

# Provincial Credit Watch

A Publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

- **Spreads relatively steady on improved sentiment**
- **FY20/21 deficits to widen sharply; BMO Estimates attached**
- **Record pace of provincial borrowing continues**

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## Provincial Returns

Provincial bond returns were positive over the past month, and roughly in-line with Canadas as broader market volatility has eased. From a year ago, long provincials are up 11.2% (total return), outperforming corporates, but slightly lagging Canadas amid the flight to quality. Long provincial spreads have steadied, down about 25 bps from their post-COVID high, helped by improved market sentiment and the Bank of Canada's purchase program.

Sector	1-month				6-month				12-month			
	Broad	Short	Mid	Long	Broad	Short	Mid	Long	Broad	Short	Mid	Long
Universe	0.31	0.28	0.40	0.30	4.61	3.37	6.08	5.11	7.54	4.30	8.09	11.24
All Government	0.21	0.17	0.22	0.25	5.48	3.88	6.93	6.17	8.36	4.59	8.73	12.26
Canada	0.21	0.15	0.23	0.35	5.94	3.89	7.69	10.12	7.52	4.50	9.05	15.33
Agencies	0.30	0.25	0.42	0.28	5.24	4.19	7.53	6.67	6.61	5.05	9.40	12.60
Provincials	0.22	0.21	0.22	0.22	5.06	3.85	6.32	4.90	9.14	4.80	8.47	11.23
Municipals	0.23	0.25	0.28	0.15	4.56	3.80	6.10	4.03	8.51	4.94	8.68	10.43
All Corporates	0.60	0.52	0.97	0.48	2.34	2.38	3.29	1.59	5.38	3.77	5.89	7.80
Corporate AA	0.30	0.29	0.38	0.08	3.24	2.96	5.35	0.71	4.72	4.13	7.57	6.75
Corporate BBB	1.03	0.80	1.28	1.09	1.80	1.51	2.61	1.30	4.97	3.14	5.33	7.12

Source: PC Bond, a business unit of FTSE TMX Global Debt Capital Markets Inc.

As of May 29, 2020

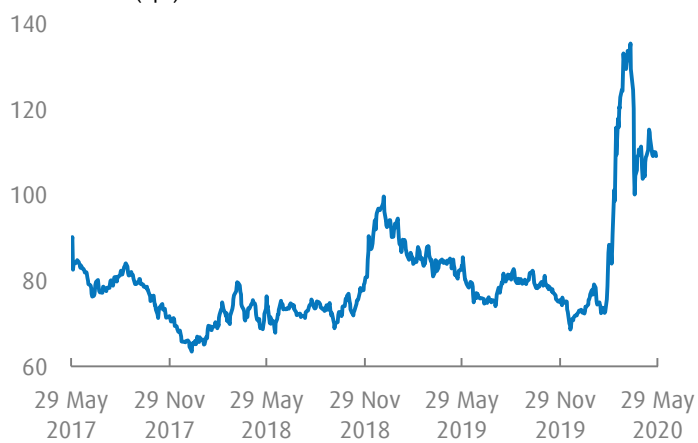
### Short Provincial Bond Yield Spread

vs. Canada (bps)



### Long Provincial Bond Yield Spread

vs. Canada (bps)



## Relative Performance

The flight-to-quality in global markets eased over the past month, with mixed spread performance across the provinces. Most moves were relatively modest compared to those seen earlier in the COVID crisis.

In the 30-year space, Alberta outperformed (with Saskatchewan a few ticks behind) as oil prices rebounded sharply. Performance was a touch weaker in Ontario and Quebec, after those provinces benefited, on a relative basis, from the move to larger liquid names earlier in the downturn.

The Bank of Canada's Provincial Bond Purchase (PBPP) program has been very well received by the provinces. The program, along with the Provincial Money Market Purchase program, has helped maintain market functioning and contain spreads. We continue to await meaningful fiscal updates from the provinces in the coming months.

Spread Performance vs. Canadas (bps : chng)									
Province	5-year spread			10-year spread			30-year spread		
	1-mo.	6-mo.	12-mo.	1-mo.	6-mo.	12-mo.	1-mo.	6-mo.	12-mo.
British Columbia	-6.0	17.0	8.0	0.5	23.0	13.5	0.0	27.5	21.0
Alberta	-9.0	29.0	21.0	-1.5	42.0	35.5	-3.5	44.5	46.0
Saskatchewan	-4.0	25.0	15.5	-0.5	29.0	22.5	-2.5	38.0	36.5
Manitoba	-4.0	19.5	9.5	-0.5	25.5	15.5	-0.5	32.0	25.5
Ontario	-4.0	17.0	6.5	1.5	23.5	12.0	0.5	23.5	15.5
Quebec	-4.0	16.0	6.5	1.5	25.0	14.0	0.5	25.0	17.0
New Brunswick	-6.0	22.5	12.0	-0.5	31.5	18.5	0.5	27.5	19.5
Nova Scotia	-5.0	20.0	9.5	2.5	30.5	20.0	0.5	32.5	25.5
Prince Edward Island	-6.0	18.0	7.5	-0.5	23.5	12.0	0.5	25.5	13.0
Newfoundland & Labrador	-9.0	40.0	31.0	-3.5	49.5	40.0	5.5	62.0	58.0
Average	-6.0	17.0	8.0	0.5	23.0	13.5	0.0	27.5	21.0

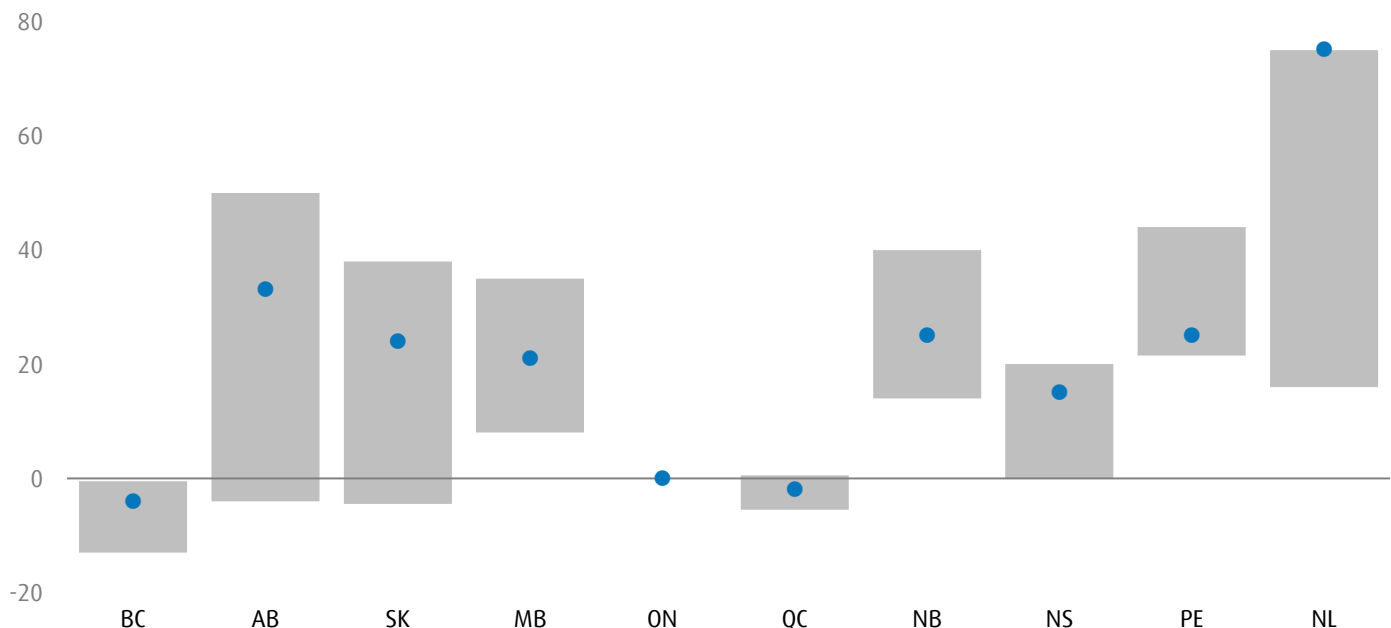
Source: PC Bond, a business unit of FTSE TMX Global Debt Capital Markets Inc.

Implied new issue spreads, as of May 29, 2020

## Provincial 30-year Spread Ranges vs. Ontario

(bps : 3-year period ending May 29, 2020)

● = current



## Fundamentals

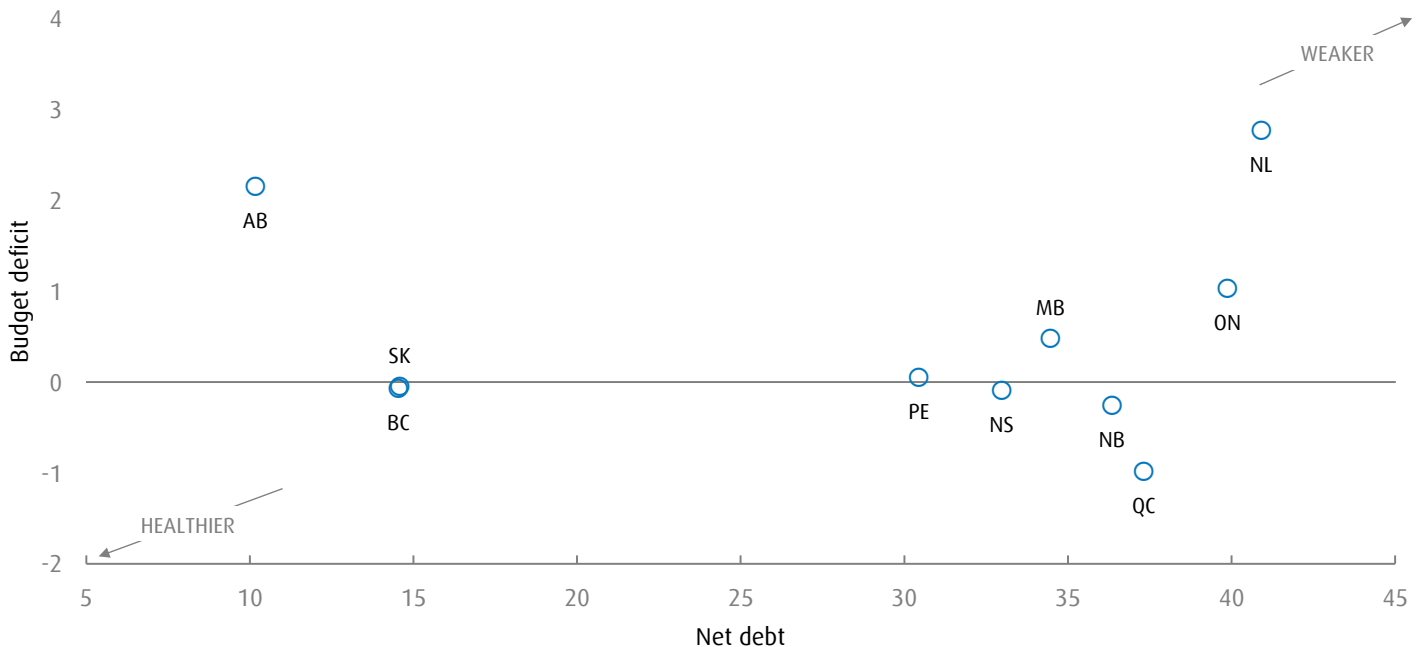
Economic and Fiscal Fundamentals										
Province	Real GDP (y/y % chng)		Jobless Rate (%)		Budget Balance				Net Debt (% of GDP)	
	2019e	2020f	2019	2020f	(\$ mlns)		(% of GDP)		18/19	19/20e
British Columbia	1.9	-5.3	4.7	8.4	1,535	203	0.5	0.1	14.4	14.5
Alberta	0.5	-7.0	6.9	10.0	-6,711	-7,540	-1.9	-2.2	8.0	10.2
Saskatchewan	0.9	-6.2	5.4	9.7	-268	37	-0.3	0.0	14.7	14.6
Manitoba	1.6	-4.8	5.3	8.4	-163	-360	-0.2	-0.5	34.3	34.5
Ontario	1.6	-6.0	5.6	8.7	-7,435	-9,200	-0.9	-1.0	39.5	39.9
Quebec	2.8	-6.3	5.1	9.3	8,280	4,533	1.9	1.0	39.3	37.3
New Brunswick	0.6	-3.2	8.0	9.9	72	98	0.2	0.3	37.8	36.3
Nova Scotia	1.0	-3.8	7.2	10.2	120	41	0.3	0.1	33.8	33.0
Prince Edward Island	2.1	-3.0	8.8	10.2	1	-4	0.0	-0.1	30.4	30.4
Newfoundland & Labrador	2.0	-7.5	12.0	12.6	-552	-944	-1.7	-2.8	46.3	40.9
Canada*	1.7	-6.0	5.7	9.0	-5,121	-13,135	-0.2	-0.6	29.9	29.9

Sources: BMO Capital Markets, Fiscal Updates

\* Budget balance and net debt are provincial totals

### Provincial Fiscal Landscape Pre-COVID

% of GDP, FY19/20



### Provinces Look to Re-Open

All provinces are rolling out some form of plan to re-open their economies, though the degree differs by jurisdiction. According to the CFIB, just under one-third of Canadian small businesses were open as of May 21, up from 21% a month earlier. Alberta has, according to this measure, opened up the most (47%), with the other prairie provinces not far behind. Quebec was nearly 40% open, while Atlantic Canada was mixed (almost 45% open in New Brunswick, but Newfoundland & Labrador is reportedly the lowest in the country). Ontario is also near the low end (26%), but the

province only allowed street-level retail spaces to open as of May 19, so those numbers have likely seen a bump. At any rate, turning the lights back on is clearly going to be a gradual process across the country

**Borrowing (FY20/21). Based on latest official update.**

Province	Funding Requirements (\$ mlns)					Credit Ratings		
	Re-financings	Net Borrowing	Total	Remaining	% funded	S&P	Moody's	DBRS
British Columbia	2,868	5,682	8,550	-167	102	AAA**	Aaa	AA (high)
Alberta	5,077	12,063	17,140	5,603	67	A+	Aa2	AA (low)**
Saskatchewan	1,499	2,251	3,750	1,861	50	AA	Aaa	AA**
Manitoba	3,787	1,863	5,650	1,382	76	A+	Aa2	A (high)
Ontario	26,786	20,914	47,700	23,578	51	A+	Aa3	AA (low)
Quebec <sup>1</sup>	13,752	10,455	24,207	4,719	81	AA-	Aa2	AA (low)
New Brunswick <sup>2</sup>	1,645	639	2,283	850	63	A+	Aa2	A (high)
Nova Scotia <sup>3</sup>	930	570	1,500	34	98	AA-	Aa2	A (high)
Prince Edward Island	0	200	200	67	66	A	Aa2	A
Newfoundland & Labrador <sup>4</sup>	919	1,081	2,000	813	59	A**	A1**	A (low)**
All Provinces	57,263	55,717	112,980	38,741	66			

Including: <sup>1</sup> Financement Quebec and Hydro Quebec (CY); <sup>2</sup> guaranteed NB Electric and NBMFC; <sup>3</sup> NSMFC; <sup>4</sup> NL Hydro

\* Pos. outlook; \*\* Neg. outlook

**Budget Deficits to Widen**

Combined direct provincial COVID-19 support measures look to be in the \$30 billion range overall, with some variance across the group. For example, Quebec has been quite aggressive with support, relative to the size of the economy, while smaller provinces, particularly in Atlantic Canada, have had to provide less.

Another factor is the deep plunge in oil prices, which adds a further impact on the producing provinces. In Alberta, for example, we can assume that royalties have effectively fallen to zero, which could carve that deficit to near \$20 billion, or above 5% of GDP. Ontario, Quebec and B.C. look to be on track for shortfalls of around 2.5% of GDP, and the Maritime provinces should come in shallower.

Suffice it to say that borrowing programs have ramped up significantly, and the provincial total could run at around \$150 bln this fiscal year. Calendar year-to-date, the provinces have already done \$80 bln worth of issuance, roughly twice the amount seen at the same point in recent years.

**Deficit Risk (FY20/21)**

Province	Pre-COVID Balance		BMO Deficit Est.	
	\$ blns	% GDP	\$ blns	% GDP
British Columbia	227	0.1	-7,500	-2.4
Alberta	-7,310	-2.0	-19,000	-5.3
Saskatchewan	49	0.1	-2,200	-2.6
Manitoba	-220	-0.3	-3,000	-3.9
Ontario	-6,700	-0.7	-21,500	-2.4
Quebec <sup>1</sup>	2,729	0.6	-13,000	-2.7
New Brunswick <sup>2</sup>	92	0.2	-350	-0.9
Nova Scotia <sup>3</sup>	55	0.1	-500	-1.1
Prince Edward Island	7	0.1	-50	-0.7
Newf. & Labrador <sup>4</sup>	-796	-2.3	-2,100	-6.1
All Provinces	-11,866	0.5	-69,200	-3.0

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