HIGHLIGHTS OF THE WEEK

• In what was otherwise a quiet week for economic data in Canada, the price of oil, as measured by WTI, jumped back up above US$50 per barrel. That said, the overall collapse in oil prices has turned the usual provincial fiscal order topsy-turvy.

• Provincial budget season is in full swing, with two provinces releasing their 2015-16 fiscal plans this week. Wealthy Alberta is slated to post a $5 billion deficit this year, and is bringing in a slew of tax and fee increases. Meanwhile, Quebec is planning to be in the black for the first time in seven years.

• The oil price collapse has also driven a wedge in business sentiment across Canada. Oil-dependent provinces continued to see sentiment slip, while oil consumers are becoming more optimistic.

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CANADA - PROVINCIAL BUDGET SEASON IN FULL SWING

It was a quiet week for economic data in Canada, but there were still plenty of events for markets to chew on. Provincial budget season is in full swing now, as two of Canada’s larger provinces – Alberta and Quebec – released their budgets for the 2015-16 fiscal year. The price of oil, as measured by WTI, jumped back up above $50 per barrel this week, but the overall collapse in oil prices has turned the usual provincial order topsy-turvy.

Alberta is slated to post a $5 billion deficit this year, and is bringing in a slew of tax and fee increases. Meanwhile, Quebec is planning to be in the black for the first time in seven years (see chart). With Alberta and Quebec on the books, we are now about half way through budget season. BC, Saskatchewan, Alberta and Quebec (which in total represent more than half of Canada’s economy on a GDP basis) have all tabled their budgets for the 2015-16 fiscal year.

B.C. tabled its budget in February, projecting its third budget surplus in a row. Saskatchewan, the fiscal stalwart, plans to retain a small surplus, despite a big drop in oil revenues. Saskatchewan has been consistently in the black for more than 20 years. Canada’s other province with a heavy reliance on oil revenues, Newfoundland and Labrador, hasn’t announced a budget date yet, but the collapse in oil prices is expected to erase the surplus that was forecast only a year ago.

The other remaining budgets aren’t likely to report much good news either. New Brunswick, whose budget is released next week (March 31st) is struggling with a deficit and an economy facing structural challenges. Nova Scotia, set to release its budget on April 9th, is facing a similar, but slightly less severe, situation. Ontario, which has yet to announce a budget date, but will likely be in a month or so, has the biggest fiscal hole, and is on a fairly slow path back to balance in 2017. Manitoba (April 30th) is expected to continue steadily chipping away at its deficit to meet its goal of being back in balance by 2016-17. Lastly, PEI is headed into a provincial election, with a budget to follow.

Since the recession blew a hole in provincial coffers, most provinces have been wrestling down deficits, and as a group is more than halfway finished (on a relative to GDP basis). However, the collapse in oil prices has made road back to balance steeper by worsening the situation of oil-dependent provinces. Government restraint continues to lie ahead, and our updated Canadian economic forecast shows that government spending in real terms is expected to contract over most of 2015 and remain quite modest through 2016.

The shift in provincial fortunes was also evident in the CFIB Business Barometer released this week. Business sentiment held up well in March, but is below its year ago level. There is also a stark disparity between provinces where sentiment has ticked up, largely in oil-consuming Eastern Canada, and where it has deteriorated (see Chart). Notably, Alberta business sentiment dropped below the 50 level in the February and March readings, for the first time since the last recession. A reading below 50 indicates that the balance of opinion on prospects for the year ahead has turned negative.

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