York Region

Office of the Commissioner
Finance Department

MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council

From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Date: July 13, 2020

Re: Federal Economic and Fiscal Snapshot 2020

The purpose of this memo is to provide an overview of the federal government's 2020 Economic and Fiscal Snapshot released on July 8, 2020.

Temporary measures implemented through the government's Economic Response Plan will have a significant impact on the federal deficit

The scale of the federal government's COVID-19 support programs, coupled with deterioration in the economic outlook, has resulted in a projected fiscal deficit of $343.2 billion (16% of GDP) in 2020-21. The deficit is projected to be $34.4 billion in 2019-20, up from $14 billion in 2018-19. Current figures suggest that Canada is on par with, but lower than the peak deficit (as a per cent of GDP) experienced during the Second World War.

The borrowing required to implement the Economic Response Plan is the largest contributor to the rise in federal debt, which is expected to reach $1.2 trillion by March 2021. Higher deficits and a decline in GDP means that the federal debt-to-GDP ratio will increase from 31.1% in 2019-20 to 49.1% in 2020-21, a level last seen in the early 2000s.

Total expenses which include program expenses and public debt charges are expected to rise by $236.8 billion, reaching $612.1 billion in 2020-21. COVID-19-related program expenses are the biggest driver, with the government outlining $212 billion in direct support measures. Below are the largest federal support programs announced thus far:

- $80 billion for the Canada Emergency Response Benefit (CERB), which has paid out $53.5 billion to date;

- $82.3 billion for the Canada Emergency Wage Subsidy (CEWS). Notably, this program has so far paid out $18 billion, well below both the initial and updated estimate;
- $55 billion for the Canada Emergency Business Account (CEBA), an interest free, partially forgivable loan program for small business, which has paid out $27.4 billion to date;
- A $5.5 billion GST credit top-up, doubling the maximum GST credit; and,
- $5.2 billion for the Canada Emergency Student Benefit (CESB), spread over two years.

The sharp decline in economic activity has also lowered revenue projections by $72.2 billion, with total revenue estimated at $268.8 billion in 2020-21. The revenue shortfall is mainly attributed to deferred payments on personal income tax, corporate income tax, Goods and Services Tax (GST), and customs import duties among others. Despite rising debt, public debt charges are expected to total $19.5 billion this year, which is $5 billion lower than last year. The decline in debt charges is due to lower borrowing costs.

Canada is maintaining a low debt-to-GDP advantage among the Group of Seven (G7) countries

Before the pandemic, Canada had the lowest net debt-to-GDP ratio among the Group of Seven (G7) countries. However, the federal government's intervention to alleviate the impact of COVID-19 is expected to increase the federal debt-to-GDP ratio from 31% in 2019-20 to 49% in 2020-21. Despite the increase in federal debt, Canada still remains among the top-rated countries in the G7 and continues to hold a AAA rating with a stable outlook from three major credit rating agencies – Standard and Poor (S&P), Moody's, and Toronto-based DBRS Morningstar. Fitch Ratings recently downgraded Canada's AAA status to AA+ citing the federal government's large borrowings to sustain the economy during the pandemic.

Drop in Real GDP is expected to be at its deepest in the second quarter of 2020

Based on the average of 13 private sector economic forecasts, real GDP is expected to decline by 6.8% in 2020, before increasing by 5.5% in 2021. The contraction in real GDP is worse than that experienced during the 2008-2009 financial crises. The drop in economic output is expected to be at its deepest in the second quarter of 2020 due to an unprecedented decline in activity. Real GDP is expected to fall by 41% on an annualized basis.

There is more uncertainty associated with the economic outlook beyond the second quarter. However, private sector forecasts predict a faster rebound in real GDP than in the past three recessions.

The possibility of a second wave of the pandemic and subsequent public health measures to contain it in Canada and in key global economies could severely hamper economic recovery. Global uncertainty is likely to remain for some time. In the interim, many businesses will have to continue to follow strict physical distancing protocols and operate at greatly reduced capacity, which will impact economic output.

Unemployment is expected to rise in 2020 amid closures and physical distancing requirements

The unemployment rate is expected to rise to 10% in 2020, and decline to 8% in 2021, remaining above pre-COVID-19 level. In May, the unemployment rate rose to 13.7%, up from a pre-crisis historical low of 5.5% in January.

From February to April, 5.5 million Canadians (or about 30% of the workforce) were affected by job losses and a sharp reduction in working hours. Of the 5.5 million affected:

- 2.5 million were employed but experienced a significant reduction in hours worked;
- 1.8 million lost their jobs and left the labour force; and,
- 1.3 million lost their jobs and remained unemployed and seeking employment.

The most significant impacts were experienced in the service sector of the economy, and any sectors affected by the closure of non-essential activities, and where physical distancing and flexible work arrangements options are limited. This includes industries like air travel, hospitality and accommodations, and food services. The impact on those sectors also meant that low-wage workers, youth, women and recent immigrants have been affected the most when it comes to job losses and reduced work hours.

The labour market showed some improvement in May as the gradual re-opening of the economy began to take effect across Canada. However, job losses remain severe in many lower-wage industries.

Inflation is expected to slow down significantly in 2020 and rebound in 2021

The Consumer Price Index (CPI) is expected to increase by only 0.5% in 2020. This is the result of both the sharp decline in crude oil prices and the small increase in consumer prices due to lower demand for goods and services. The CPI is expected to increase to 2% in 2021.

The scope and duration of the COVID-19 situation will affect the federal government's fiscal position

The fiscal projections provided by the federal government are subject to the scope and duration of the COVID-19 crisis and the government's willingness to continue providing financial support. The uncertainty caused by COVID-19 is why the federal government, like the provincial government, has yet to release a full-fledged multi-year budget.

The Region has worked with other GTHA municipalities to advocate for funding from senior levels of government to help mitigate the financial impact of COVID-19. While the federal government's Fiscal Snapshot did not announce such funding, on July 16th, the Prime Minister announced $19 billion to help provinces and territories safely restart their economies. The announcement states that part of the funding is intended to help with municipal cost pressures.

Staff will continue to monitor and report on federal and provincial spending plans.

Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Bruce Macgregor
Chief Administrative Officer

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