COVID-19 plunges Ontario into recession as budget deficit forecast to hit a record $38.5B

Robert Benzie

Reams of red ink and a recession.

The COVID-19 pandemic has plunged Ontario into an economic recession, forcing Premier Doug Ford's Progressive Conservatives to almost double the budget deficit to a record $38.5 billion.

Finance Minister Rod Phillips — who had projected a $20.5-billion shortfall in March, up from last year's $9.2-billion deficit — revealed Wednesday the toll that the coronavirus is taking on the provincial treasury as he unveiled first quarterly results.

"Underlying this economic crisis is the health crisis," Phillips said of an outbreak that has killed more than 2,800 Ontarians and cost nearly 1.2-million jobs after most businesses were forced to close due a state of emergency that extended from March 17 until July 24.

"We are in a recession today in Ontario and, I would argue, across Canada," the grim-faced finance minister told reporters in a Queen's Park teleconference.

Warning that "we are in for a difficult economic time," Phillips, who had pledged $17 billion last spring for COVID-19 relief, said that new expenditures have ballooned to $30 billion.

The treasurer stressed while the "current level of government spending and deficits are not sustainable over the long run, they are necessary today" to steer Ontario through the storm.

That includes $7.7 billion for additional health-care funding, up from the $3.3 billion announced on March 25, as well as about $4 billion in increased financial aid for municipalities and public transit.

Bracing for a second wave of COVID-19, the government has earmarked $9.6 billion in a contingency fund.

"We've learned something from what we did last time," said Phillips of the government's decision to effectively shut down most of the economy starting in mid-March to prevent the virus from overwhelming hospitals.

In contrast to other jurisdictions, such as the United States, where things opened up too quickly, Ontario's strategy appears to be working.

Daily new case counts are relatively low and people are wearing masks indoors in public spaces, such as shops, and maintaining a safe physical distance to stem the spread of coronavirus.

The treasurer, who will table a full budget in November, noted the government has spent $610 million for personal protective equipment for front-line workers.

But with schools reopening in September, there are mounting concerns about a second wave as students and teachers descend on classrooms for the first time since March.

Liberal Leader Steven Del Duca said “parents know firsthand that the only way we can get Ontario’s economy back on track is to get our kids safely back to school” and blasted the premier for not having an adequate blueprint for that.

“Doug Ford’s fiscal update makes it clear that he has dropped the ball badly and has no credible plan to get our kids back in classrooms safely come September,” said Del Duca.

“Without a new plan, moms and dads across Ontario will not have the peace of mind they need to get back to work and ensure that our economic recovery is successful. Now parents are being unfairly forced to make a choice between their kids and their careers.”

NDP MPP Sandy Shaw (Hamilton West-Ancaster-Dundas) said the Tories are “pinching pennies on the backs of our children and that choice is so risky for our children’s health and well-being.”

“We should be spending what it takes to get all kids into smaller, safer classes — to keep them safe, and to protect our progress in the fight against COVID-19,” said Shaw.

Ford, for his part, said his government is prepared to spend what is needed to keep people safe.

“When this first started ... I said, ‘I’m not going to spare a penny,’ and I proved it,” the premier said.

Along with Ottawa, Queen’s Park has given 375,000 front-line workers a temporary $4-an-hour pandemic pay hike to reward them for their efforts dealing with COVID-19. That $1.55-billion program includes $424 million in provincial cash.

Last month, federal Finance Minister Bill Morneau said Ottawa’s deficit could be a record $343.2 billion.

Ontario’s real gross domestic product rate declined by two per cent in the first quarter with the province’s economy expected to shrink by 6.7 per cent by the end of the year.

By definition, a recession occurs when real GDP falls in two consecutive quarters.

Provincial officials are optimistic that real GDP will grow by 5.5 per cent next year.

In March, Phillips forecast overall spending would be $174.3 billion this year. That has now climbed to $186.7 billion, by far the largest budget in Ontario history. The Tories are spending 18 per cent more than the previous Liberal government’s 2018-19 budget.

The 2020-21 deficit has skyrocketed by $18 billion in just a few short months.

Revenues for this year had been expected to be $156.3 billion; that figure has been revised to $150.6 billion, a $5.7 billion hit to the treasury.

While there was an increase in federal transfers of $6.2 billion, corporate tax revenue projections dropped by $5.2 billion and expected sales tax revenue declined by $4.2 billion.

Queen's Park was also hurt by reduced revenues from personal income taxes, gasoline taxes and employer health taxes.

Ontario's net debt-to-GDP ratio, which in March was anticipated to be 41.7 per cent, is now expected to be 47.1 per cent this year — a 5.4 percentage-point change.

In May, the province's independent financial accountability office had warned that the deficit could balloon to $41 billion due to a combination of increased spending and decreased tax revenues because of the pandemic.

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