

For provincial finance ministers, not quite déjà vu all over again

By Warren Lovely / Daren King

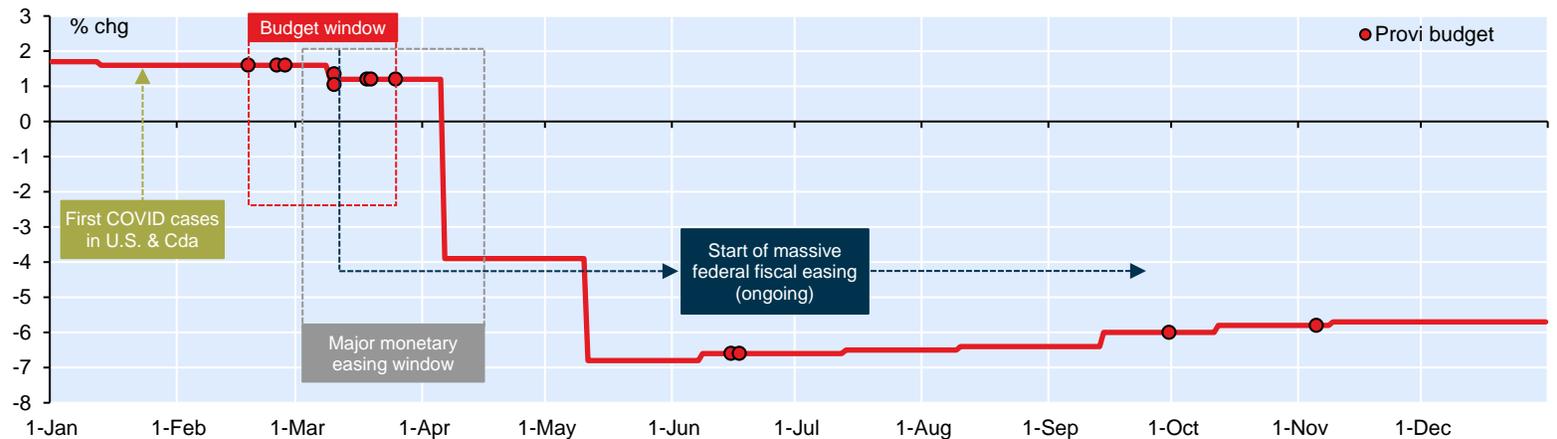
While not exactly an anniversary to celebrate, the first cases of COVID-19 were reported in North America almost exactly one year ago. The rest, as they say, is history... painful and massively disruptive history to be sure. As cases accumulated, the first provincial budgets of 2020 were offered up tentatively. By mid-March, policy makers were in full-fledged panic mode. Things were wild enough that some provinces (and the feds) simply pulled/delayed their budgets, leaving investors to guess at the fiscal outlook and administrative priorities. Economists generally caught up with things by April and May, slashing growth projections (Chart 1). By that time, budget planning assumptions (where available at least) had been thoroughly invalidated, with the true extent of the fiscal carnage not fully tallied up and made clear(ish) until summertime.

For a finance minister, this was the stuff of nightmares. So there's more than a little apprehension as fresh COVID-19 restrictions prompt downward adjustments to 2021 GDP growth expectations. We refreshed our baseline forecast in yesterday's [Monthly Economic Monitor](#). Nationally, we erased 0.6%-pts from 2021 real GDP growth, a hit heavily concentrated in Quebec and Ontario where virus restrictions have the greatest bite (Chart 2). The good news? The downward adjustments to 2021 growth, while non-trivial, are really a Q1 story. We see this quarterly hit as transitory, given the ongoing vaccine rollout, pent-up demand and stored-up financial firepower in the household sector. The global growth backdrop, although hardly free from uncertainty, hasn't unraveled. If anything, there might be upside risk to U.S. growth as Biden preps major fiscal stimulus. Finally, the outlook for nominal GDP across the provinces—the better proxy for own-source revenue—has been buttressed by accelerating consumer price inflation, buoyant housing valuations and resurgent commodity prices. To us, there's still scope for a more than full recovery in nominal output in 2021. Not surprisingly, one can expect greater nominal GDP amplitude in oil-levered jurisdictions (Chart 3).

Finance ministers have our sympathy. Budget preparations are plagued by immense uncertainty and fresh economic disruptions. We might suggest drafting budgets in pencil, writing in major league prudence. But to us, 2021 will not be a case of déjà vu all over again. We remain confident that a fiscal recovery can commence in most if not all provinces this year—one likely to take 3–8 years depending on the jurisdiction.

Chart 1: Last year's unprecedented economic upheaval invalidated fiscal plans & required enormous policy response

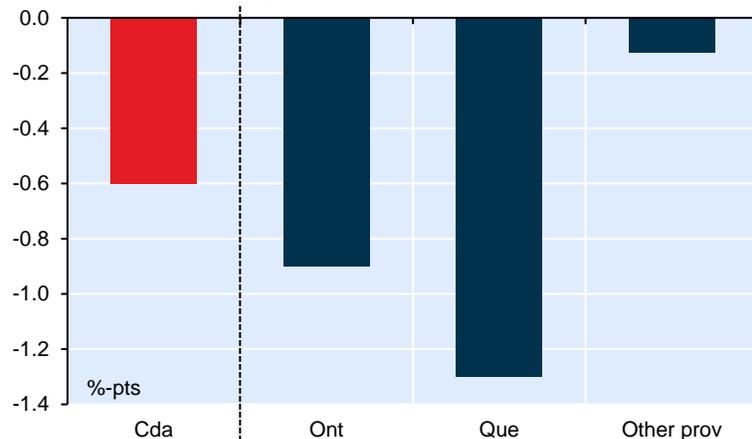
Evolution of consensus forecasts for Canadian 2020 real GDP growth over the course of last year, with budget dates & policy action windows highlighted



Source: NBF, Consensus Economics, Bank of Canada, federal-provincial governments | Note: Monetary easing window reflects timing of main actions; federal fiscal response effectively commenced 11-Mar-2020 & continued to expand/evolve over the course of the year, with a 30-Nov-2020 update pledging \$70-100 billion for a post-COVID stimulus package

Chart 2: Concentrated hit to 2021 forecasts (at least so far)

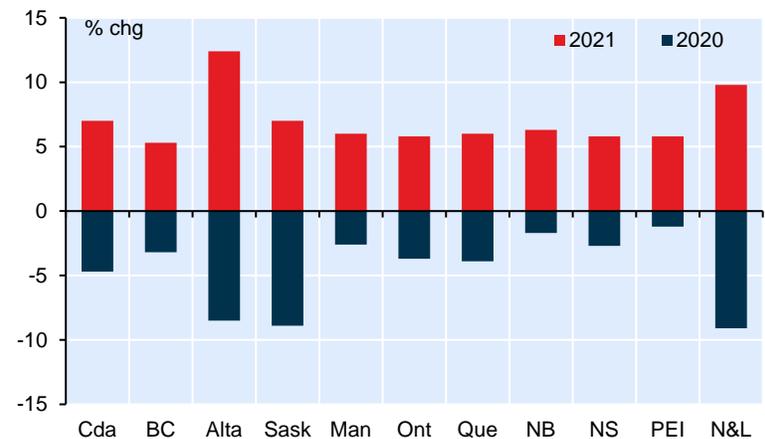
Change in NBF's real GDP growth forecasts for 2021: Jan-21 vs. Dec-20



Source: NBF | Note: Reflects change in NBF forecasts as per Monthly Economic Monitor

Chart 3: Nominal GDP recovery still in the cards for 2021

NBF's nominal GDP growth forecasts by province



Source: NBF | Note: Latest NBF forecasts as per Jan-21 Monthly Economic Monitor



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