

\*\*\*\*\* **Special Edition #15** \*\*\*\*\*  
**May 15, 2020**

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Please monitor [www.canada.ca/coronavirus](http://www.canada.ca/coronavirus) for the most up-to-date information about COVID-19

## Summary:

- Federal spending on Covid-19 measures now stands at \$151.7-billion, according to the Finance Department's latest tally of government announcements
- Parliamentary Budget Officer Yves Giroux says it's "not unthinkable" that the federal debt could reach \$1 trillion during this fiscal year as the economic response to the pandemic continues. The comment comes two weeks after Giroux also predicted that the federal deficit for the year could reach over \$252 billion as a result of the emergency economic programs the government has put in place amid the outbreak
- Mr. Morneau and Prime Minister Justin Trudeau have repeatedly declined to provide a clear timeline as to when the federal government will provide a budget or fiscal update on the impact of this new emergency spending on the size of the deficit
- Finance Minister Bill Morneau said May 13<sup>th</sup> that his government is not currently thinking about raising the GST or any other taxes but that Canada will have to face tough questions about how to pay for the Covid-19 pandemic response that is costing billions. Earlier in the day Prime Minister Trudeau downplayed the need for a federal budget in the short term, saying the fast-moving effects of the pandemic would render any projections moot, but ignoring the need for review and accountability over spending
- A complete report by the federal Department of Finance detailing all of Canada's COVID-19 Emergency Response measures, with costing as of May 13, 2020 in attached as APPENDIX A
- The Canada-U.S. border is expected to stay closed to non-essential travel until June 21 to limit the spread of Covid-19, according to sources with knowledge of the bilateral talks
- The latest public opinion data from the Angus Reid Institute finds Canadians resigned to their fate for the long haul with seven-in-ten (68%) now see a timeline for a full return to normal life at least six months away. The good news is that for many, the potential economic turmoil foreseen in the early days of the pandemic has not been realized. While a number did not pay their rent in full (13%) last month or have had to reduce the quality of their groceries (16%), this is a fraction of the number who were worried about these situations occurring back in March (in each case at least three-in-ten did).

## **NEW: Federal Infrastructure Funding Announced**

- In an interview May 12<sup>th</sup> Canada's Federal Infrastructure Minister Catherine McKenna [is sending signals](#) that as much as \$3.35 billion will be funneled to fast-track public construction projects to address Covid-19
- The Canadian Press article ran May 12 with no supporting official statement released by the Ministry of Infrastructure. McKenna's press secretary Chantalle Aubertin subsequently said the details in the article represented the "government's thinking on proposed changes to the infrastructure program," and said the official plan will be unveiled in coming weeks
- The press secretary confirmed that the plan was to include faster project approvals, with hundreds of projects approved and ready to go; support for more resilient social infrastructure, such as hospitals and schools; and an increased federal share for "shovel-worthy" projects, from building retrofits to new pathways and bike lanes "that will help Canadians physically distance while staying active and healthy". Health facilities, schools, and recreational projects such as parks, trails, bike lanes, or multi-use paths are also on the eligibility list
- McKenna says she has spent much of the last two months working with provinces and territories to assess the best ways to use existing programs to respond to some COVID-19 needs. She says this is not a new stimulus program but an attempt to be smarter and more efficient with existing programs. "We need to get the most value for our money, which is not just shovel-ready projects, but shovel-worthy projects," she said
  - The funding will come from \$33.5BN "Investing in Canada" program
  - Provinces will have to get things done by the end of the **2021** construction season, though McKenna said extra effort is being put into getting many things started this summer.
  - Normally, Ottawa would cover one-third of the cost of municipal projects, and one-half of the cost of provincial projects. The Covid-19 program will bump Ottawa's share up to 80%, leaving provinces to determine whether and how to split the remaining 20% with municipal governments when relevant
- McKenna said the government's previous goals for its infrastructure programs — namely public transit, green infrastructure and high-speed Internet access - remain
- Progressive Contractors Association of Canada public affairs vice-president [Darrel Reid said](#), "The federal government **is reallocating existing funds with no new money and only applies to 10% of the funding envelope**. It doesn't go a long way considering it's for all the provinces and territories, however, we'd say it is a good initiative where the federal government has consulted broadly."
- Stakeholders focused on that deadline and other details of the proposed plan, including a possible cap on per-project spending that has been floated
- targeted and small- and medium-sized firms the likely main beneficiaries
- John Mollenhauer, president and CEO of the Toronto Construction Association said, "When it is megaprojects and only megaprojects, the principal beneficiaries are those with the wherewithal to handle those types of projects. On smaller projects, smaller companies have a chance to get some of that work." Both Mollenhauer said he wanted to see more program details before commenting further
- McKenna would not say what Canadians could expect in economic stimulus programs once the crisis response to COVID-19 winds down. "We're trying to understand right now what is the scale and what are the needs," she said.

## **Update on the Canada Emergency Commercial Rent Assistance (CECRA) Program for Small Businesses:**

- CMHC has updated the [CECRA for small businesses web page](#) to include new details on the program. They have also added answers to questions that have been received concerning eligibility, role of property owner/landlord, mortgage requirements, and process. When the application process is open, property owners will need to provide information to prove eligibility, including:
  - proof of an existing rent reduction agreement

- proof of a moratorium on eviction and
- proof of small business tenant financial hardship.

## Updates on Canadian Emergency Wage Subsidy (CEWS) Program & Funding:

- An extension to the federal government's 75% emergency wage subsidy, which was originally slated to run until June 6, will now run through August 29<sup>th</sup> (an additional 3 months)
- The government is considering relaxing the 30% revenue decline threshold to account for future increases in business activity
- CEWS eligibility was also expanded. Changes were made to the rules around partnerships, business mergers/amalgamations, tax-exempt trusts, and seasonal employees. Full details [here](#)
- Many landlords, the Canadian Federation of Independent Business pegs it at 41%, have refused to sign onto Ottawa's rental assistance program due to complicated eligibility requirements.

## New Details of the Regional Relief Recovery Fund (RRRF)

- The Regional Relief and Recovery Fund (RRRF) is a one-time relief fund to support businesses and organizations economically impacted by the Covid-19 pandemic, but might not qualify for other program funding. It will be administered through the various regional development agencies. To get more information on the program and to see what supports are available see this [website](#).
- May 13: The federal government is adding \$250-million to a fund that helps small and medium-sized businesses commercialize their work as part of \$1.2-billion in new pandemic support for entrepreneurs, which follows weeks of warnings from companies that they were being excluded from Ottawa's relief packages. The quarter-billion-dollar boost is for the Industrial Research Assistance Program (IRAP), run by the National Research Council of Canada.

## Provincial Construction Notes:

- Construction through Covid-19 in Canada: A guideline for what each province and territory is doing as of May 11 [here](#).

### Quebec:

- Quebec's President of the Treasury Board, Minister Christian Dubé, announced that [the equivalent of \\$2.9 billion](#) in infrastructure projects will be carried out during the 2020-2021 fiscal year, in addition to the \$11 billion already planned. The move will "inject more money, more quickly into the Quebec economy," Premier François Legault said via Facebook. Seniors' homes (such as a new style of small seniors residences known as Maison des Aînés), health centres, schools, road and public transit projects will be prioritized. Many projects already planned under the Quebec Infrastructure Plan (QIP) will be brought forward by the Legault government to stimulate the economy, which is slowing down because of the pandemic.

### Ontario:

- Ontario's Premier Doug Ford announced May 14th that his government will allow all construction work to resume in the province next week, starting May 19. On April 3, the province had forced most of the industry to shut down, allowing only key infrastructure work to continue as well as some residential. Over the past two weeks it has opened excavation and below-grade work on multi-unit residential projects, but most of the industry remained closed. Ontario's Labour Minister Monte McNaughton said the province will "spare no expense" to keep workers safe. Along with new guidelines in place to prevent the spread of COVID on job sites, he said Ontario has stepped up site inspections. Over the course of the pandemic, the province has shut down 20 job sites due to safety issue

- In this week's ORBA meeting with Transportation Minister Caroline Mulroney, she reiterated the government's commitment to the \$2.3 billion budget for the highway expansion and rehabilitation capital program for 2020-21. Later the same day, the Minister [sent a letter to ORBA](#), confirming this commitment in writing. ORBA had previously requested more clarification regarding the \$2.3 billion in order to have a better understanding of the tendering process for this fiscal year. In this week's meeting with senior MTO staff, MTO did provide further detail, however, ORBA requested a further breakdown indicating not only the number of contracts by value range but, the number of projects in each region. MTO committed to providing this additional detail before the next meeting
- May 12: According to a new report from the Financial Accountability Office, the budget shortfall for 2020-21 is projected at \$41 billion - double the Ford government's forecast in March (\$20.5 billion) and more than four times pre-pandemic estimates (\$9 billion). The FAO projects GDP to fall by nine per cent, the biggest decline on record, and government revenues to drop by a whopping \$21.7 billion this fiscal year. Higher deficits will push Ontario's debt burden to record levels; the net debt-to-GDP ratio will soar to a record 49.7 per cent in 2020-21, a nearly 10 percentage point uptick from the year prior. If restrictions continue to lift through the summer and fall, the FAO expects GDP will largely rebound in 2021-22 and rise by 8.5 per cent, while the deficit would decrease to \$25.3 billion, which is still more than double the shortfall in 2019-20. But with so much uncertainty around reopening, the fiscal watchdog says returning to normalcy could take longer. The FAO mapped out an alternative scenario where restrictions are lifted more slowly, which would see the deficit hit \$45.3 billion this year.

#### British Columbia:

- May 15: As British Columbia prepares to enter Phase 2 of its economic restart plan, the Province welcomes the release of the initial set of [WorkSafeBC guidelines](#) that will help businesses and organizations develop their plans to reopen safely in the coming days and weeks. Businesses in all sectors are required to use these guidelines and resources to develop their COVID-19 safety plans and post those plans for employees and customers as they resume operations
- Union of B.C. Municipalities president Maja Tait has [written to Municipal Affairs and Housing Minister](#) Selina Robinson with a list of requests to help local governments weather the pandemic. Tait wants the province to allow all property owners to defer their property taxes this year, more provincial funding for transit and economic recovery spending to be focused on infrastructure projects.

#### Alberta/British Columbia:

- On Monday, officials reported that they expect to continue construction on the Trans Mountain pipeline expansion - with construction to be underway along all sections of the route by the end of 2020. Next month, the company expect to break ground near Kamloops, B.C., as the first section of the pipeline near Edmonton is nearly 60 per cent complete. The expansion along the 1,147-kilometre route will carry crude from Alberta to the coast of B.C. Route hearings are underway by the Canada Energy Regulator to determine the exact path of the expansion in areas around Vancouver.

#### Manitoba:

- May 12: The Manitoba government will boost infrastructure spending and cut funding to some environmental groups as part of its plan to deal with the fiscal fallout from the Covid-19 pandemic. The Green Action Centre, a Winnipeg-based non-profit that promotes recycling, composting and other activities, has received a letter from the province that says annual funding to the group worth \$200,000 is being suspended this year. The government said nine groups had requested and were denied funding this year, including the Green Action Centre and two others that received a total of \$360,000 last year.

## Notes on Restarting the Economy:

### Ontario:

- Ontario will begin its gradual reopening next week, **resuming all construction**, restarting scheduled surgeries and allowing retail stores outside of malls to open. Social gatherings remain limited, but the government is looking into ways for people to see their family and friends safely.

### Alberta:

- A return to the first semblance of normalcy started in most parts of the province Thursday with stage one of Alberta's relaunch strategy. Retail businesses, museums, daycares, hair stylists, cafes pubs and restaurants can now reopen with conditions. Calgary is going to crack down on physical-distancing laws. The city, unlike the rest of Alberta, will have to wait until May 25 before people can dine in a restaurant, sit in a pub or get a haircut. Brooks, a city of about 15,000, is also on hold because of a high numbers of cases.

### British Columbia:

- The current state of emergency in BC is being extended two more weeks, through the end of the day on May 26, 2020. Phase 2 of BC's ReStart Plan begins Tuesday, May 19.

### Quebec:

- Recognizing that the situation remains bad in Montreal, Premier François Legault announced that primary-school students in Montreal and area will not go back to class until the next school year at the earliest.

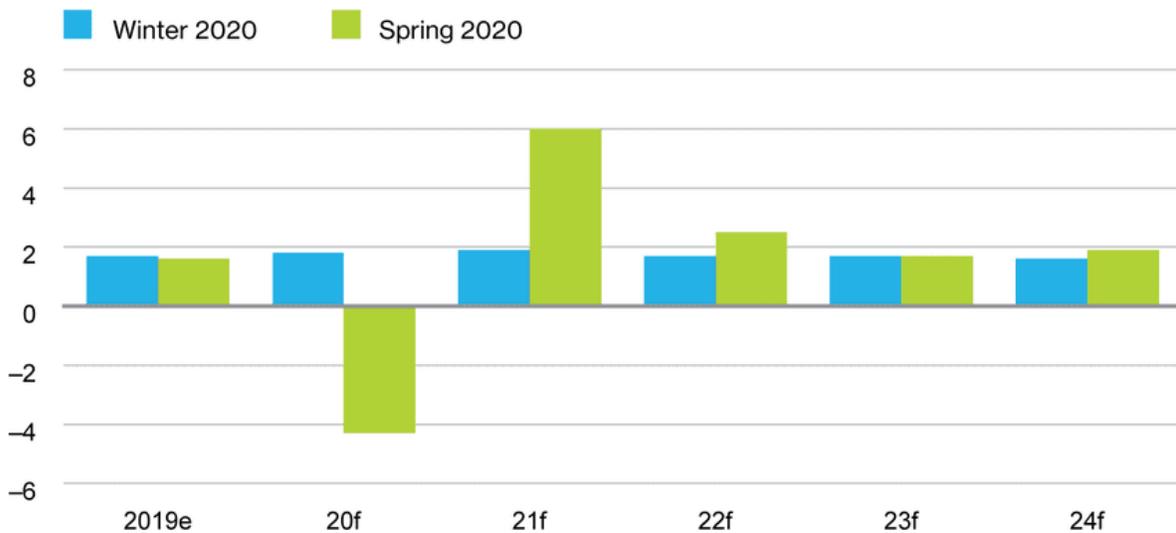
## Economic Analysis & Commentary:

### Canada:

- **Housing Sales:** Home sales across Canada sank 57% in April over the previous month, marking the weakest activity since 1984 as the coronavirus pandemic slammed the housing market. Last month, 16,612 homes were sold on a seasonally adjusted basis, compared with 38,493 in March, according to the Canadian Real Estate Association, with Toronto, Montreal, Vancouver and other large markets continuing to deteriorate. New listings dropped by 56%. However, unlike in March when home prices remained steady, the average selling price across all types of residential properties fell 11% to \$475,310 in April from \$533,504 in the previous month. The country's most expensive markets recorded price declines. In the Greater Toronto Area, it fell 12% to \$789,274 from \$894,745 on a seasonally adjusted basis, while in the Vancouver region, the price dropped 6% to \$1,009,570 from \$1,076,461
- Conference Board of Canada released its latest [Major Cities Insights report](#). Even assuming that physical distancing measures are slowly relaxed over the spring and summer, the effects of the pandemic on the economy will likely endure until a vaccine is available. Given this assumption, real GDP is forecast to contract by 4.3% in 2020, followed by a solid 6.0% rebound in 2021.

## Canadian real GDP

(real GDP, expenditure-based, 2012 \$, percentage change)



e = estimate

f = forecast

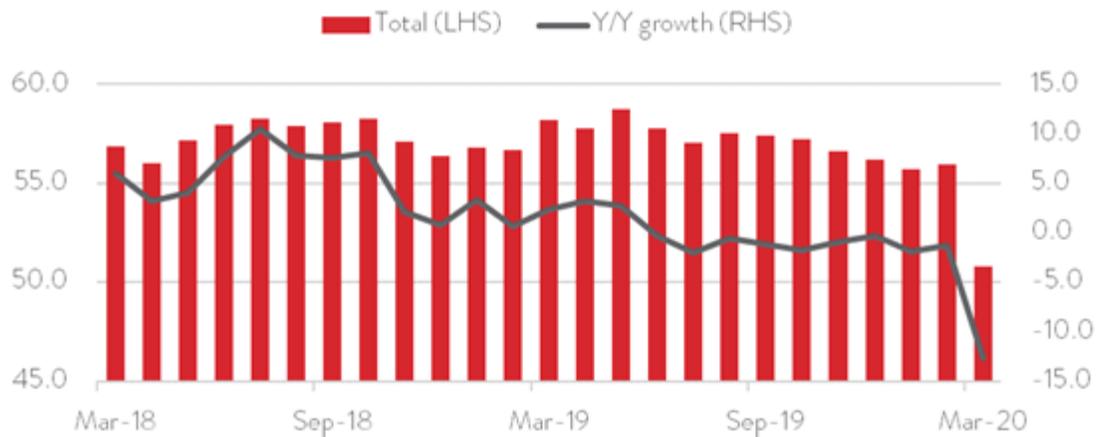
Sources: The Conference Board of Canada; Statistics Canada.

### Canadian Manufacturing in March:

- Manufacturing sales plunged 9.2 per cent to \$50.8 billion in March, the lowest level since June 2016 and the largest percentage decline since December 2008
- Sales rose in just two major industries—food and paper—as shoppers flocked to stores to stock up on groceries and toilet paper
- Sales tumbled by over 30 per cent in both motor vehicle and parts and petroleum and coal refining.
- Manitoba and Nova Scotia were the only provinces to buck the national trend and see sales increase in March. Ontario accounted for the lion’s share of the national decline
- Other series were also discouraging. New orders, unfilled orders, and the capacity utilization rate all fell in March, while the inventory-to-sales ratio hit a record high
- As bad as the March figures were, we are guaranteed to see an even steeper fall in shipments when the April data are released in about four weeks
- Accordingly, CME continues to work closely with all levels of government to ensure the industry’s concerns are being addressed as part of the ongoing response to the COVID-19 pandemic.

## MANUFACTURING SALES NOSEDIVE

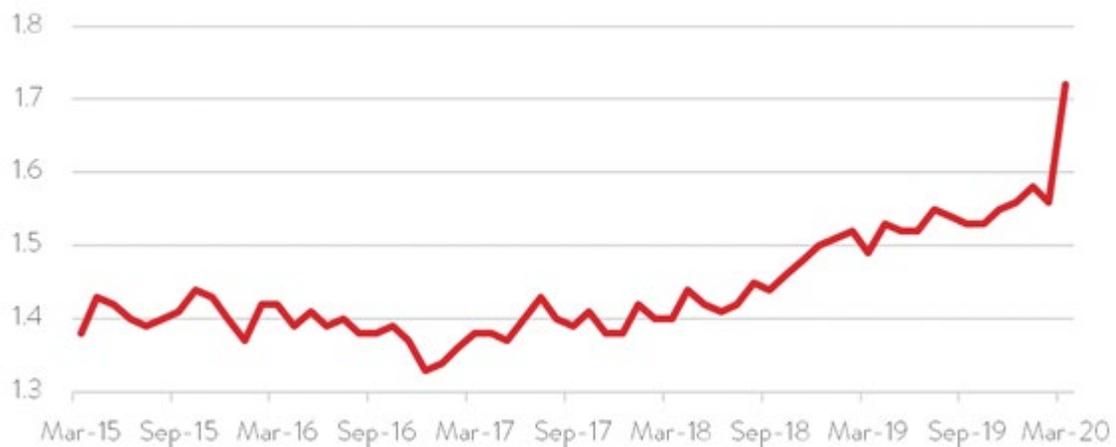
Canada (billions \$, seasonally adjusted, per cent)



- Inventories climbed a modest 0.1 per cent to \$87.5 billion in March. Combined with the dramatic drop in sales, this pushed up the inventory-to-sales ratio to a record of 1.72. At the same time, the sector's capacity utilization rate declined 3.6 percentage points to 72.8 per cent. This is 8.8 percentage points lower than the same month a year ago.

## INVENTORY-TO-SALES RATIO SURGES

Canada (ratio of total inventory to sales)



### United States:

- Economic reports for the month of April are beginning to lay bare the extent of the slowdown from COVID-19 containment measures. US retail sales plunged a whopping 16% in April - more than consensus expectations and reflecting widespread damage by sector. Clothing sales plunged another 80% in April after a 50% drop in March. Furniture sales are down about 2/3 in the 2 months since February. Online sales provided surprisingly little offset - although non-store retail sales were still up 14% from February as of April. And food store sales were up about 10% over that two-month period but declined 13% in April

- The retail sales data for the most part only covers sales of goods. But services spending was likely at least as weak in April - the one services component in the retail numbers, food services, was down 50% over March and April combined. Goods production was also exceptionally soft. Industrial production plunged 11.2% in April (the largest drop since 1921...), led by a whopping 72% drop in motor vehicle and parts production
- The 11.2% m/m fall in industrial production in April was bigger than at any point in the index's 100-year history, including the Great Depression, the end of World War 2 and the Global Financial Crisis. Output will rebound from May onwards, as factories begin to reopen, but the early signs are that the recovery is set to be gradual. The decline was unsurprisingly led by a 13.7% m/m fall in manufacturing output, which sank to its lowest level since mid-2009 and caused manufacturing capacity utilisation to drop to 61.1%, a record low going back to 1948. Output fell sharply in almost all sectors, with an 11.7% m/m drop in consumer goods production and a 17.3% fall in business equipment production illustrating the breadth of the impact of coronavirus shutdowns. But the hit to the auto sector was particularly pronounced, with motor vehicle output falling by a staggering 72% m/m.