

## Provincial Recovery: Ready to Move Back Into The Fast Lane

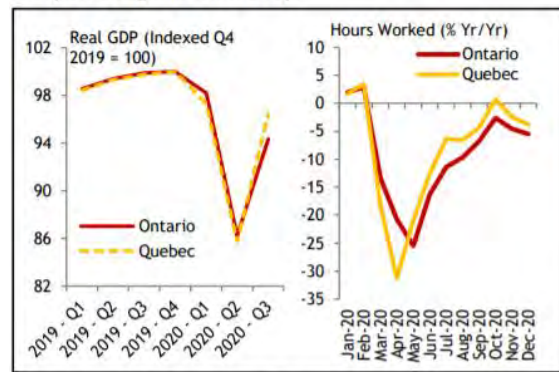
A surge in virus cases in the fall, continuing into the winter, has resulted in a further tightening of physical distancing restrictions and a dampening of near-term economic prospects, particularly for the largest provinces of Ontario and Quebec. However, with new Covid numbers falling from the Autumn's highs out west, case numbers still quite low (albeit in some cases rising) in Atlantic Canada and all provinces starting to vaccinate the most vulnerable in the population, the near-term pull back in economic activity should hopefully be a speed bump on the road to a faster recovery later this year and in 2022.

### A Misty Rear-View Mirror

As they say, to know where you are going, you have to know where you have been. However, that's easier said than done when it comes to the contractions in economic activity among provinces in 2020. Some areas of the country navigated the spring wave of virus infections easier than others, and were able to reopen earlier and more fully. However, some of those same provinces saw larger second-waves in the fall and, in terms of economic activity, gave back part of that earlier advantage.

Only the two largest provinces of Quebec and Ontario release estimates of GDP on a quarterly basis. The latest readings for those (up to Q3 2020) show the Quebec economy suffering a slightly larger/earlier drop in economic activity over the spring, but then a quicker rebound to put it modestly ahead on a full year basis (Chart 1, left). Recent hours worked data suggest that, despite both slipping a little from October highs, Quebec remained slightly ahead (Chart 1, right).

Chart 1  
**Quebec Slightly Ahead of Ontario Last Year, Despite Larger Initial Drop**



Source: Provincial Governments, Statistics Canada, CIBC

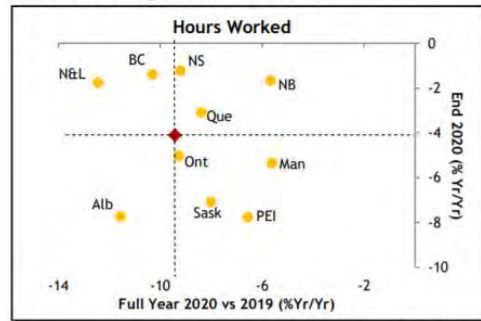
For other provinces, the most complete data that we have for 2020 (both in terms of the number of months available and sectors covered) is the aforementioned hours worked data from the Labour Force Survey. A glance at these numbers highlights not just which provinces appear to have out or underperformed during 2020, but also which ones finished the year with a smaller hole relative to end-2019 levels.

The clear stand-out on the downside is unfortunately Alberta, where the negative impact of Covid-19 not just on close-contact services but also on oil demand/ production was more acutely felt. The province also saw a large spike in case numbers in the autumn, which led to physical distancing measures having to be re-imposed.

For the two other major commodity-producing provinces of Newfoundland & Labrador and Saskatchewan, the results aren't as bad. The latter actually fared better than the national average for total hours worked over 2020 as a whole, albeit finishing with a bigger hole due to a larger outbreak of Covid-19 cases in the fall. For Newfoundland, the opposite was true. While it was the weakest performing province in terms of working hours over the year as a whole, greater success in keeping Covid cases down allowed more of the economy to remain open during the autumn period.

That greater success in keeping case numbers down is true across Atlantic Canada as a whole, with New Brunswick and Nova Scotia also finishing 2020 with total working hours much closer to end-2019 levels than the national average. BC also managed to finish the year strong, or at least stronger than most, due to early and more decisive action in stemming the autumn outbreak. However, softness earlier in the year meant that it was still the third-worst performing province for hours worked over 2020 as a whole (Chart 2).

Chart 2  
Hours Show Some Provinces Hit Hardest Earlier, Finished Stronger, and Vice-Versa



Source: Statistics Canada, CIBC

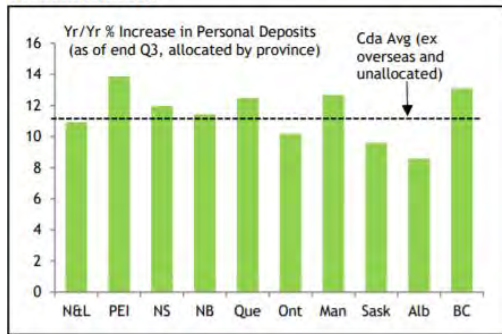
### Let's Get Ready to Rebound

By the second half of the year, with virus case numbers hopefully contained in all areas and the vaccination process well underway, we should see a more complete and faster recovery in all provinces.

Just how well certain provinces are positioned relative to others will be determined, in large part, by how much spare cash households have on the sidelines ready to be redeployed and also how much (or how little) scarring the economies have suffered outside of the immediately impacted close-contact service sectors.

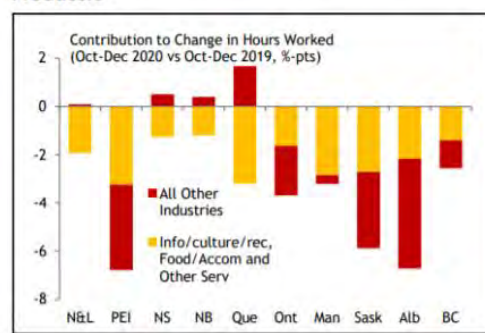
Examining the increase in personal deposits by province suggests that, while still rising, households in Saskatchewan and Alberta may have a little less extra room for spending than those in, for example, Manitoba and BC (Chart 3). That would make sense given that more of the job losses in those areas appear to have come in sectors outside of those close-contact services (Chart 4) with some of that focused in the high-paying oil sector. As a result, Federal government support measures weren't quite as generous relative to lost income, particularly for those households in Alberta.

Chart 3  
Deposits Rise The Most in PEI, Manitoba, BC; Least in Sask, Alberta



Source: OSFI, CIBC

Chart 4  
Labour Market Weakness Not as Concentrated in Close Contact Services in Ontario, as Well as Oil-Producers

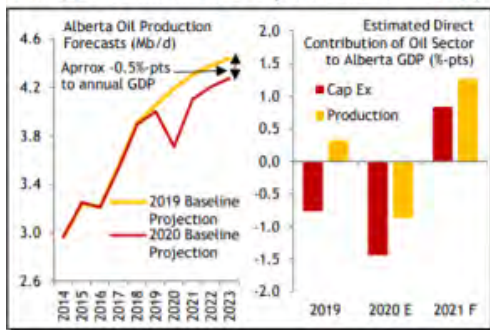


Source: Statistics Canada, CIBC

For the oil-producing province of Alberta, that has seen a greater decline in working hours outside of the most impacted service industries, there is some good news ahead. While it is true that the lack of investment in the oil sector during 2020 has impacted potential output and GDP growth (Chart 5, left), production is still expected to rise in 2021. Moreover, while only clawing back roughly half of the big decline seen last year, investment within the oil sector is expected to rise and be a positive to GDP growth in 2021 (Chart 5, right). Of course, plans could change with movements in oil prices, any further announcements from the new administration stateside or other factors.

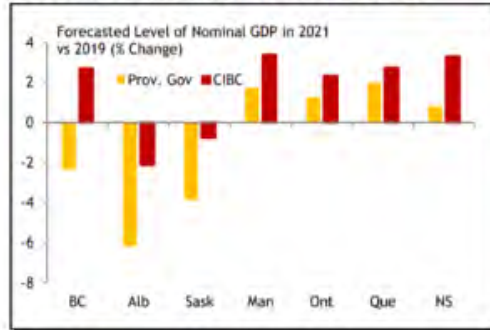
The rise in global oil prices will also aid the recovery in nominal GDP within oil-producing areas of the country, particularly relative to what was included within provincial fall fiscal updates. Due to conservative assumptions for commodity prices and also, we think, the hit to real GDP as well, provincial estimates for Alberta and Saskatchewan placed the level of nominal GDP still around 6% below its 2019 level this year. While we also don't expect to see those provinces return to the same level of GDP, even in nominal terms, that was recorded in 2019, the gap in our forecasts is much narrower (Chart 6) which would be a positive for provincial revenues.

**Chart 5**  
**Low Oil Investment in 2020 Leaves Production Hole (L) But Growth to Partly Rebound in 2021 (R)**



Source: CER, CAPR, CIBC

**Chart 6**  
**Budget Projections in BC, Alberta, Sask, NS Appear to be Based Off Conservative GDP Forecasts**



Source: Provincial Budgets/Fiscal Updates, CIBC

### Ready to Move Into The Fast Lane?

The recovery in all provinces will move into a higher gear again later this year, but some will hit the fast lane earlier than others and reach a higher speed. Ontario, Quebec and Saskatchewan, where case numbers have yet to fall materially during the second wave, could potentially have to keep restrictions in place longer than other areas. However, for Quebec there appears to have been a lesser degree of pain outside of the close contact service industries most impacted by physical distancing measures, which should be a good sign for the recovery later in the year.

In most western provinces, case numbers that spiked in the fall are on the decline now, and as such restrictions could start being eased again soon — potentially providing a bit of a head start relative to Ontario and Quebec. While the lack of investment in 2020 negatively impacted potential oil production and GDP growth relative to its prior path, a partial rebound in that sector would still place Alberta growth (particularly in nominal terms) ahead of the Canadian average and the most recent budgetary assumptions.

In Atlantic Canada, provinces have generally been better at keeping Covid-19 cases in check, although recent increases in New Brunswick could bring a tightening of physical distancing measures again. That success in 2020 meant that, with the exception of oil-producing Newfoundland, those provinces saw a smaller dent to their economies last year. It also means, however, that there is less scope for a big rebound in 2021, particularly until international tourists return in larger numbers — something we believe will be more of a summer 2022 story.



## Provincial Forecast Table

	Real GDP Y/Y % Chg				Nominal GDP Y/Y % Chg				Unemployment Rate %			
	2019A	2020F	2021F	2022F	2019A	2020F	2021F	2022F	2019A	2020A	2021F	2022F
BC	2.7	-5.6	4.4	4.6	4.4	-3.7	6.6	6.6	4.7	8.9	6.9	4.7
Alta	0.1	-7.1	4.5	6.0	2.7	-11.1	10.1	8.8	6.9	11.3	9.6	7.6
Sask	-0.7	-5.2	4.1	4.6	0.1	-8.2	8.1	6.9	5.4	8.3	6.5	6.0
Man	0.6	-3.9	3.5	4.0	1.0	-2.0	5.5	6.0	5.3	7.9	6.1	5.5
Ont	2.1	-5.5	3.9	5.2	3.8	-3.6	6.1	7.2	5.6	9.5	8.1	6.3
Qué	2.7	-5.2	4.0	5.0	4.3	-3.3	6.2	7.0	5.1	8.8	7.3	5.7
NB	1.2	-3.5	3.2	3.9	3.0	-1.6	5.2	5.9	8.0	9.8	8.9	8.3
NS	2.4	-3.8	3.3	4.1	3.8	-1.9	5.3	6.1	7.2	9.6	7.6	7.0
PEI	5.1	-4.5	3.5	4.6	7.0	-2.6	5.5	6.6	8.8	10.6	9.6	8.8
N&L	4.0	-7.0	4.5	5.7	4.1	-10.5	8.5	8.0	11.9	13.7	11.9	11.8
<b>Canada</b>	<b>1.9</b>	<b>-5.5</b>	<b>4.0</b>	<b>5.1</b>	<b>3.6</b>	<b>-4.8</b>	<b>6.8</b>	<b>7.2</b>	<b>5.7</b>	<b>9.5</b>	<b>7.9</b>	<b>6.2</b>

Source: Statistics Canada, CMHC, CIBC

		INTEREST AND EXCHANGE RATE FORECAST						
		2020		2021			2022	
END OF PERIOD:		13-Jan	Mar	Jun	Sep	Dec	Jun	Dec
<b>CDA</b>	Overnight target rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25
	98-Day Treasury Bills	0.06	0.10	0.15	0.15	0.20	0.30	0.40
	2-Year Gov't Bond	0.17	0.20	0.20	0.25	0.30	0.45	0.60
	10-Year Gov't Bond	0.83	0.70	0.85	0.85	1.25	1.30	1.60
	30-Year Gov't Bond	1.45	1.30	1.45	1.50	1.80	1.80	1.95
<b>U.S.</b>	Federal Funds Rate	0.125	0.125	0.125	0.125	0.125	0.125	0.125
	91-Day Treasury Bills	0.08	0.10	0.20	0.15	0.25	0.35	0.50
	2-Year Gov't Note	0.15	0.15	0.15	0.20	0.30	0.40	0.55
	10-Year Gov't Note	1.10	1.00	1.20	1.20	1.45	1.45	1.75
	30-Year Gov't Bond	1.84	1.75	1.90	1.90	2.00	2.20	2.25
	Canada - US T-Bill Spread	-0.02	0.00	-0.05	0.00	-0.05	-0.05	-0.10
	Canada - US 10-Year Bond Spread	-0.28	-0.30	-0.35	-0.35	-0.20	-0.15	-0.15
	Canada Yield Curve (10-Year — 2-Year)	0.66	0.50	0.65	0.60	0.95	0.85	1.00
	US Yield Curve (10-Year — 2-Year)	0.95	0.85	1.05	1.00	1.15	1.05	1.20
<b>EXCHANGE RATES</b>	CADUSD	0.79	0.77	0.76	0.75	0.75	0.74	0.75
	USDCAD	1.27	1.30	1.32	1.33	1.33	1.35	1.34
	USDJPY	104	102	100	100	99	99	99
	EURUSD	1.22	1.24	1.25	1.26	1.26	1.25	1.24
	GBPUSD	1.37	1.35	1.37	1.39	1.39	1.40	1.40
	AUDUSD	0.77	0.79	0.80	0.82	0.83	0.85	0.87
	USDCNY	6.47	6.40	6.32	6.25	6.15	5.95	5.80
	USDBRL	5.31	5.00	4.80	4.80	4.50	4.80	4.50
	USDMXN	19.8	19.5	20.0	20.0	19.0	19.8	20.0

Sources: Statistics Canada, Bank of Canada, CIBC World Markets Inc.

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