The Hidden Risk to Canadians With the $12,000 CRA CERB

Description

Before stepping down from his post as governor of the Bank of Canada on June 2, 2020, Stephen Poloz has lavish praises for the Canada Emergency Response Benefit (CERB). He said the creation of CERB and how it works was a lot faster than Employment Insurance (EI).

As head of Canada's central bank, Poloz complemented the CERB and other pandemic-related emergency programs with key interest rate downward adjustments. But he adds in his parting words that some economic forecasts and predictions are "a little too dire."

COVID-19 is distressing the economy and forcing the federal government to spend unprecedented amounts in response to the coronavirus outbreak. While the $2,000 monthly CERB payments has been a lifesaver for many out of work Canadians, there are hidden risks that may come with it.

Massive deficit

Parliamentary budget officer Yves Giroux is saying that Canada is facing the most massive budgetary deficit ever. Real GDP could fall by 12%, four times the sharpest drop on record. So far, the forecast is improving as provinces reopen. The Bank of Canada is looking at a 7.1% contraction of the economy.

Canada has been successful in containing the spread of the virus. However, a resurgence or persistence of infection will put pressure on the health of businesses and industries where physical distancing is hard to apply. Hence, the unemployment rate could remain high for some time.

Because of the expensive COVID-19 Response Plan that includes CERB, Canada's financial position is deteriorating. The effect is a lower credit rating by the Fitch agency (from AAA to AA+). The painful episode will force the federal government to tighten its belt, which would mean slower economic growth.

Pandemic-proof investment

The investment landscape is also troubling due to the elevated volatility. Investors are searching for safety nets. People whose investments are in a renewable energy utility company like **Northland Power** (TSX:NPI) are less anxious and feel secure.

This $7.27 billion firm from Toronto, Canada, is proving to be resilient and pandemic-proof. Utilities as a sector are known to perform well with stable demand during recessions.

Northland Power investors are ahead, not losing in 2020. The stock is beating the market with its 35.2% year-to-date gain. Income investors are content with a modest but safe 3.33% dividend. Assuming you invest $12,000 in this utility stock, the income is $399.60. You can keep reinvesting the dividends to realize the power of compounding.

The business model is low risk. Northland Power generates consistent cash flow from long-term power purchase agreements (PPAs) where the price of electricity is fixed. The renewable energy assets are a mix of solar, thermal (natural gas), and wind. A pandemic or even a deep recession will not disrupt cash flows.

Valuable lifeline

Canada's economy will eventually recover, albeit not at an ideal pace. Uncertainty still hovers, and no one can predict with confidence how long the recovery period will take. CERB recipients should be aware that every dollar received impacts on the economy. The taxable benefit is so valuable that you shouldn't waste it on non-essentials.

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