

## Brighter Days Ahead: Fiscal picture improves from coast to coast

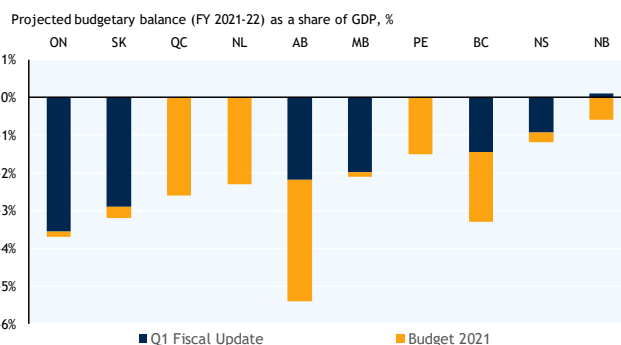
November 2, 2021

At the height of the pandemic, seven of ten Canadian provinces projected record deficits. As the dust settles, it has become evident that FY 2020-21 turned out to be less grim than previously expected. Final numbers for the provinces that have reported them show smaller-than-projected deficits. Ontario's final deficit was \$16.4 billion, less than half of the \$38.5 billion that was expected as recently as March. B.C.'s final deficit for FY 2020-21 was \$5.5 billion compared to the \$8.1 billion projected in April. Alberta, Newfoundland, Saskatchewan, and PEI all reported significantly lower deficits for the prior year than was expected in recent budgets.

A similar trend is taking shape this year. Initial deficit projections for FY 2021-22 have been adjusted lower in all six provinces that have released updates so far. Among the most significant revisions: B.C. (where the projected deficit was cut by half), Alberta (where it was slashed by more than half), and New Brunswick (now reporting a small surplus). The revisions pushed projected revenues much higher than anticipated at budget time last spring, with increases ranging from 2% in Manitoba to 26% in Alberta.

Driving the brighter picture: increases in both own-source revenues (including personal and corporate income tax) and federal transfers. In Alberta, corporate income tax revenues are forecast to come in 30% higher than initially thought after business profits held up much better than expected. Non-renewable resource revenue is also expected to triple since Budget 2021 thanks to stronger energy prices. And in B.C., business income tax revenue is penciled in at 36% higher than in Budget 2021—in part due to higher commodity prices.

### Deficits revised lower from coast-to-coast



Note: Budgetary balances as a share of GDP are unchanged from Budget 2021 for provinces that have yet to release a fiscal update

Source: RBC Economics

### Economy's muscle boosts revenues

Higher own-source revenues partly reflect a stronger economy. Six provinces have revised up their estimates for real GDP, with Saskatchewan reporting the most significant revision of 2.2% and real GDP growth of 5.6%, up from 3.4%. In Alberta and BC, real GDP was revised upward by 1% to 6.7% and 6.0% respectively. And both higher commodity prices and inflation are boosting nominal growth values. Elevated energy product and lumber prices have contributed to massive revisions in Alberta and BC, for instance. And Manitoba posted the highest price growth in Western Canada, causing nominal GDP growth to nearly double.

Earlier revenue projections were also overly conservative. The policy response to the pandemic has also upended the traditional relationship between GDP and government revenues. Massive aid programs have provided individuals and businesses unprecedented income protection—keeping them in much better positions than what would have been expected under Canada's regular safety net.

Provincial governments also received additional federal transfers that weren't in 2021 budgets. These included a one-time top-up to the Canada Health Transfer alongside an additional \$1 billion distributed to provinces for immunization campaigns. Increases in unconditional grants (adjusted 3.1% higher) accounted for over one-third of New Brunswick's upward revenue growth revision—setting the stage for the small surplus of \$37.7 million now being projected by the province this year.

## What's next?

Ontario, Quebec, PEI and Newfoundland and Labrador are slated to release fall fiscal updates in the coming weeks. We expect both Ontario and Quebec to revise their FY 2021-2022 projections materially, boosting their revenues and shrinking their deficit forecasts. Quebec's monthly fiscal monitoring so far exhibits a stark departure from what was recorded both a year ago, and what was implied this year in Budget 2021.

## Quebec

During the first three months of the fiscal year, Quebec's revenues were up 37% year-over-year. And consumption taxes, nearly 40% above year-ago levels, coupled with higher federal transfer payments signal Quebec is following a similar path to other provinces. We believe these outsized revenue windfalls put Quebec in a position to reduce its current deficit projection of \$12.3 billion by half—although the government could introduce potential new spending initiatives that would cut into the improvement. Quebec's fiscal update will be released November 25th.

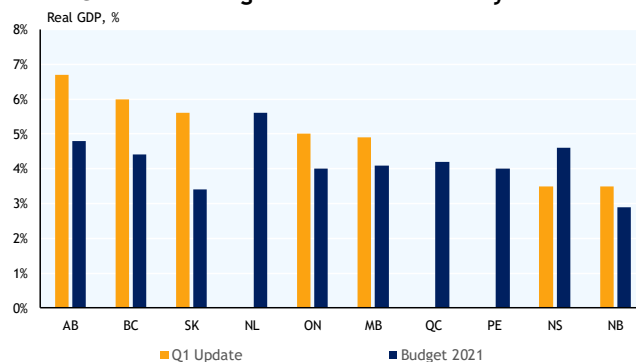
## Ontario

In Ontario, large revisions in FY 2020-21 set significantly better starting points for FY 2021-22 revenues and expenditures. Even keeping the current forecast unchanged yields a drop in the deficit relative to FY 2020-21 (\$16.4 billion), and hints at a major downward revision to the current \$33.1 billion of more than half. The Ontario government will release its update on November 4th.

Newfoundland has yet to release a fiscal update, but this province's fiscal situation is much more fragile than any other, after years of consistently spending more than it brings in, and amassing concerning levels of debt. The scope for improvement in Newfoundland is more constrained, as the province continues to face significant economic and demographic challenges.

The unprecedented shock of COVID 19 hugely disrupted both our lives and the economy and made it nearly impossible for our governments to project revenues and expenditures accurately. As such, it is not surprising to see these large revisions. Fortunately, thanks to a great deal of prudence factors built into earlier projections, recent fiscal updates show a less dire picture than provincial governments originally anticipated. Odds are, further improvements are in store, starting with the fiscal updates that Ontario and Quebec will release in the coming days and weeks. The next chapter will take place in the spring of 2022.

Real GDP revised higher across the country



Source: Statistics Canada, RBC Economics