

Economic and Fiscal Update 2020-2021

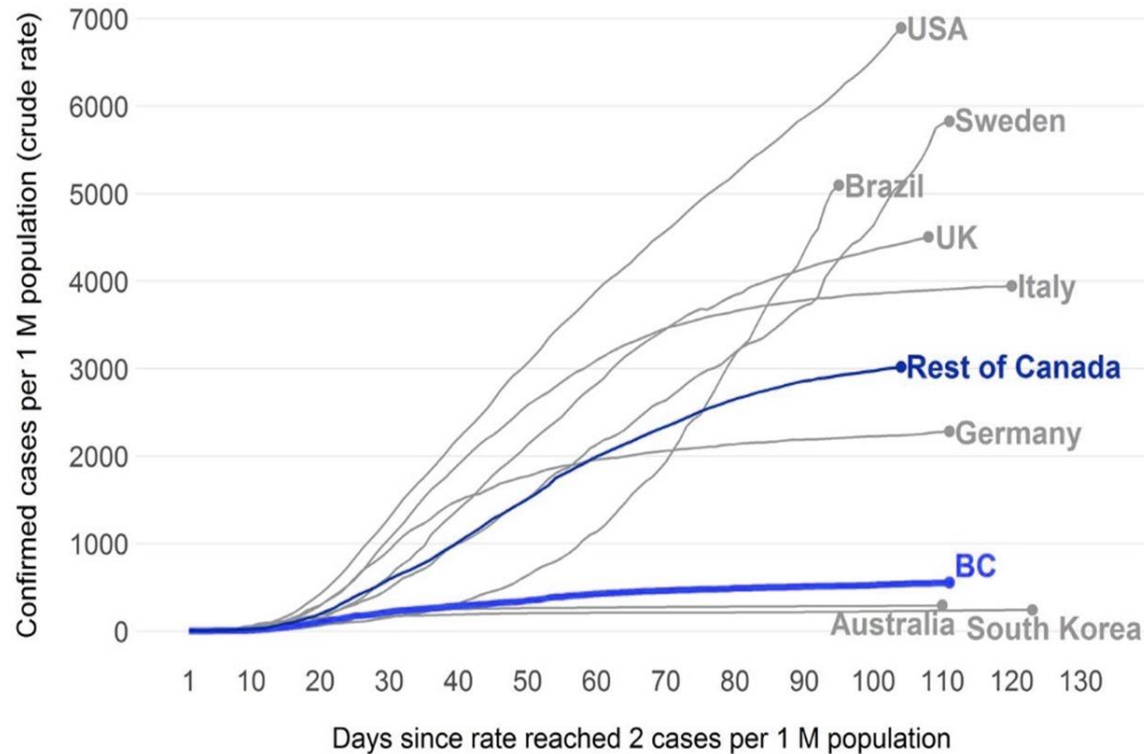
July 14, 2020

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Timelines

- 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.



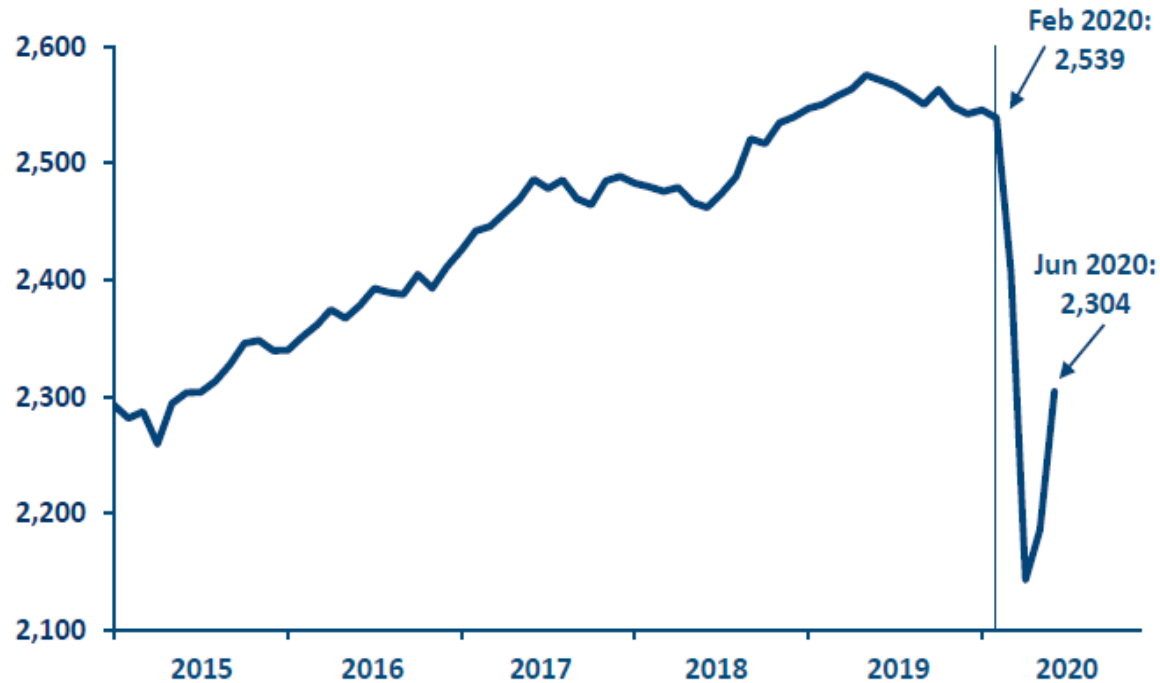
Source: BC Centre for Disease Control

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

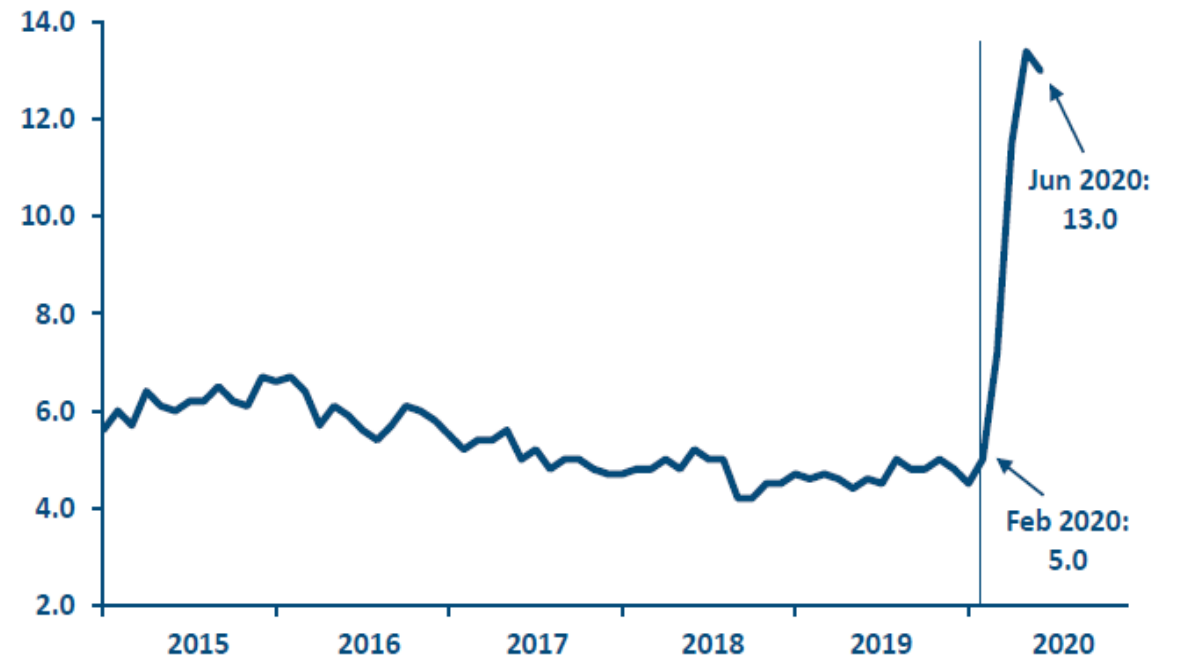
235,100 fewer jobs in Jun compared to Feb

B.C. employment (thousands, sa)

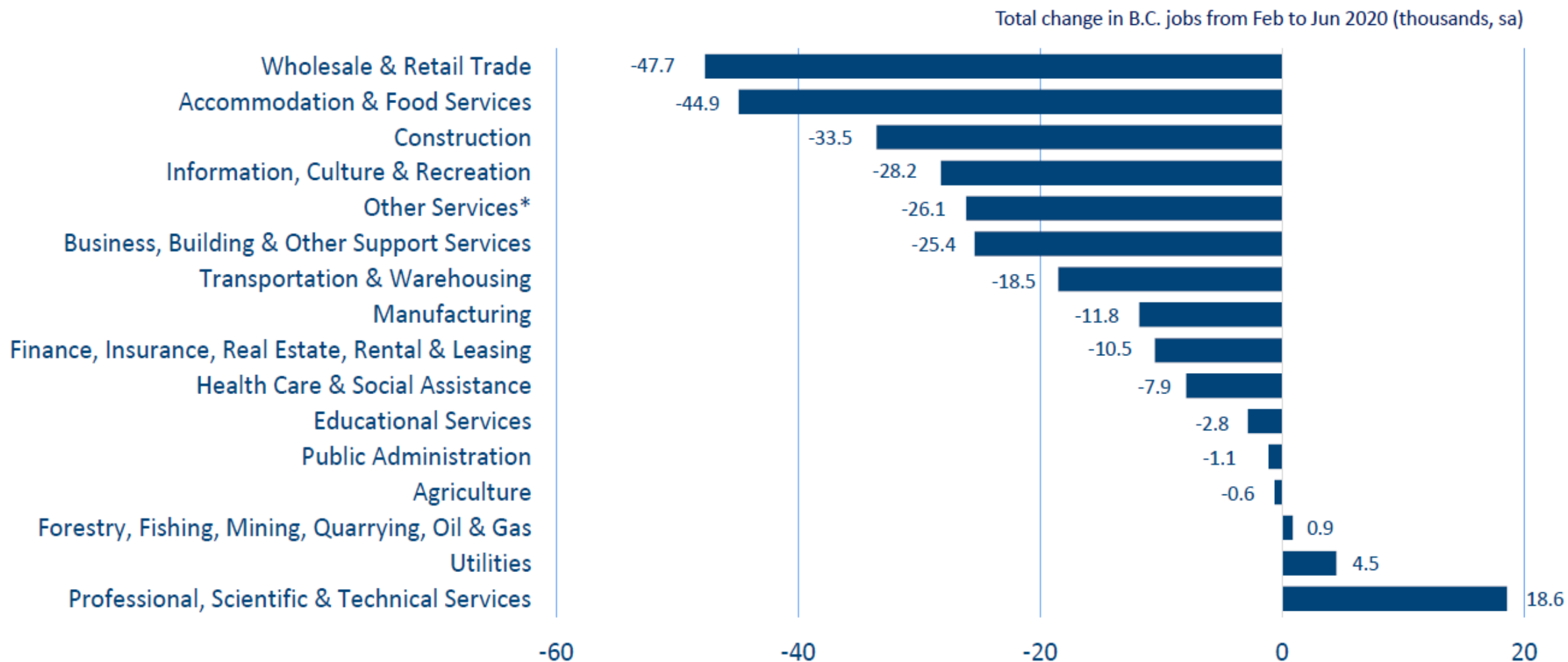


Recent unemployment at its highest rate since 1987

B.C. unemployment rate (% sa)



Widespread Job Losses in B.C.



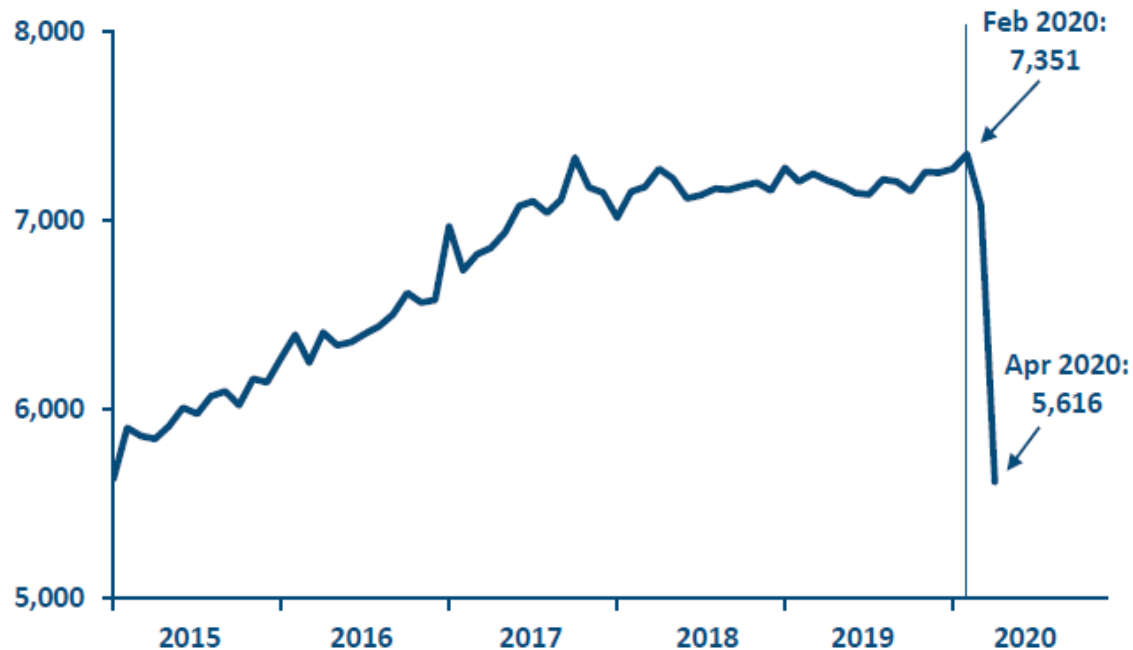
Sources: Statistics Canada (Labour Force Survey); Haver Analytics

*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

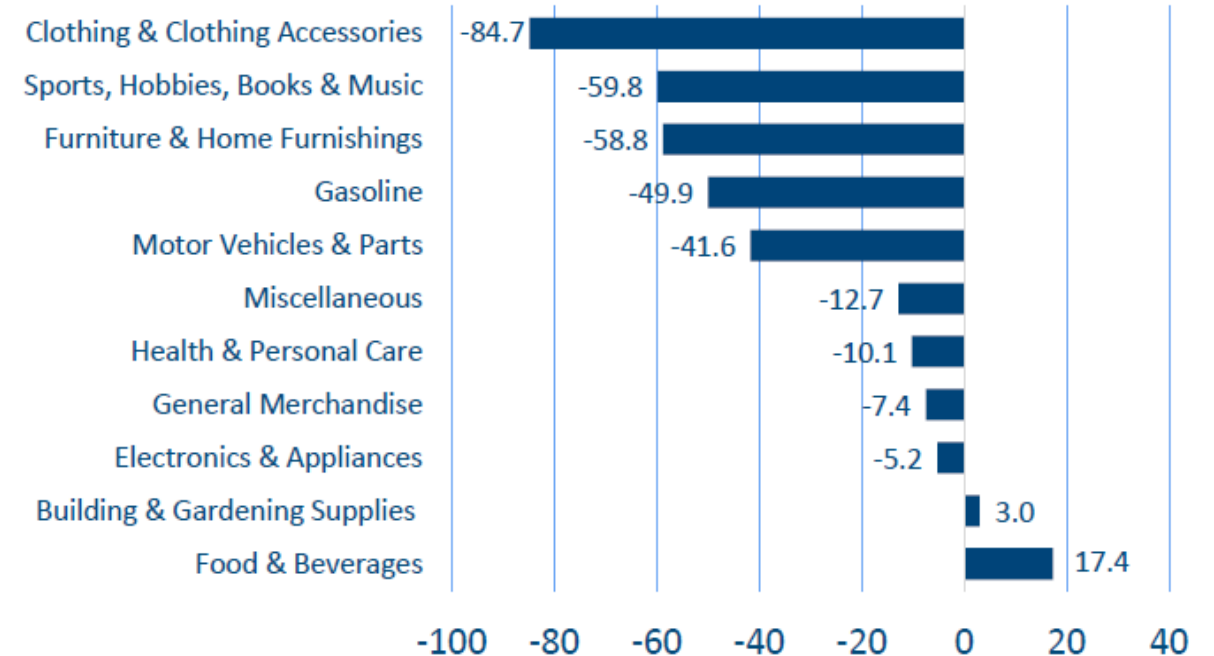
Retail sales down 23.6% from Feb to Apr

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



Broad-based reductions among retailers

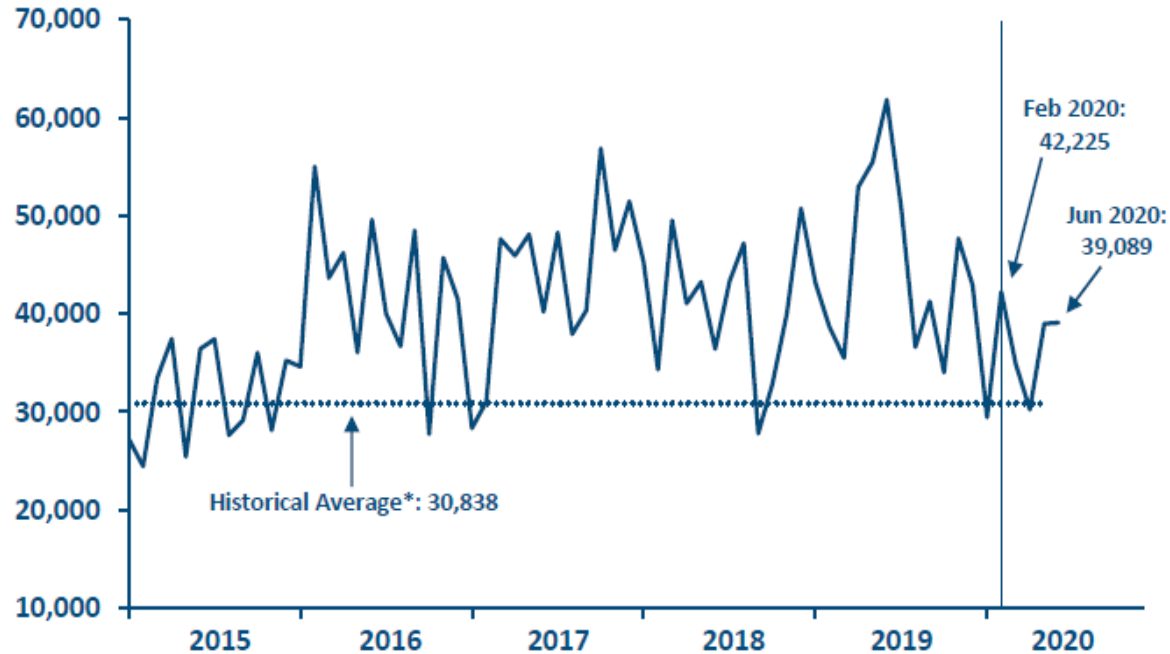
Year-over-year change in B.C. retail sales from Apr 2019 to Apr 2020 (% nsa)



Mixed Housing Market Activity

Housing starts average 35,794 units since Feb

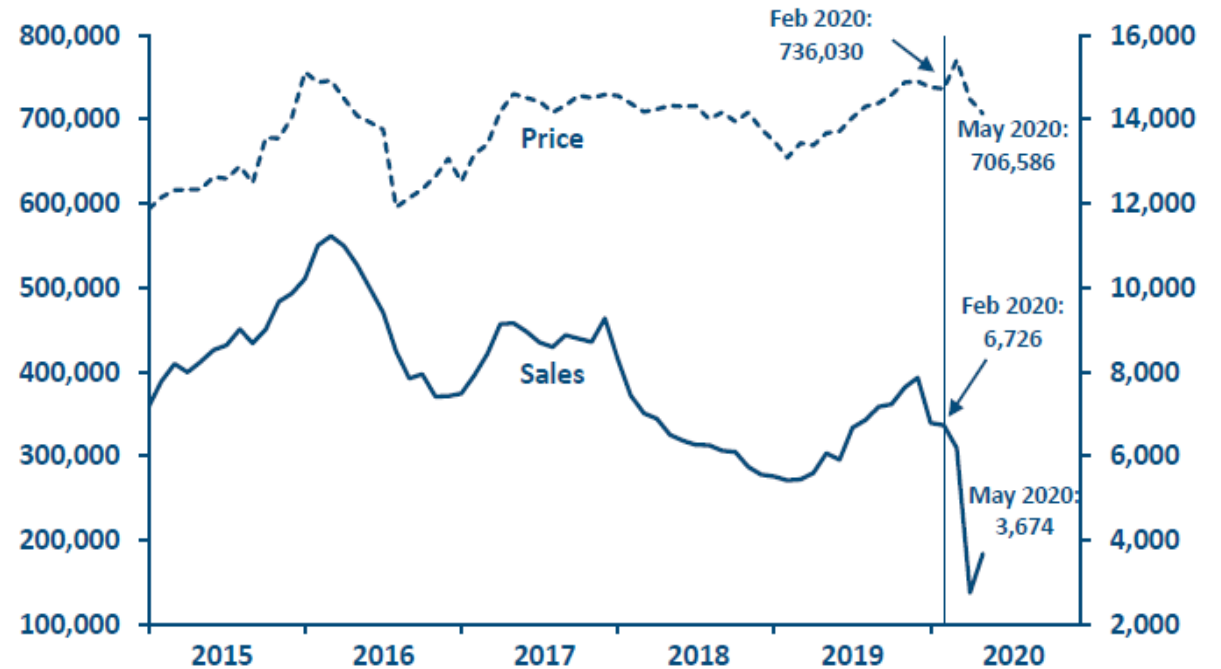
B.C. housing starts
(annualized units, sa)



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)



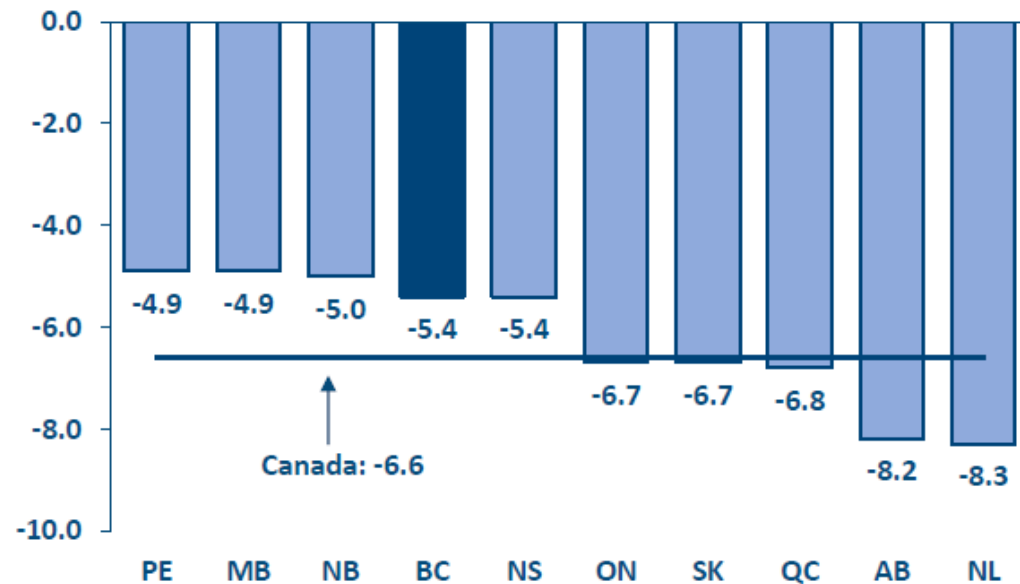
Sources: Canadian Mortgage and Housing Corporation; Haver Analytics
* Historical average from Jan 1990 to Dec 2019

Sources: Canadian Real Estate Association; Haver Analytics

Lower Private Sector Economic Outlook for 2020

Significant impacts across provinces

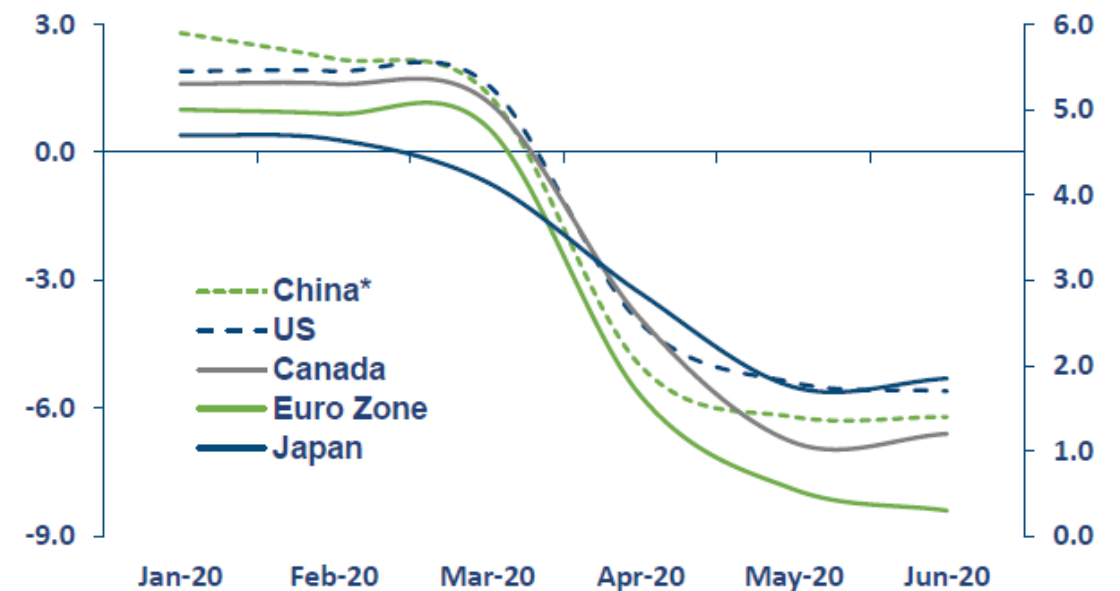
Real GDP forecasts for 2020 (annual % change)



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.

Evolution of global private sector forecasts

Real GDP forecasts for 2020 (annual % change)



Source: Consensus Economics
* All economies on left axis except China

Elements of Uncertainty

- 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>		Scenario	
	2020	2021	2020	2021
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**

- *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

Effects of COVID-19	<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	(353)
Natural resource revenues	(293)
All other CRF revenues	(77)
Commercial Crown corporation net income	(882)
Taxpayer-supported agency impacts	(869)
Total Effects of COVID-19	(6,313)
Pandemic Response Measures	
Supplementary Estimates spending	(5,000)
Other business relief and tax measures	(762)
Climate Action Tax Credit	(500)
Debt Servicing Costs	(176)
Total changes compared to Budget 2020:	(12,751)
<i>Budget 2020 Operating Surplus</i>	<i>227</i>
Potential deficit:	(12,524)

B.C. COVID-19 Action Plan Update

- 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

- 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

- 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

- \$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 September

Other Relief Measures

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
- Nearly \$200 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

- Total fiscal measures of \$6.26 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">• \$3.5 billion for critical services and immediate financial relief• \$1.5 billion for economic recovery
\$500 million	One-time enhancement to the Climate Action Tax Credit
\$762 million	Other tax reduction and payment relief measures
\$6.26 billion	Total Estimated Fiscal Impact in 2020/21

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

Other Changes From *Budget 2020*

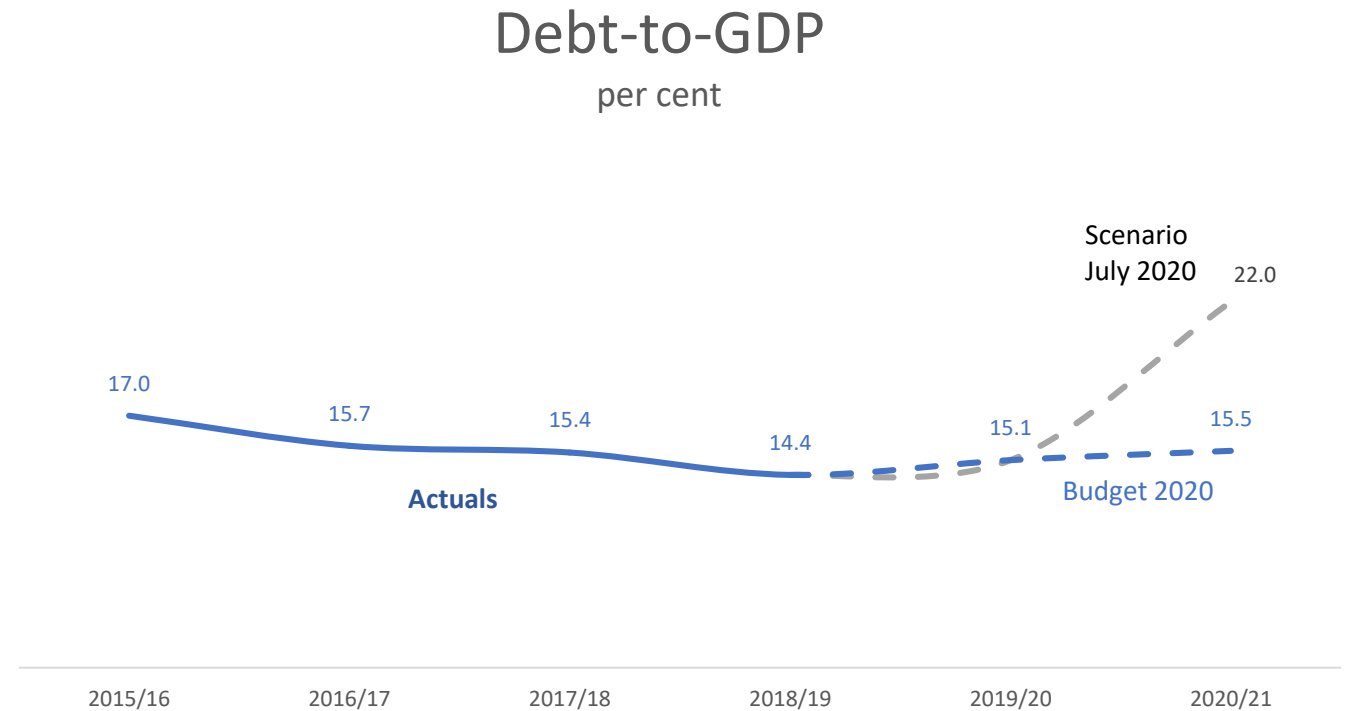
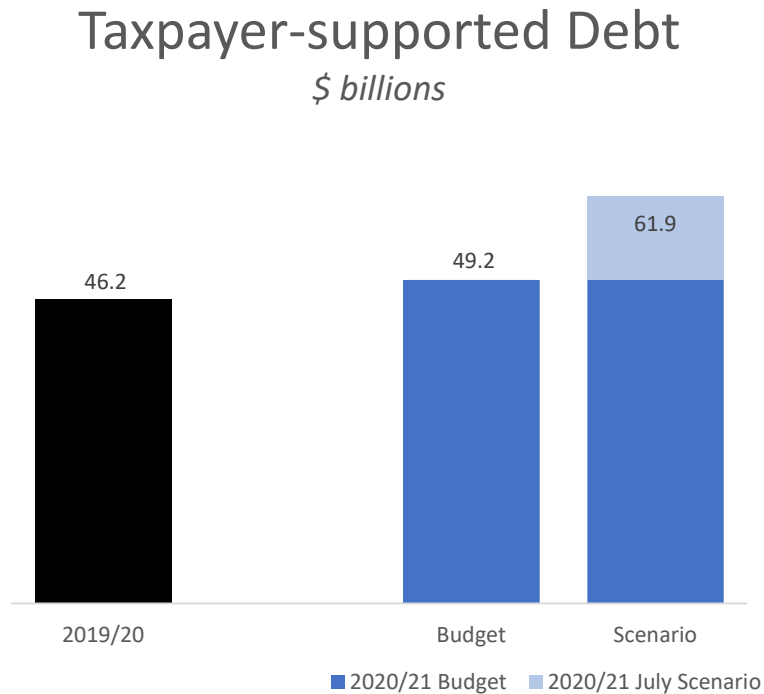
- Ministry budgets remain as presented in the Estimates book in February, including the existing Contingencies for Vote 45. This \$600 million Contingencies vote is expected to be fully needed to cover increased program caseload demands and other needs
- To date, estimated wildfire costs fall within 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

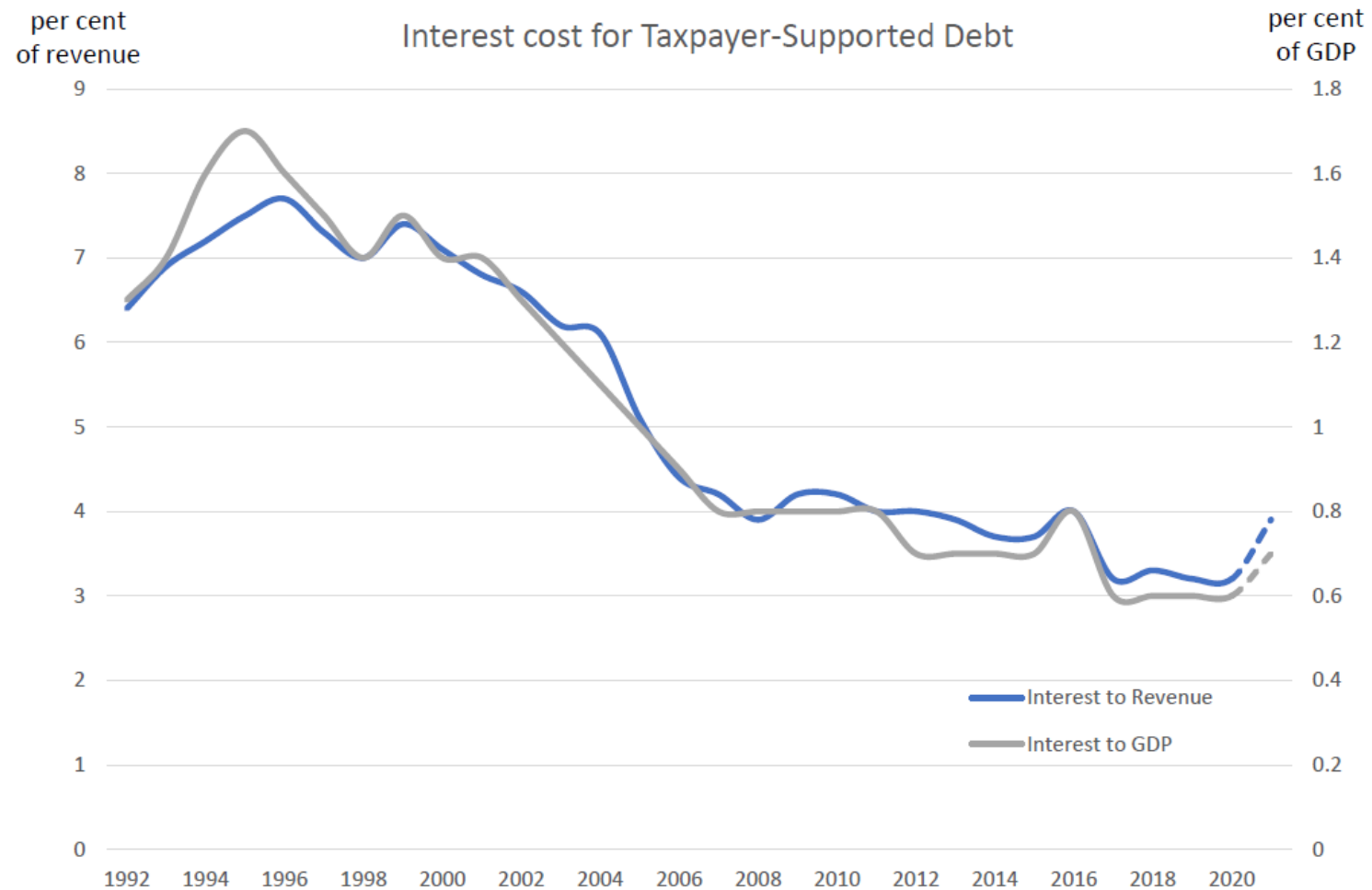
- \$22.9B in taxpayer supported capital spending forecast over the next three years
- Schools, roads, transit, bridges, housing and hospitals to deliver services people count on and support a strong economy
- Capital projects are proceeding and the construction industry is ready to deliver the Province's 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

- 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

- \$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

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