

Federal government releases plan to soften Coronavirus blow

March 2020

Prime Minister Justin Trudeau announced first steps to help mitigate the impact of the rapidly spreading novel coronavirus (COVID-19). The federal government will allocate a little over \$1 billion, largely devolved to the provinces and territories, and targeted to the health care system. Uncosted measures announced today may provide a preview of economic measures, which we hope are still to come. The government outlined:

- \$500 million in health transfers to the provinces, distributed as usual
- \$200 million for federal public health efforts, including funding for virus testing, indigenous health services, public education efforts, and medical supplies such as face masks
- \$275 million for new research into the virus, including vaccines and clinical trials
- \$50M in international aid to help other countries prepare for outbreaks

Although the overall economic hit from COVID-19 remains highly uncertain at present, it will likely impact business spending and consumer demand directly, and decrease exports if the outbreak in the US continues to worsen. Supply chain interruptions and labour shortages due to the virus' impact (here and abroad) are likely to challenge cash flow for businesses, and consumers will pull back in anticipation of or due to income losses from layoffs, shorter hours, or quarantine. These impacts will be amplified by already high levels of household and business debt, which make spending more responsive to income losses, and limit Canadians' ability to borrow to smooth out these shocks.

Indeed, COVID-19 has already greatly impacted a few sectors: tourism, airlines, and oil & gas. Finance Minister Bill Morneau suggested the government was on standby to supercharge business credit provided by the financial system if financing becomes difficult to obtain for firms, via the Business Development Bank of Canada and Export Development Canada. It may also consider flexible tax payment arrangements for struggling firms. We hope the government will announce funding and outline parameters for which firms would qualify in the upcoming budget, in recognition of the already meaningful economic impact the virus is having. These measures could provide the lift needed to prevent significant labour market impacts from materializing.

The announcement was light on economic support, but outlined changes to employment insurance sickness benefits for Canadians in quarantine. The government will waive the one-week waiting period, meaning quarantined or self-isolated Canadians can qualify immediately for income support if they do not have support from their employers. Work sharing provisions will also be strengthened, doubling the length of time work sharing benefits can be paid to 76 weeks. The latter should help avoid layoffs if the economy worsens.

Together, these EI changes should help reduce income losses for people who need to be quarantined, but looking toward the budget, the government could go much further. Potential avenues they could explore if the economy continues to worsen include increasing the EI benefit amount early on for people temporarily impacted by the virus, or easing qualification requirement for benefits recognizing that unquarantined Canadians may also lose hours or be laid off if the economic impact of the virus worsens.

The Prime Minister suggested that COVID-19 has already impacted the budget planning process, and signaled the government would do more if needed. We hope to see an outline of what additional steps they plan to take, and a more significant scale of economic support, when the budget is tabled in the coming weeks.