

## Economic and Fiscal Update 2020-2021

July 14, 2020

*(With corrections as of August 4, 2020 – see Backgrounder for details)*

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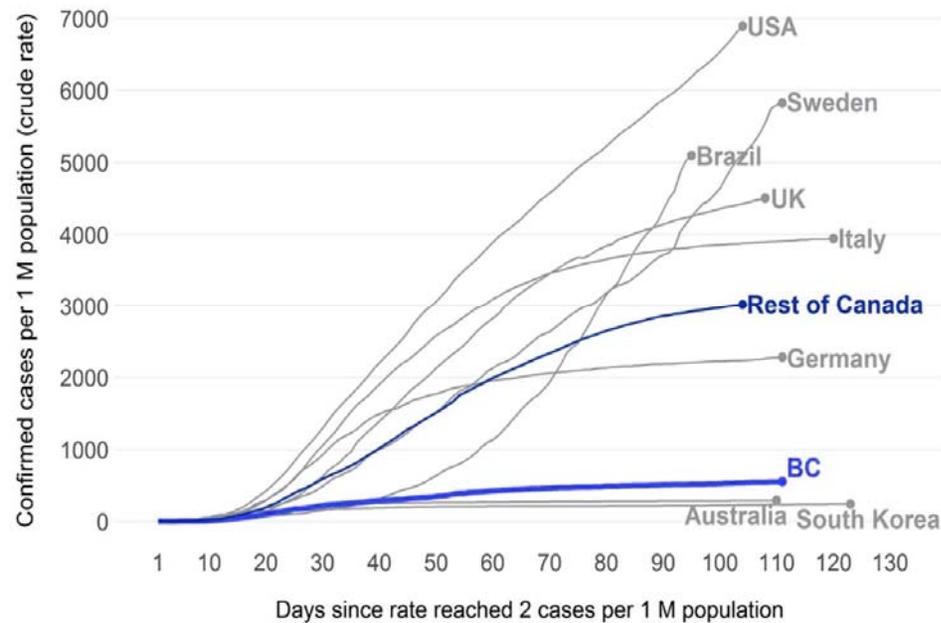
## Timelines

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- January 28 – First COVID-19 case in B.C.
- March 11 – World Health Organization declares COVID-19 a pandemic
- March 18 – B.C. declares a state of emergency
- March 23 – Announcement of the initial \$5 billion for B.C. COVID-19 Action Plan; Legislative Assembly approved supplementary estimates for pandemic response and economic recovery funding
- May 18 – BC's Restart Plan announced
- June 24 – Phase 3 of BC's Restart Plan begins

## COVID-19 Pandemic in B.C.

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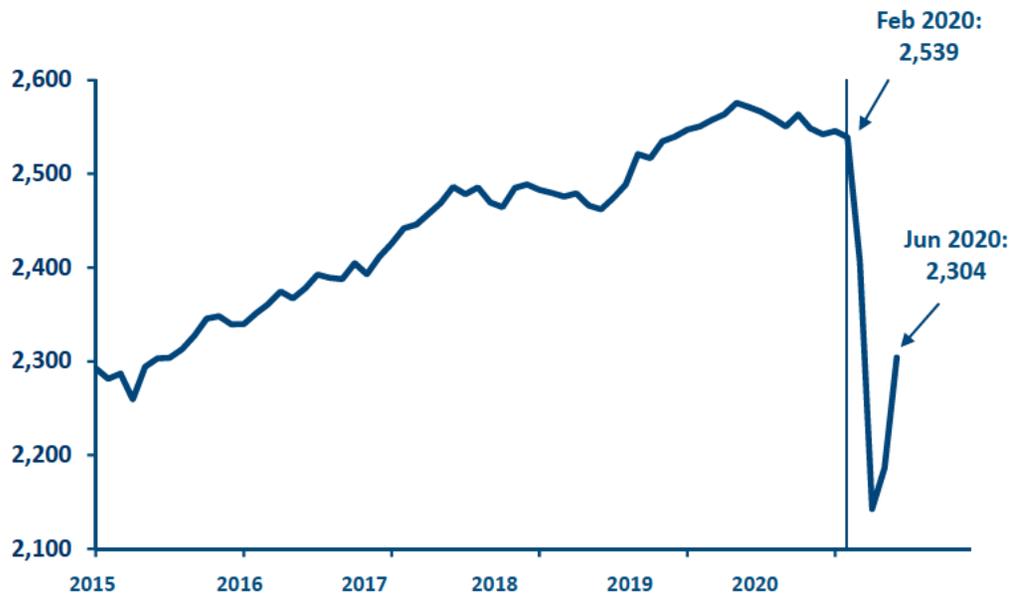
Source: BC Centre for Disease Control

B.C. has managed to keep the number of confirmed cases per 1 million below the rest of Canada and most other countries

# Steep Impacts on B.C.'s Labour Market

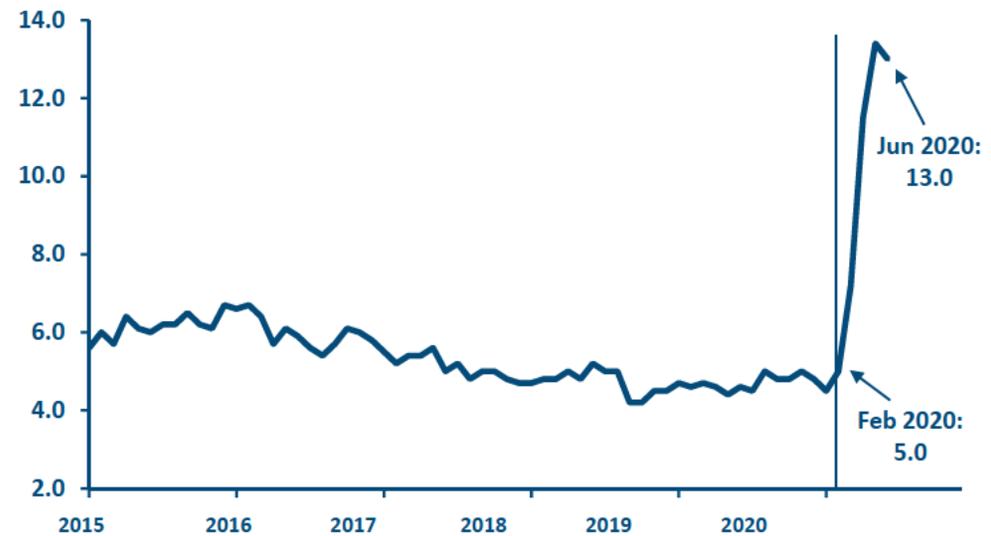
## 235,100 fewer jobs in Jun compared to Feb

B.C. employment (thousands, sa)



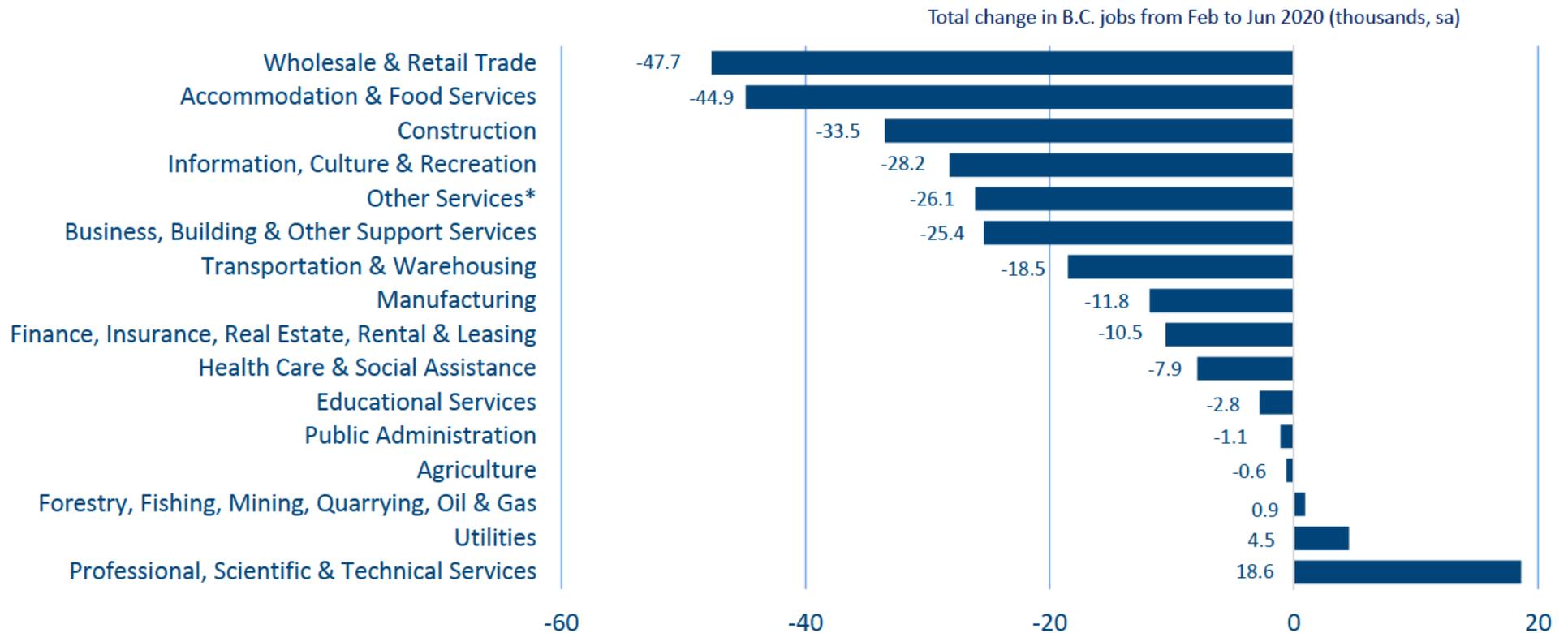
## Recent unemployment at its highest rate since 1987

B.C. unemployment rate (% sa)



Sources: Statistics Canada (Labour Force Survey); Haver Analytics

# Widespread Job Losses in B.C.



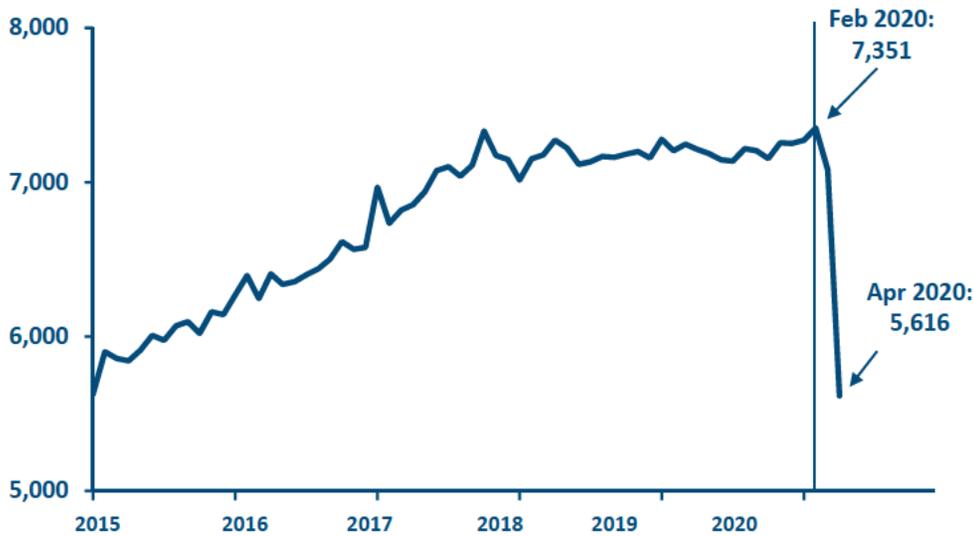
Sources: Statistics Canada (Labour Force Survey); Haver Analytics

\*Other services include repair and maintenance (e.g. automotive repair), personal services (e.g. hair care and esthetics), etc.

# Substantial Declines in B.C. Consumer Spending

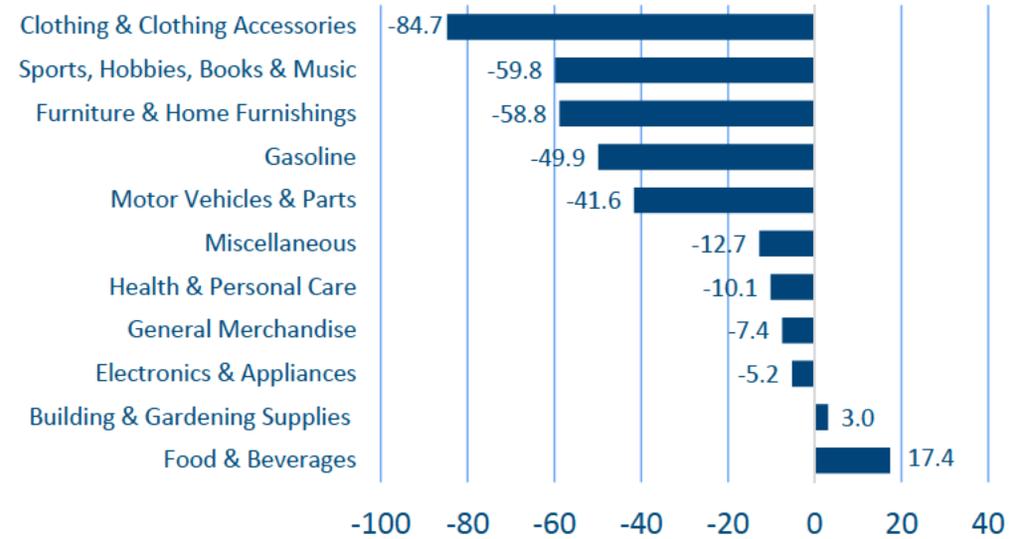
## Retail sales down 23.6% from Feb to Apr

B.C. retail sales (\$ millions, sa)



## Broad-based reductions among retailers

Year-over-year change in B.C. retail sales from Apr 2019 to Apr 2020 (% nsa)

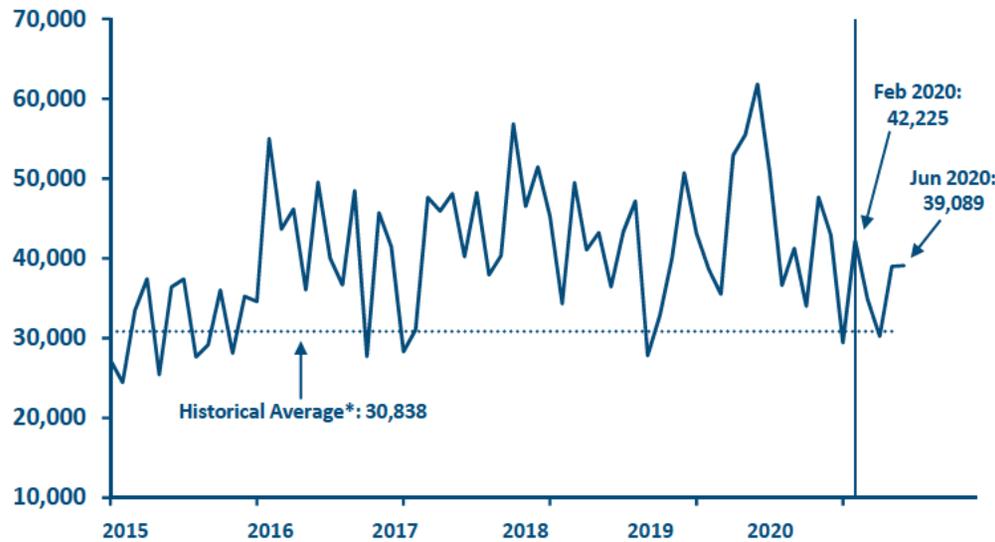


Sources: Statistics Canada; Haver Analytics

# Mixed Housing Market Activity

## Housing starts average 35,794 units since Feb

B.C. housing starts  
(annualized units, sa)



Sources: Canadian Mortgage and Housing Corporation; Haver Analytics  
\* Historical average from Jan 1990 to Dec 2019

## Home sales down 45.4% from Feb to May, with home prices down 4.0%

B.C. MLS average home sale price  
(dollars, sa)

B.C. MLS home sales  
(units, sa)

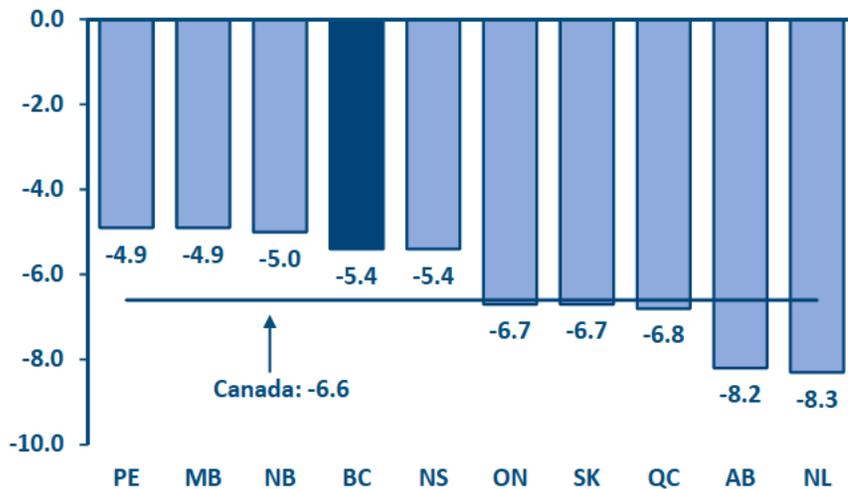


Sources: Canadian Real Estate Association; Haver Analytics

# Lower Private Sector Economic Outlook for 2020

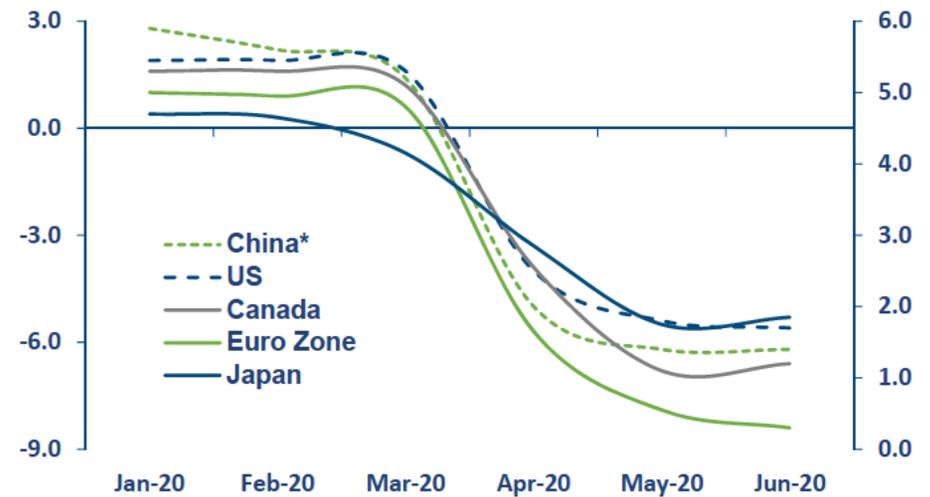
## Significant impacts across provinces

Real GDP forecasts for 2020 (annual % change)



## Evolution of global private sector forecasts

Real GDP forecasts for 2020 (annual % change)



Source: Average of a subset of the Economic Forecast Council that regularly forecasts economic performance in all provinces (BMO, CIBC, National Bank, RBC, Scotiabank and TD) as of July 10, 2020.

Source: Consensus Economics

\* All economies on left axis except China

## Elements of Uncertainty

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- Future outbreaks in B.C. and among B.C.'s trading partners
- Evolution of public health policies and development of treatments and vaccines
- Consumer spending and confidence
- Business adaptation and confidence
- Success of relief measures and supports and evolution of policies enacted by governments and central banks

**The scenario is a snapshot,  
subject to considerable  
uncertainty and revision.**

**This is not a typical  
forecast.**

## B.C. Economic Scenario

|                               | <i>Budget 2020</i> |             | <b>Scenario</b> |             |
|-------------------------------|--------------------|-------------|-----------------|-------------|
|                               | <b>2020</b>        | <b>2021</b> | <b>2020</b>     | <b>2021</b> |
| Real GDP (% change)           | 2.0                | 1.9         | -6.8            | 3.1         |
| Nominal GDP (% change)        | 3.9                | 3.9         | -8.2            | 4.1         |
| Corporate profits* (% change) | 2.0                | 2.6         | -36.4           | 16.3        |
| Employment (% change)         | 1.0                | 1.0         | -9.8            | 4.4         |
| Unemployment rate (%)         | 5.1                | 5.3         | 11.3            | 8.9         |
| Household income (% change)   | 3.8                | 3.8         | -3.9            | 1.7         |
| Retail sales (% change)       | 3.0                | 3.3         | -15.9           | 8.6         |
| Residential sales (% change)  | 4.6                | 5.3         | -27.6           | 9.3         |
| Housing starts (units)        | 35,021             | 32,040      | 27,000          | 29,000      |

\*Corporate profits refers to the net operating surplus of corporations.

Sources: B.C. Ministry of Finance; Statistics Canada; Haver Analytics

## ***Budget 2020 – Fiscal 2020/21 Outlook Pre-COVID-19***

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- *Budget 2020* included a \$227 million surplus in 2020/21
- New investments to make life more affordable, enhance services, and build a strong and sustainable economy that works for everyone
- Record level taxpayer-supported capital investments of \$22.9 billion across the fiscal plan
- No operating debt, with triple-A credit rating from the three leading rating agencies
- Debt metrics at affordable levels, with debt-to-GDP at 15.5% and debt-to-revenue at 84.1%
- Taxpayer-supported interest bite at 3.1% of revenue, the lowest in over 10 years

## Fiscal 2020/21 - Scenario

| <b>Effects of COVID-19</b>                    | <i>\$ millions</i> |
|---|--------------------|
| Personal income tax                           | (999)              |
| Corporate income tax                          | (973)              |
| Employer health tax                           | (238)              |
| Refundable tax transfers (tax credits)        | 141                |
| Provincial sales tax                          | (1,305)            |
| Property transfer and property taxes          | (465)              |
| Fuel and carbon taxes                         | (382)              |
| Natural resource revenues                     | (293)              |
| All other CRF revenues                        | (77)               |
| Commercial Crown corporation net income       | (882)              |
| Taxpayer-supported agency impacts             | (869)              |
| <b>Total Effects of COVID-19</b>              | <b>(6,342)</b>     |
| <b>Pandemic Response Measures</b>             |                    |
| Supplementary Estimates spending              | (5,000)            |
| Other business relief and tax measures        | (733)              |
| Climate Action Tax Credit                     | (500)              |
| <b>Debt Servicing Costs</b>                   | <b>(176)</b>       |
| <b>Total changes compared to Budget 2020:</b> | <b>(12,751)</b>    |
| <i>Budget 2020 Operating Surplus</i>          | <i>227</i>         |
| <b>Potential deficit:</b>                     | <b>(12,524)</b>    |

## B.C. COVID-19 Action Plan Update

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- Provincial response focuses on complementing federal measures and addressing B.C. specific needs
- The Legislative Assembly passed supplementary estimates of \$5 billion to support B.C.'s COVID-19 Action Plan with notional allocations of:
  - \$3.5 billion for critical services to protect the health and safety of British Columbians and for immediate financial relief to individuals and businesses
  - \$1.5 billion for building B.C.'s longer-term plan for economic recovery
- Government has also implemented a number of tax and payment deferral or reduction measures to provide administrative and financial relief to individuals, businesses and municipalities

## Critical Services

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- Over \$1 billion to support health care response measures, including lab testing, supports for long-term care facilities, health prevention and contact tracing, staffing and surge capacity building and mental health supports
- Over \$250 million to maintain childcare services and supports
- Nearly \$90 million for vulnerable populations, including temporary housing, meal and health supports. This is in addition to the estimated \$110 million for capital investments in hotels to move people living in encampments into safe spaces
- \$50 million to maintain services for adults with developmental disabilities and to provide emergency funding for vulnerable children and youth

## Financial Supports

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- Over \$1 billion to support the B.C. Emergency Benefit for Workers
- Over \$350 million for the crisis supplement and supports for income and disability assistance clients
- \$150 million for temporary rent supplement
- \$106 million for the federal-provincial cost share program for the Temporary Pandemic Pay for Essential Workers
- \$79 million for the federal-provincial cost share program for the Canada Emergency Commercial Rent Assistance Program
- \$40 million for emergency relief for businesses that provide animal care, to support the agriculture sector and for park operators and community tourism organizations

## Economic Recovery

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- \$1.5 billion earmarked for economic recovery measures
- Economic Recovery Task Force continuing to meet bi-weekly
- Public consultation underway – survey open until July 21
- Measures anticipated for implementation in the September

## Other Relief Measures

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### ***Tax Credits and Reduced Payments***

- \$500 million for the one-time Climate Action Tax Credit increase in July
- Over \$700 million in reduced school tax rates for commercial properties (an average of 25%) in the 2020 calendar year
- Over \$150 million in relief by delaying the increase to the carbon tax and other new *Budget 2020* tax measures, providing temporary wholesale pricing for liquor licensees, and for ICBC fee relief measures

### ***Tax and Payment Deferrals***

- \$70 million in deferrals for a six month moratorium on student loan collection
- \$200 million for BC Hydro relief measures for residential and commercial customers and bill deferrals for industrial customers
- Over \$1 billion in deferrals by postponing municipal remittance date for school taxes to the end of the calendar year
- Over \$5 billion in deferrals by extending tax filing and payment deadlines by six months for the EHT, PST, municipal and regional district tax on short-term accommodation, tobacco tax, motor fuel tax and carbon tax

## Summary of B.C. COVID-19 Action Plan Fiscal Measures

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- Total fiscal measures of \$6.23 billion for this fiscal year compared to *Budget 2020* for new spending, tax credits and other relief measures, as shown in the table below

| Estimated Cost        | Measures   |
|-----------------------|--|
| \$5.0 billion         | Additional spending measures: <ul style="list-style-type: none"><li>• \$3.5 billion for critical services and immediate financial relief</li><li>• \$1.5 billion for economic recovery</li></ul> |
| \$500 million         | One-time enhancement to the Climate Action Tax Credit  |
| \$733 million         | Other tax reduction and payment relief measures  |
| <b>\$6.23 billion</b> | <b>Total Estimated Fiscal Impact in 2020/21</b>  |

- In addition, over \$6.3 billion in tax and payment deferrals for student loans, taxes, and BC Hydro bills

## Other Changes From *Budget 2020*

- Ministry budgets remain as presented in the Estimates book in February, including the existing Contingencies for Vote 45. This \$600 million Contingencies vote is expected to be fully needed to cover increased program caseload demands and other needs
- To date, estimated wildfire costs fall within the existing budget, however, the Province anticipates additional statutory spending under the *Emergency Program Act (EPA)* related to flooding, Covid-19 emergency coordination, and prior year recovery costs
- The *First Quarterly Report* in September will include an update for statutory spending forecasts, and other changes not attributed to the provincial response to COVID-19 pandemic

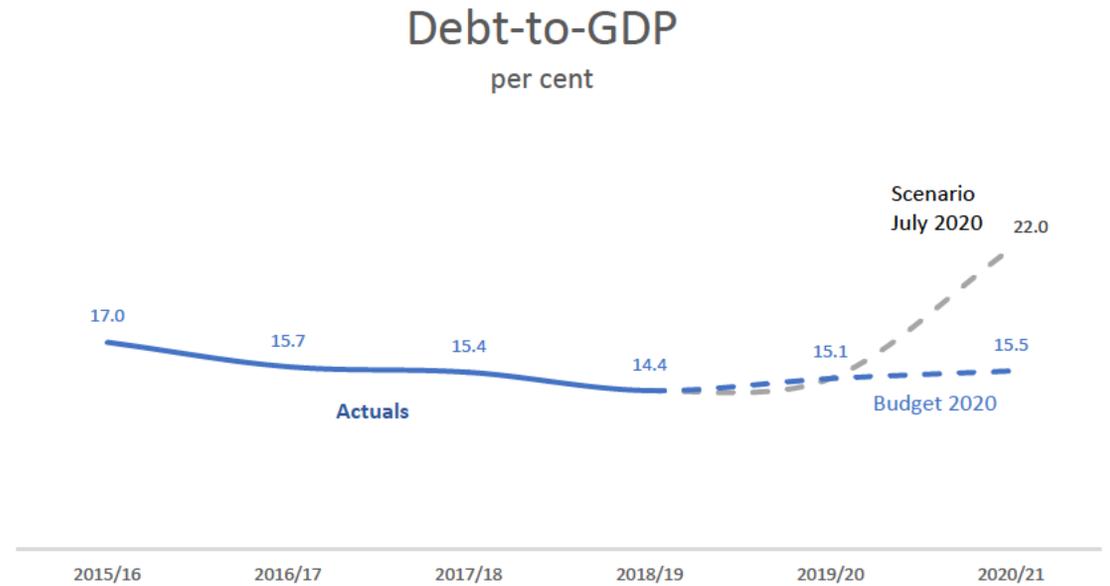
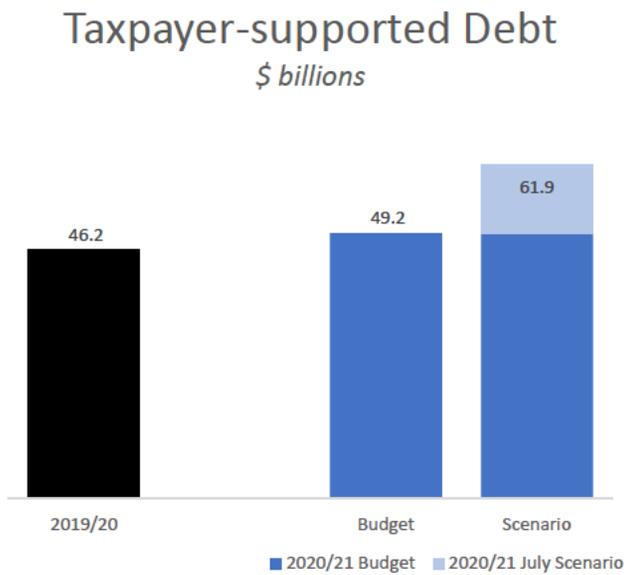
| Statutory Authority - Category | Estimate       | Base Budget    | Estimated Statutory Spending |
|--------------------------------|----------------|----------------|------------------------------|
| Wildfire Act                   | \$50 million   | \$136 million  | N/A                          |
| EPA – flooding                 | \$17.5 million | \$36.5 million | \$76 million                 |
| EPA – COVID-19 response        | \$45 million   |                |                              |
| EPA –prior year recovery costs | \$50 million   |                |                              |

## Historic Levels of Capital Investment

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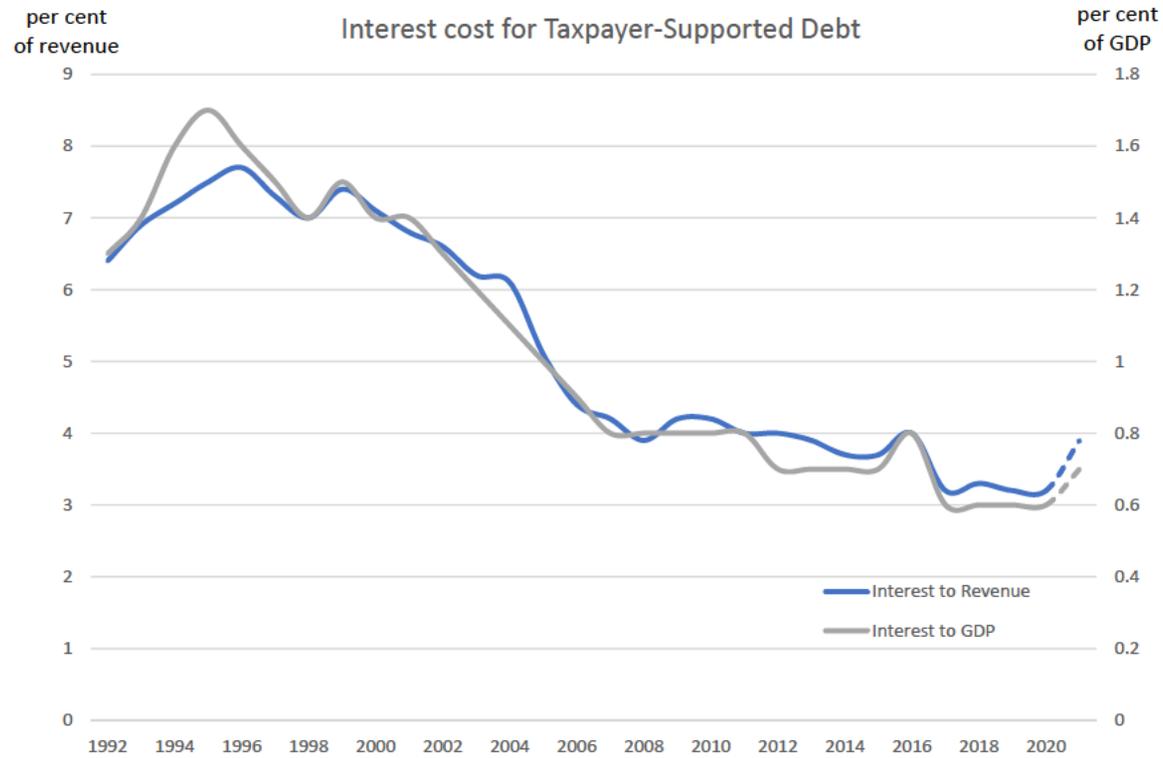
- \$22.9B in taxpayer supported capital spending forecast over the next three years
- Schools, roads, transit, bridges, housing and hospitals to deliver services people count on and support a strong economy
- Capital projects are proceeding and the construction industry is ready to deliver the Province's historic capital plan
- Approved projects proceeding with procurement and construction include: Pattullo Bridge Replacement, St. Paul's Hospital, Broadway Subway, Burnaby Hospital Phase 1 Redevelopment, Four-laning from Kamloops to AB on Hwy 1, Stuart Lake Hospital Replacement, Cariboo Memorial Hospital Redevelopment and Mills Memorial Hospital Replacement
- Projects moving forward with business plan development include: Richmond Acute Care Tower, Cowichan District Hospital Replacement and the new Surrey Hospital

# Increased Borrowing



Significant increase in borrowing but province's debt remains affordable

# Debt Affordability



Debt burden remains low from a historical perspective

## Risks

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- Slower recovery than assumed in the economic scenario may be a result of various factors including:
  - weaker global recovery – in particular B.C.'s major trading partners
  - stronger negative shock than assumed in the scenario to B.C. businesses and rehiring plans
  - a resurgence of the virus in the fall/winter
- Results of commercial Crown corporations may deteriorate further
- Need for further government measures
- Wildfires and floods

## Economic Response and Next Steps

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- \$5B B.C. COVID-19 Action Plan, including \$1.5B for economic recovery – March 23, 2020
- BC's Restart Plan announced – May 18, 2020
- Phase 3 of BC's Restart Plan begins – June 24, 2020
- Economic and Fiscal Update 2020-2021 – July 14, 2020
- Public consultation on B.C.'s economic recovery plan closes – July 21, 2020
- Public Accounts for 2019/20 – by August 31, 2020
- First Quarterly Report – September 2020
- Recovery Framework launch – September 2020
- Budget 2021 – February 2021

# **Economic and Fiscal Update 2020-2021**

**July 14, 2020**

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