2020 Federal Economic Statement

Sri Thanabalasingam, Senior Economist | 416-413-3117

November 30, 2020

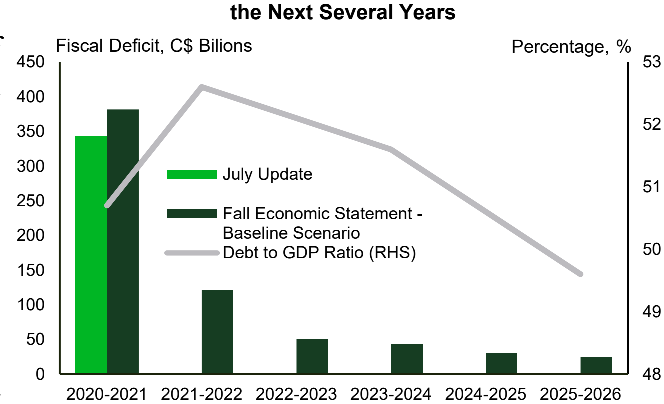
Highlights

- In its Fall Economic Statement (FES), the federal government revised up its projected deficit to nearly $400 billion, up from $343 billion in its July estimate. As a share of GDP, the deficit is projected to hit 17.5% this year.
- Budget shortfalls are projected to remain elevated at around $100 billion over the next couple of years, while the debt-to-GDP ratio stabilizes at just under 60% of GDP.
- The government's plan incorporates around $50 billion in support to Canadian households and businesses through the pandemic. In addition, it also imbeds $70-$100 billion (or 3-4% of GDP) in its fiscal plan as a placeholder. The exact amount of this "unallocated" stimulus would be determined by future labour market developments.
- The government largely stayed its hand on tax measures. It did announce that GST/HST will be applied to digital platform-based short-term rentals (including Airbnb) as well capping employee stock options.

Pandemic-related Spending Drives Up The Deficit in FY 2020/21

- The FES includes three main fiscal and economic scenarios, reflecting the high degree of uncertainty around a second wave. The first is the baseline scenario which assumes no extended or expanded restrictions other than what has been already imposed. The other two are more adverse scenarios which assume either that restrictions are extended into 2021 or are expanded, both of which weaken the economic recovery, reduce government revenues, while increasing expenditure on fiscal support programs.
- Underlying this year's higher tally relative to July is a $40 billion improvement in fiscal fortunes, partly owing to stronger growth rebound earlier this year. Still, this impact was dominated by substantial spending commitments made since the July update. Today's FES alone adds as much as $125 billion over the next three years to reflect both newly unveiled commitments and a further $70-$100 billion set aside for "additional stimulus" (Table 1). The precise stimulus amount will be scaled depending on the strength of the job market over the next few years. The government will be tracking the evolution of labour market indicators such as the employment rate, unemployment level and total hours worked to judge when to wean off fiscal stimulus.
- This new support is expected to drive this year's deficit as high as $400 billion this year (Chart 1). As some of the emergency supports expire and the economy expands, projected shortfalls are projected to fall back, but new commitments will sustain it to around $120-$140 billion range next year and $50-$60 billion in 2022 (Chart 2).

Chart 1: Fiscal Deficit Projected to Decline Over the Next Several Years



Note: These figures do not include planned economic stimulus not yet allocated.
Source: Government of Canada, TD Economics.

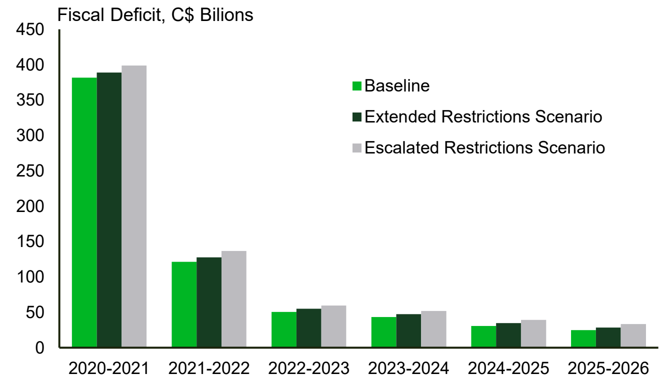
Deficit Expected to Drop Next Year, But New Structural Spending In the Cards

- This future stimulus will be dedicated to making good on key medium-term priorities, including support for green infrastructure. As a stepping stone, the government announced green measures today, including grants for improving energy efficiency in homes as investments for zero-emissions vehicles.
- The government announced that it would creating a task force that will advise the government on how to support female employment in the recovery period. A pillar of any plan would include the introduction of a national child-care system. Affordable and accessible childcare has been identified as a potential longer-term structural issue weighing on the Canadian economy. High costs of daycare have contributed to lower female engagement in the labour market relative to men and a nationally subsidized childcare program can go a long way in removing this barrier.
    - Quebec has already shown that an affordable childcare program can make it more feasible for core-age (25 to 54) women to participate in the labour market. If the rest of Canada were to succeed in achieving engagement similar to that of Quebec, Canada's entire labour force could increase by 1.1%. That's equivalent to two hundred thousand people in the workforce who might otherwise have been forced to opt out.
- There is little today around other Throne Speech commitments, including a new pharmacare program.

Canada Still in Reasonable Fiscal Position Despite Increased Spending

- Although today's fiscal update introduced additional spending and sent Canada's debt levels even higher from their already elevated levels, the country is still in a reasonable fiscal position at a debt to GDP ratio of around 50%.

Chart 2: More Spending Will Be Required If Restrictions Are Extended or Escalated



Source: Government of Canada, TD Economics.

- Canada entered the COVID-19 crisis in strong fiscal shape, which allowed for a significant increase in borrowing to support the economy. With interest costs at extraordinarily low levels, debt-financed spending remains affordable.
- But the government shouldn't get too carried away. If the debt burden continues to rise quickly, it could spell trouble for Canada's economy, while potentially leading to a downgrade in its AAA standing.
- The government is aware of this. In today's statement, the government reassured Canadians that it "will resume a prudent and responsible fiscal path, based on a long-term fiscal anchor we will outline when the economy is more stable."

Table 1: November 2020 Federal Fiscal Update Summary [C$ billion, unless otherwise specified]						
Fiscal Year	20-21	21-22	22-23	23-24	24-25	25-26
Budgetary Revenues	275.4	335.9	357.8	377.3	398.5	417.3
Program Expenses	621.4	421.2	373.9	384.4	392.9	404.0
Public Debt Charges	20.2	20.3	22.4	25.7	30.5	34.3
Total Expenditures	641.6	441.5	396.4	410.1	423.4	438.4
Budgetary Balance Before Net Actuarial Losses And Stimulus	-366.2	-105.6	-38.6	-32.8	-24.9	-21.0
Budgetary Balance Before Stimulus	-381.6	-121.2	-50.7	-43.3	-30.9	-24.9
Planned Stimulus	$70-$100 billion over 3 years					
Federal Debt Before Stimulus	1,107.4	1,228.5	1,279.3	1,322.6	1,353.4	1,378.3
Per cent of GDP Before Planned Stimulus						
Budgetary Revenues	12.6	14.4	14.6	14.7	14.9	15.0
Program Expenses	28.5	18.1	15.2	15.0	14.7	14.5
Public Debt Charges	0.9	0.9	0.9	1.0	1.1	1.2
Budgetary Balance	-17.5	-5.2	-2.1	-1.7	-1.2	-0.9
Federal Debt	50.7	52.6	52.1	51.6	50.6	49.6

Source: Department of Finance Canada, TD Economics.