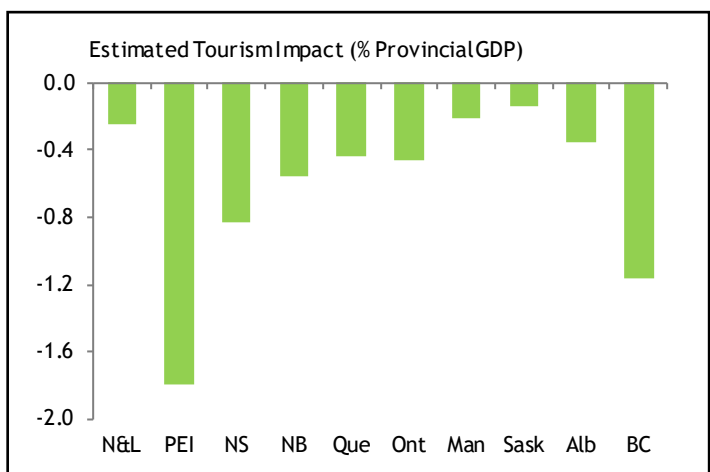
While we have greater clarity regarding the depth of the downturn in different areas of the country, there's still a larger range of error than normal in terms of economic projections given the scale and speed of the contractions. Provincial governments have started releasing updated

projections or their delayed 2020 Budgets over the past month, with all understandably now seeing large deficits.

Of the provinces that have released new economic projections alongside those forecasts, the projection for nominal GDP in Saskatchewan now looks to be on the conservative side, particularly following the move higher oil prices in recent weeks. The projections for New Brunswick and Quebec are modestly better than ours (Chart 10), but not too much given the potential range of error. In other words, most of the bad economic news should already be built into most recent provincial revenue forecasts.

Chart 9

### Big Hit expected to Coastal Areas From Weaker Tourism



Source: Destination Canada, CIBC

So as long as we manage to avoid the dreaded second wave of infections, provincial governments can now focus on supporting the recovery and trying to understand the long-term implications of Covid-19 on their finances.

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