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Canada: Federal Government Economic and Fiscal Update

Market Report

11 JULY 2020

Prepared by the New Zealand High Commission in Ottawa, 11 July 2020

Summary

- On 8 July the Canadian federal government unveiled an economic and fiscal update – described as a snapshot of where the economy is right now.
- This is the first update offered by the federal government since the December 2019 update (the only one since the Liberal government formed a minority government after the October 2019 election). The March 2020 budget was not tabled because of COVID-19.
- Net federal debt is set to hit CAD$1.7 trillion in 2021 – a number never seen before in Canada. However, as a proportion of GDP – nearly 50% – the Government and commentators see this as a very manageable debt level.
- Annual federal deficit for 2020-21 is expected to rise to CAD$343.20 billion, in large part due to the CAD$212 in direct support measures the government has provided to Canadians in response to the pandemic.
- The Canadian economy is projected to shrink by 6.8% in 2020, before coming back by 5.5% in 2021.
- The federal government's revenues are expected to decline to CAD$268.8 billion in 2020-21, from a projected CAD$341 billion in 2019-20.

Report

Canada's Finance Minister Bill Morneau delivered an update on federal spending and economic projections linked to the government's response to the COVID-19 pandemic on 8 July. The statement was referred to by the government as an "economic and fiscal snapshot", providing a picture of where the economy is right now, rather than the traditional economic and fiscal statement that normally comes between budgets. The 168 page snapshot provides the government's best predictions of the economic situation in Canada to the end of the current fiscal year, to 31 March 2021. The government did not table a 2020 Budget, with regular plans to do so in March curtailed by the pandemic.

2 The annual federal deficit for 2020-21 is expected to rise to CAD$343.20 billion (15.9% of GDP), from the CAD$34.4 billion deficit before the pandemic, and six times higher than the CAD$56 billion shortfall posted by the Harper government during the 2009 economic recession. The additional deficit can be largely attributed to the CAD$231 billion spent on direct aid to Canadians and health and safety measures (of which CAD$212 billion was in direct support measures to individuals and businesses).

3 The COVID-19 Economic Response Plan is described by the government as the most comprehensive and substantial peacetime investment in Canada's history, and includes support for around 3 million Canadian workers who have had their jobs supported through the Canada Emergency Wage Subsidy; and over 8 million Canadians who have received the Canada Emergency Response Benefit.

4 The Canadian economy is projected to shrink by 6.8% in 2020, before coming back by 5.5% in 2021. The economy is expected to decline in 2020-21 (by more than twice as much as it did in 2009-10 in response to the global financial crisis).

5 Due to the financial support provided by the federal government the federal debt-to-GDP ratio is expected to rise from 31% in 2019-20 to 49% in 2020-21. According to the statement, the government is getting a better outcome on that debt through very low interest rates: “as a consequence of these developments, the government will save over CAD$4 billion in public debt charges in 2020-21, compared to the forecast presented in the 2019 Economic and Fiscal Update in December 2019”. Net federal debt will hit CAD$1.7 trillion in 2021 – a number ever seen before in Canada.

6 The federal government’s revenues are expected to decline to CAD$268.8 billion in 2020-21, from a projected CAD$341 billion in 2019-20. The largest component of the federal government’s revenue stream is personal income tax, which is predicted to shrink to CAD$146.3 billion next year, from CAD$170.9 billion in 2019-20 – a decline of 14.4%. Corporate income taxes are expected to decline by 22.3% to CAD$38.3 billion from CAD$49.2 billion in 2019. The revenue from the GST is projected to decline 20.4% to CAD30.9 billion from CAD$38.8 billion in 2019-20.

7 Between February and April, 5.5 million Canadians either lost their jobs or saw their work hours significantly reduced because of the pandemic. The unemployment rate rose to 13.7% in May, the highest rise on record from a pre-crisis low of 5.5% in January 2020. Unemployment is expected to be at 9.8% by the end of 2020, and 7.8% in 2021. Morneau has said that without the government’s pandemic programmes, GDP would have contracted by more than 10% and unemployment would have risen by another 2%.

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