

MOVING MANITOBA FORWARD

BUDGET 2020

**COVID-19 EMERGENCY SUPPLEMENT
TO BUDGET 2020**



Manitoba 

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INTRODUCTION	3
RESILIENCY.....	3
OUR RESPONSE PLAN.....	5
IMPACT ON BUDGETARY EXPENSES	6
IMPACT ON BUDGETARY REVENUES.....	7
IMPACT ON FISCAL YEAR 2019/20	10
IMPACT ON FISCAL YEAR 2020/21	10
MORE INFORMATION	11

INTRODUCTION

This supplement provides information to Manitobans regarding measures within Budget 2020 that serve as the foundation for our government's fiscal response to the fast-evolving public health and economic challenges posed by the Coronavirus disease (COVID-19), which the World Health Organization (WHO) declared a pandemic on March 11, 2020.

RESILIENCY

Steps taken by our government over the past four years to manage Manitoba's finances more responsibly and invest in emergency preparedness have put our province in a strong, financially-resilient position to respond to the human and economic challenges presented by COVID-19. That resiliency is made up of four main components:

1. Rainy Day Fund Re-Investment

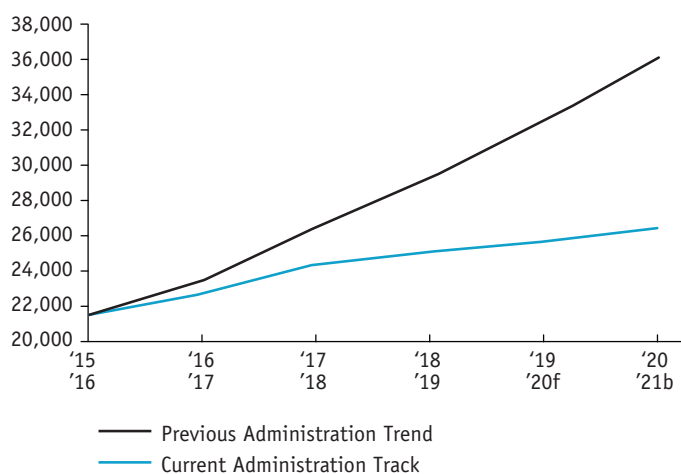
Manitoba's Rainy Day Fund is currently funded to \$571 million. The balance will grow to \$800 million before the end of this month, and to \$872 million by the end of the 2020/21 fiscal year.

2. Prudent Budgeting

Budget 2020 sets aside the largest amount of money in Manitoba history for emergency expenditures.

As a result of prudent financial decisions made by our government over the past four years, Manitoba has avoided \$10 billion in debt that would have been incurred if our government had continued the budgetary approach of the previous government. This saves Manitobans approximately \$200 million of incremental interest costs that would have been paid out at the expense of emergency preparedness.

Summary Debt
2015/16 – 2020/21b



3. Federal Support

The federal government has committed \$500 million of aid to provinces and territories, of which \$18 million will be available to Manitoba. It has indicated that further aid is likely to be forthcoming, and has also announced that \$10 billion in credit will be made available for businesses through the Business Development Bank of Canada and the Export Development Bank of Canada. Manitoba will work with the federal government to identify business sectors that require assistance as a result of harm caused by COVID-19.

As noted last month by the federal Parliamentary Budget Officer, the federal government has significantly more robust fiscal sources than provinces do. We will continue to advocate that the federal government more fully support all provinces and territories through this pandemic. While the \$18 million of funding made available to Manitoba is appreciated, it only represents approximately one-half of the cost of the emergency procurement order of supplies announced last week as apart of the 2019-2020 fiscal year.

4. A Stable, Resilient Economy

With our diversified economic base, Manitoba continues to have one of the most stable and resilient economies of Canada's provinces. While some sectors -- most notably, tourism, oil and gas production, and supply-chain dependent sectors -- may be impacted by COVID-19, many critical components of our economy -- agricultural products in particular -- are expected to continue to experience strong global demand.

Over the past four years, our government has taken significant steps to make our economy more competitive by reducing taxes, reducing red tape and fostering an environment where private sector capital is thriving. Our PST rate reduction from 8 to 7 per cent was the largest tax cut in Manitoba's history, saving businesses and all Manitobans over \$300 million annually. We have committed to a further reduction of the PST rate to 6 per cent as of July 1, 2020, for additional savings of over \$40 million in the first full year, and growing thereafter, net of the Green Levy. In addition to reducing the PST rate, we are also saving Manitoba households money through the indexing of the Basic Personal Amount and personal income tax brackets, and through the removal of important services from the PST, among other measures. We have also announced that we will reduce the payroll tax by increasing the payroll thresholds, which will benefit 1,000 Manitoba employers, including 220 employers who will no longer be liable for this tax. As a result of these and many other actions we have taken since 2016, Manitoba and Manitobans are better positioned to respond to this and future emergencies and to withstand the ongoing period of economic uncertainty.

OUR RESPONSE PLAN

Manitoba's public health and emergency preparedness personnel, along with thousands of front-line workers across the province, are responding to the evolving impact of COVID-19 in our province. Manitobans are doing their part by practicing social distancing, re-considering travel plans and self-isolating when required. We will continue to work closely with the Public Health Agency of Canada (PHAC) and the WHO, as well as the federal government and other provinces and territories in responding to the situation as it evolves.

Our government's communications arm will continue to provide Manitobans with timely, accurate information through news releases and online. We encourage Manitobans to regularly visit the following website for the latest information: www.manitoba.ca/covid19

We have put structures in place to ensure timely and appropriate responses to the situation as it evolves, including the following:

- Our Health System Incident Command, led by our Chief Provincial Public Health Officer and our Emergency Measures Organization, which oversees all aspects of preparedness as well as the Manitoba Emergency Command Centre;
- A Minister's Committee on COVID-19, ensuring proper oversight; and
- A Deputy Minister Committee on COVID-19 Business Continuity, which is working to ensure that business continuity plans for every area of government are activated and amended as necessary.

As the situation evolves, the Manitoba government workforce may be impacted, requiring public-facing services to be adjusted to meet public health guidelines. Should that occur, Manitobans will be promptly informed.

Manitoba's business sector and the non-profit community are also doing their part in responding to this challenge in order to protect their workforces and support each other. The Manitoba Department of

Economic Development and Training is hosting weekly roundtable calls with key stakeholders to obtain direct, real-time information on impacts that members, clients and key contacts are experiencing as a direct or indirect result of the COVID-19 situation, including trade impacts, supply chain disruptions, event cancellations and travel restrictions. The member organizations invited to participate in these calls include:

- Aboriginal Chamber of Commerce
- Bioscience Association of Manitoba
- Business Councils of Manitoba
- Canadian Federation of Independent Business
- Canadian Manufacturers and Exporters
- Communities Economic Development Fund
- Economic Development Winnipeg
- Food and Beverage Manitoba
- Manitoba Aerospace Inc.
- Manitoba Chamber of Commerce
- Manitoba Hotel Association
- Manitoba Lodges and Outfitters Association
- New Media Manitoba
- North Forge
- RBC Convention Centre
- Rural Manitoba Economic Development Corporation
- Supply Chain Management Association of Manitoba
- Tech Manitoba
- Travel Manitoba
- Western Economic Diversification Canada
- Winnipeg Airports Authority
- Winnipeg Chamber of Commerce
- Winnipeg Metropolitan Region
- World Trade Centre Winnipeg

IMPACT ON BUDGETARY EXPENSES

Pandemic events like COVID-19 can impose significant strain on provincial government expenditures. We anticipate that health-related spending, which already comprises \$6.7 billion (or 38 per cent) of Manitoba's total summary expenditures, will be significantly impacted, but additional costs will be incurred in most departments. In that regard, we are centrally monitoring all costs associated with COVID-19.

We have also implemented protocols to ensure funds are available in order to quickly respond to this rapidly changing situation. Our government's response will not be impeded by red tape or cumbersome processes; key decision makers are empowered to take necessary and appropriate steps to protect the health and safety of Manitobans.

We are making the necessary investments to ensure we are prepared to address this outbreak. This includes working with PHAC, and provinces and territories, to co-ordinate the procurement effort of protective equipment. As part of that co-ordinated effort, we approved an investment of \$35.2 million last week for the purchase of personal protective equipment. That expenditure was based on current planning assumptions, including supplies required by Manitoba's regional health authorities, service delivery organizations, personal care homes and fee-for-service clinics.

In addition, we have also made the following investments in the past few days:

- \$2.7 million for the purchase of up to 43 ventilator machines;
- \$410,000 for 13 continuous dialysis renal replacement machines for intensive care unit dialysis; and
- \$80,000 for a nucleic acid extractor to enhance local capacity for rapid COVID-19 testing.

Additional costs, in excess of those incurred in response to previous outbreaks, are anticipated. For example, in 2009/10, just over \$83 million in emergency expenditures funding was required to address the H1N1 pandemic. We anticipate that the costs of COVID-19 will exceed that amount, and will ensure the necessary resources are made available to respond to the current situation.

IMPACT ON BUDGETARY REVENUES

COVID-19 will impact Manitoba’s forecasted budgetary revenues. The revenue outlook included in Budget 2020 was based on reasonable, consensus-based assumptions about the pace of growth in the province’s economy. This is no longer the case. Given the sudden escalation in economic, social and financial developments caused by the spread of COVID-19 throughout Canada, it is impossible to identify a consensus view among forecasters relied upon by Manitoba Finance.

The prospect of a national recession has grown in recent weeks due to COVID-19, as well as turmoil in global oil and gas markets and other factors. Key considerations in reviewing these forecasts are its expected depth and duration. Though all predictions are invariably subject to many evolving assumptions, some forecasters are predicting a “V” shaped economic impact for global economies, including in North America, where growth in the first half of 2020 is substantially lowered, followed by a full rebound to normal growth levels by the second half of 2020.

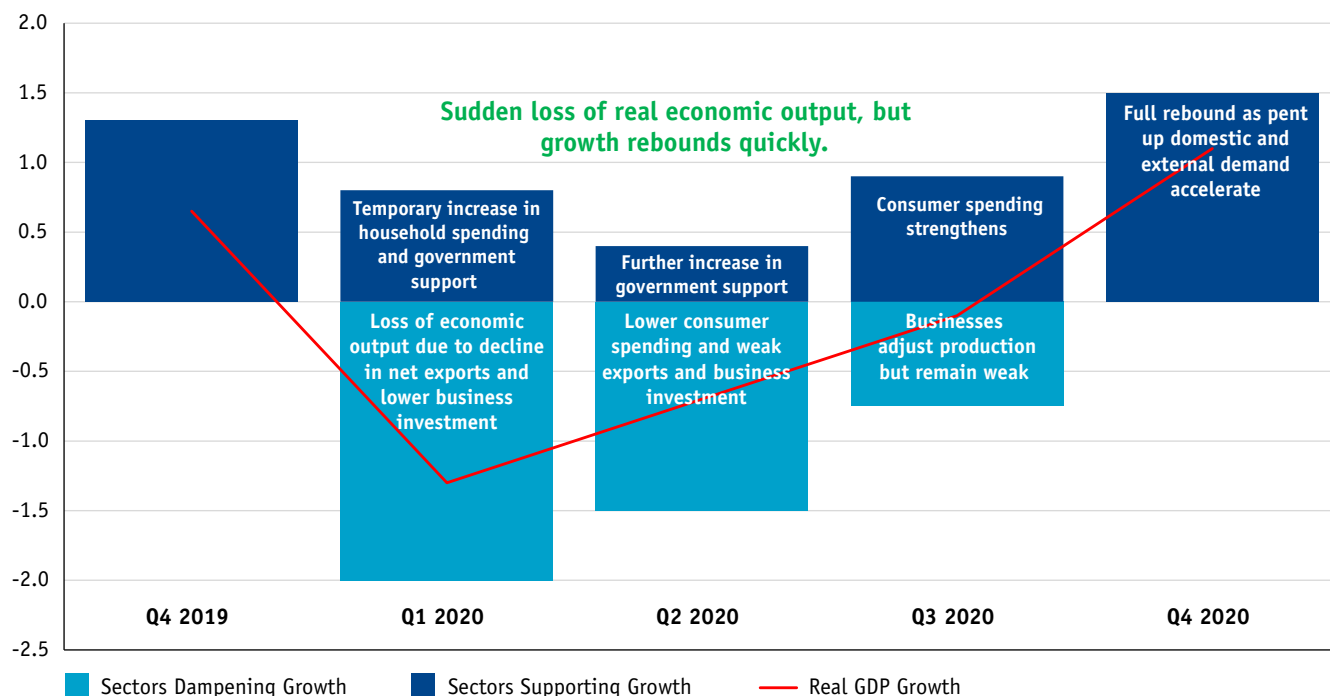
As outlined in the graph below, preliminary modelling for Manitoba’s economy expects the impact of COVID-19 to result in economic growth declining in the first quarter of 2020 as exports and private business investment spending suddenly falls. Consumer expenditures will support some growth in the retail sector during this period, in part due to households increasing purchases of food, health and wellness essentials. The health care sector will also experience a spike in demand related to testing and caring for patients.

Growth in the second quarter of 2020 is expected to improve somewhat as government support initiatives help vulnerable businesses and individuals. Growth is expected to further strengthen in the third and the fourth quarter, as pent-up demand from consumers and businesses begins to lift growth higher than normal. A full recovery in the second half of 2020 bodes well for overall growth in 2021, creating optimism that growth may be higher than currently forecasted.

Estimated Impact of COVID-19 on Manitoba Economic Growth

2019 Q4 to 2020 Q4

Per cent change in real GDP



*Impact estimates do not include actual federal and provincial financial supports to households and businesses as these remain to be announced at the time of printing this report.

That said, Manitoba's available labour force may be temporarily reduced due to worker illness or because of workers taking time to care for their children. The latter could occur as a result of school closures throughout the province, which are currently scheduled to occur from March 23 to April 10, 2020.

A larger labour force impact could result from lockdowns, quarantines, workplace closures, or suspension of economic activity in an effort to contain the spread of the disease. In addition, businesses that rely on supply chains may have their workforces impacted if they cannot reliably obtain the supplies they require.

Provincial revenues are related to economic growth. It is estimated that a one per cent decrease in nominal GDP growth in Manitoba roughly equates to approximately \$200 million in reduced revenues. While the potential adverse global economic impact of COVID-19 is significant, there are reasons to believe the potential decline will be less significant in Manitoba than in other jurisdictions. For example:

- Manitoba has experienced its third-highest population increase in Canada since 2014;

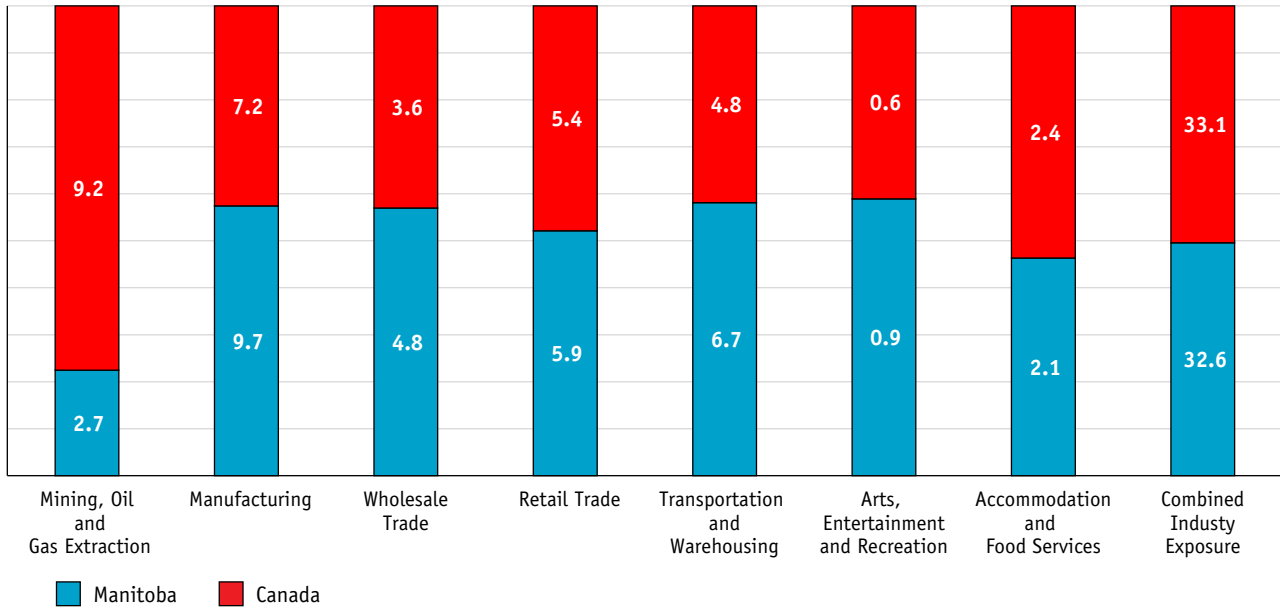
- Private sector capital spending in Manitoba has increased across a number of sectors;
- Our relatively younger population, with a median age of 37.4 years, is tied for the second-lowest median age among provinces; and
- Manitoba has the most-stable labour market in Canada, absorbing near-record numbers of new working-age citizens, while simultaneously maintaining one of the lowest unemployment rates in Canada.

Globally, the market is focusing on COVID-19 related impacts on debt-laden corporations in the airline, gaming, travel, entertainment, shipping, and auto sectors. The vulnerable sectors in Canada have been reported to be in oil and gas, manufacturing, transportation, retail, wholesale, accommodation and food services and mining. The table below outlines those same sectors in Manitoba that may be most affected by COVID-19, including speculative analysis of what a low, medium, and high economic impact could mean, based on millions of dollars in lower output on a full year basis.

Estimated Impact of COVID-19 on Select Manitoba Industries	% Share of MB GDP	Real GDP (\$M)	Low 0.3% Impact (\$M)	Medium 0.5% Impact (\$M)	High 1.0% Impact (\$M)
Mining, Oil and Gas Extraction	2.7	1,998	-6.0	-10.0	-20.0
Manufacturing	9.7	6,233	-18.7	-31.2	-62.3
Wholesale Trade	4.8	3,125	-9.4	-15.6	-31.2
Retail Trade	5.9	3,492	-10.5	-17.5	-34.9
Transportation and Warehousing	6.7	4,126	-12.4	-20.6	-41.3
Accommodation and Food Services	2.1	1,251	-3.8	-6.3	-12.5

Higher Exposure Industries Share of Total Economic Output: Manitoba and Canada

Figures in bars represent the per cent of total economic output by each sector for Manitoba and Canada.



In using this data in a bar graph, we see Manitoba’s combined industry exposure across the impacted sectors is fairly consistent with the Canadian average. We will be monitoring these sectors for demand and supply shocks in the coming weeks. Based on previous recessionary experience, however, we remain optimistic the combined impacts of recently announced payroll and sales tax measures, along with a strong retail sector and consumer demand, will temper the short term effects.

Given the most recent revisions to GDP forecasts due to COVID-19 across Canada, Manitoba’s economic outlook for nominal GDP (used for fiscal planning purposes) for 2020 under a medium impact scenario is 2.0%, down from our forecast of 3.3% (or a 1.3% reduction). The impact on real GDP under a medium impact scenario is 0.6%, down from 1.3% (or a 0.7% reduction).

Additional government support for households and businesses may further improve these estimates.

IMPACT ON FISCAL YEAR 2019/20

Our government recently released its 2019/20 Third Quarter Fiscal Update, projecting a \$325 million deficit for the current fiscal year. As we are approaching the March 31, 2020 end date of the 2019/20 fiscal year, we are not anticipating significant expenditure or revenue impacts that would disrupt our 2019/20 forecasts.

We fully expect to be able to accommodate the recently announced investments in personal protective equipment, ventilators and equipment to enhance testing capacity from within existing budgets, allowing us to maintain the \$325 million deficit projection for the current fiscal year.

IMPACT ON FISCAL YEAR 2020/21

Because COVID-19 is a rapidly changing situation, we cannot provide specific details in respect to our “bottom line.” The table below is a preliminary impact assessment. The three scenarios show a low, medium, and high impact on provincial revenues and on increased health care costs. The range of impacts from the lowest to highest scenarios are from approximately \$160 million to more than \$680 million. These estimates are highly variable and will be updated as the situation unfolds over the coming months.

Impact on Economic Growth*

Lower economic growth results in lower government revenues

		Low \$110M	Medium \$259M	High \$482M
Potential Health Costs	Low \$50M	\$160M	\$309M	\$532M
	Medium \$100M	\$210M	\$359M	\$582M
	High \$200M	\$310M	\$459M	\$682M

*Low assumes nominal GDP growth that is 0.5% lower than forecast.
 Medium assumes nominal GDP growth that is 1.3% lower than forecast.
 High assumes nominal GDP growth that is 2.4% lower than forecast.

CONCLUSION

Living in a province with an extensive floodplain, a massive boreal forest, and a geographical location that makes it vulnerable to extreme weather conditions has taught Manitobans the importance of being prepared for emergencies. It has taught us that we must be both flexible and agile in our planning, and in our response.

It has also taught us the value of facing our challenges together as a community; as a family. Like the bison that once roamed our province and adorns our flag, we protect the vulnerable and face the storm together. That is why Manitobans consistently lead the nation in volunteerism and support of charitable causes.

Budget 2020 reflects the lessons we have learned throughout our 150-year history and the values we all share. Originally conceived in anticipation of spring flooding, it contains an unprecedented level of fiscal resilience and flexibility. It gives our government the capacity to quickly deliver the resources required to respond to any emergency.

Manitobans must have a full understanding of the significant financial and public health measures that our government has undertaken in response to the threat posed by COVID-19. That is why it is important that all Members of the Legislative Assembly work together to legally authorize the spending that is required to protect Manitobans and their families during this time of need.

Your Manitoba Government stands ready to proceed.

MORE INFORMATION

Public Health

If you are experiencing symptoms of the 2019 novel coronavirus (including a fever, cough, or other respiratory symptoms) and have recently travelled internationally, contact Health Links-Info Santé at 204-788-8200 or 1-888-315-9257 (toll-free).

Visit www.manitoba.ca/covid19 for up-to date information.

Economic Development

Manitoba Economic Development Office

Phone: 204-945-1055

Email: edo@gov.mb.ca