

Highlights

- Ontario government forecasts COVID-19 to be a short-term economic shock, with economic activity to gradually rebound in the second half of 2020
- Central 1 anticipates deep contraction in 2020 before a stronger rebound in 2021 as COVID-19 epidemiologic (epi) curve eases
- Ontario government's \$17 billion COVID-19 fiscal support aimed at three key areas: health, households, and businesses.
- Potential for more emergency fiscal measures should the economy remain at risk.
- Increased expenditures and challenged revenues, as the economy remains sidelined, will lift the net debt-to-GDP ratio to 39.9 per cent in 2019-20 and to 41.7 per cent by 2020-21
- Province has promised to table a full budget by late November 2020

Analysis

Given the unprecedented speed at which the COVID-19 virus has disrupted society and economic activity, the provincial government changed course and shelved its proposed budget, instead tabling an economic statement and update on March 25. The statement outlined \$17 billion of spending and tax measures aimed at protecting households, businesses and increasing surge capacity in the province's health sector. The fluid nature of this crisis was not lost on the government, which signaled the potential for further emergency fiscal support if needed.

Fiscal Outlook

The Ontario Government expects to run a sizeable deficit in 2020-21 to provide the support necessary to contain the spread of the virus and help those that have fallen ill with COVID-19.

Ontario expects a deficit of \$9.2 billion in 2019-20 and given the government's goal to protect households and businesses, an increased deficit of \$20.5 billion in 2020-21 is forecast.

The plan tabled includes significant reserve funds for potential future emergency needs, including a dedicated \$1 billion COVID-19 contingency fund as part of the additional health care investments, a \$2.5 billion reserve and an increased contingency fund of \$1.3 billion to provide continued flexibility to respond to changing global circumstances. This will result in a ramp up of expenses which are forecast to grow 2.9 per cent this fiscal year (2019-20) and by 5.2 per cent in 2020-21. Net debt-to-GDP ratio is forecast to be 39.9 per cent in 2019-20 and to increase further to 41.7 per cent by 2020-21.

The province promised to table a multi-year budget by November 25, 2020.

Economic Outlook

The Ontario Government forecasts the COVID-19 virus to be a short-term shock to the economy that will dissipate by the second half of the year and they expect economic activity to gradually rebound in the second half of 2020 supported by strong and coordinated government action. Business and consumer confidence should gradually rebound by 2021.

The province expects zero real gross domestic product growth in 2020 with two per cent growth by 2021. They state that social distancing measures keeping people at home and layoffs will see employment growth coming in at 0.5 per cent, moving up modestly to 1 per cent by 2021 on gradually improving business and consumer confidence.

We appreciate there is substantial uncertainty in the economy and forecasts are constantly changing as the pandemic evolves and governments adapt to pressures in the health system and economic challenges. Government forecasts differ from Central 1's outlook which anticipates a deep contraction in 2020 before a stronger rebound in 2021 as the epidemic eases.

Central 1 forecasts a sharp contraction in the economy of 2.8 per cent this year before rebounding in 2021

by more than four per cent as conditions normalize and some lost economic activity is backfilled. The unemployment rate is expected to swell to 8.2 per cent in 2020 (compared to 6.6 per cent according to the province) from 5.6 per cent last year and slide down to 6.5 per cent by 2021.

Unlike previous recessions that were contained in one or two sectors this recession is broad-based and unprecedented in scope. Not all households and businesses will come out of this unscathed – some may not come out of this at all which will affect potential consumer and business spending for periods to come. Consumer and business expenditures and investments will be severely curtailed in 2020 even after physical distancing measures are relaxed, adding further downward pressure on the economy.

Noteworthy expenditures and tax measures

Health Sector - \$3.3 billion of support (19.4 per cent of total aid package)

- Committing to a dedicated one billion COVID-19 contingency fund for emerging needs related to the COVID-19 outbreak.
- Investing \$935 million for the hospital sector, including \$594 million to accelerate progress on the government's commitment to address capacity issues, as well as \$341 million for an additional 1,000 acute care and 500 critical care beds and additional assessment centres.
- Increasing public health funding by \$160 million to support COVID-19 monitoring, surveillance, and laboratory and home testing, while also investing in virtual care and Telehealth Ontario.
- Investing \$243 million for surge capacity in the long-term care sector, as well as funding for 24/7 screening, more staffing to support infection control, and supplies and equipment to help tackle the COVID-19 outbreak.
- Investing \$75 million to supply personal protective equipment and critical medical supplies to front-line staff to tackle COVID-19.

Households and Economy - \$3.7 billion of support (21.8 per cent of total aid package)

- Helping families pay for the extra costs associated with school and daycare closures

during the COVID-19 outbreak by providing a one-time payment of \$200 per child up to 12 years of age, and \$250 for those with special needs, including children enrolled in private schools.

- Proposing to double the Guaranteed Annual Income System (GAINS) payment for low-income seniors for six months.
- Supporting more affordable electricity bills for eligible residential, farm and small business consumers by providing approximately \$5.6 billion for electricity cost relief programs in 2020-21, which is an increase of approximately \$1.5 billion compared to the 2019 Budget plan.
- Further supporting more affordable electricity bills by setting electricity prices for residential, farm and small business time-of-use customers at the lowest rate, known as the off-peak price, 24 hours a day for 45 days to support ratepayers in their increased daytime electricity usage as they respond to the COVID-19 outbreak, addressing concerns about time-of-use metering.
- Cutting taxes by \$355 million for about 57,000 employers through a proposed temporary increase to the Employer Health Tax (EHT) exemption (increasing from \$490,000 to \$1 million).
- Providing \$9 million in direct support to families for their energy bills by expanding eligibility for the Low-income Energy Assistance Program (LEAP) and ensuring that their electricity and natural gas services are not disconnected for nonpayment during the COVID-19 outbreak.
- Providing emergency child care options to support parents working on the front lines, such as health care workers, police officers, firefighters and correctional officers.
- Expanding access to the emergency assistance program administered by Ontario Works to provide financial support to people facing economic hardship and help more people meet basic needs such as food and rent during this public health emergency.
- Enhancing funding by \$148 million for charitable and non-profit social services organizations such as food banks, homeless shelters, churches and emergency services

to improve their ability to respond to COVID-19, by providing funding directly to Consolidated Municipal Service Managers and District Social Service Administration Boards who would allocate this funding based on local needs.

- Providing six months of Ontario Student Assistance Program (OSAP) loan and interest accrual relief for students, leaving more money in people's pockets.
- Helping to support regions lagging in employment growth with a proposed new Corporate Income Tax Credit, the Regional Opportunities Investment Tax Credit.
- Providing additional supports of \$26 million to Indigenous peoples and communities, including emergency assistance for urban Indigenous people in financial need, and costs for health care professionals and critical supplies to reach remote First Nations.

Tax Measures - \$10 billion worth of measures (58.8 per cent of total aid package)

- Making available \$6 billion by providing five months of interest and penalty relief for businesses to file and make payments for the majority of provincially administered taxes.
- Over \$1.8 billion by deferring the upcoming June 30 quarterly municipal remittance of education property tax to school boards by 90 days, which will provide municipalities the flexibility to, in turn, provide property tax deferrals to residents and businesses, while ensuring school boards continue to receive their funding.
- Making available \$1.9 billion by the Workplace Safety and Insurance Board (WSIB) allowing employers to defer payments for up to six months.

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Table 1				
Ontario's Fiscal Plan		Actual	Interim	Plan
(\$ billions)	2017-18	2018-19	2019-20	2020-21
Total revenue	150.6	153.7	156.7	156.3
Total expense	154.3	161.1	165.7	174.3
Program	142.2	148.8	153.1	161.1
Interest on debt	11.9	12.4	12.6	13.2
Reserve			0.2	2.5
Surplus/(Deficit)	-3.7	-7.4	-9.2	-20.5
Net Debt as a Per Cent of GDP	39.2	39.5	39.9	41.7
Accumulated Deficit as a Per Cent of GDP	25.3	25.3	25.3	26.8

Source: Ontario Economic Statement, March 2020

Table 2						
Economic Outlook for Ontario	Forecast					
(Per Cent)	2016	2017	2018	2019	2020p	2021p
Real GDP Growth	2.3	2.8	2.2	1.6e	0.0	2.0
Nominal GDP Growth	4.4	4.1	3.7	3.9e	2.0	4.0
Employment Growth	1.1	1.8	1.6	2.9	0.5	1.0

Source: Ontario Economic Statement, March 2020

p = forecast projections

e = estimate