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Phase one COVID-19 stimulus mostly helps households

Canada's federal government announced a stimulus package of \$27 billion (1.2% of GDP) in direct spending, and \$55 billion (2.4%) in tax deferrals for individuals and businesses. These "first phase" measures largely support incomes: for those who lose their jobs by enriching the employment insurance program, those with children by increasing the child care benefit, and those with cash flow problems by delaying tax remittances. The measures will be rolled out over the coming weeks, with some effective immediately and some coming into force by early May once implementing legislation can be passed. Minister Morneau suggested longer term investments would come at a later date.

After already announcing \$10 billion in funding support to Canadian businesses via EDC and BDC, the Prime Minister announced a 10% wage subsidy for small businesses (up to \$1,375 per employee, and \$25,000 per business) and signaled that assistance for hard-hit industries was forthcoming, likely via extraordinary power for the Minister of Finance to direct loans via EDC. Minister Morneau announced forthcoming support for oil and gas sector workers in conjunction with the Government of Alberta. Any interventions using these powers will be critical in bridging the gap for these industries. We hope the Government will announce details of this support soon, and specify which industries will receive support as the present stimulus is tilted toward households and insufficient to limit layoffs and reduced hours.

In addition to more generous EI sickness benefits announced last week, the PM announced income support for workers and the self-employed who are quarantined, caring for those who are, or those with children affected by school closures, under a new Emergency Care benefit for 15 weeks (paying \$450 per week). The package also includes longer term income support for those that are not eligible for EI, and are facing unemployment, via a new COVID-19 emergency support benefit providing up to \$5 billion but with no details on qualification requirements.

Direct transfers to households totaling \$7.4 billion are also penciled in. Canadians with children will see a boost in Canada Child Benefit payments, with cheques increasing \$500 for the average family, and low income Canadians will see their GST rebate payments increase by \$400 on average. Seniors will not need to withdraw as much from their RRIFs, and targeted support for indigenous communities and homeless shelters is also included.

Even with these supports Canadian households are likely to face cashflow issues, and the government announced significant tax and student loan deferrals. The deferrals cover about \$55 billion in tax and payment obligations, which will help households and businesses buffer income losses until September this year. Tax deferrals have been widely used elsewhere in the world, though their economic lift will be indirect and temporary. They should help firms delay layoffs and households, particularly the self-employed, remain more liquid in the near term. Mortgage adjustments will likely help cashflows more, with the large Canadian banks allowing households to skip payments for up to 6 months with potential for other debt relief for those affected by the virus, and CMHC will allow payment deferral on insured mortgages.

Directionally, we think the support is well targeted to Canadians who will suffer the first round impacts of the virus. Canadians who lose their jobs due to illness or because their workplaces are shuttered will be supported in the near term. While Canada has yet to see an outbreak as severe as other parts of the developed world, now is an opportunity to get ahead of the economic consequences should the outbreak continue to worsen, and ensure Canadians can afford to make adjustments that will limit the spread of the virus in Canada without facing dire financial consequences. Some harder-hit countries (Italy, Spain, and the UK) have announced larger stimulus packages, and further support for businesses from any future stimulus measures in Canada could help stave off the worst of the impacts.

We look forward to further details from the government on direct industry support and business credit in the near term, and announcements from the US government in the coming days.here.

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