



Ontario Economic Overview: International and National Context and Fiscal Implications

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Outline

- Economic Overview: World Economy and Canada
- Federal Budgetary Response
 - Fiscal Plan
- Ontario Economy
 - Ontario's unique situation
- Ontario Budgetary Response
 - Fiscal Plan
- Analysis

Economic Overview

- In wake of Great Recession, world economy appears to be on the mend
 - Fiscal stimulus globally a major factor
 - But debt levels – public & consumer an issue
 - Interest rates set to rise
- Canada appears to be doing relatively well – more of a “V” rather than “U” shaped pattern
- U.S. economy burdened by large amount of debt
- Canada will fare well if it continues to diversify its export markets.

GDP Forecast-World

	<i>GDP Growth (%)</i>	
	<i>2010</i>	<i>2011</i>
<i>United States</i>	3.1	2.9
<i>Japan</i>	1.9	1.6
<i>UK</i>	1.3	2.1
<i>Canada</i>	3.0	3.0
<i>Italy</i>	0.7	1.1
<i>France</i>	1.5	1.6
<i>Germany</i>	1.6	1.6
<i>China</i>	9.7	8.2
<i>India</i>	7.7	8.0

Source: Economist Intelligence Unit

Recent Indicators: Canada

- Real GDP Growth: +1.3% (Jan 2010)
- New Vehicle Sales: +22.8% (Feb 2010)
- Unemployment Rate: 8.2% (March 2010)
- Retail Trade: +6.0% (Jan 2010)
- Residential Building Permits: +79% (Feb 2010)
- According to IMF, Canada's economy will lead G7 growth

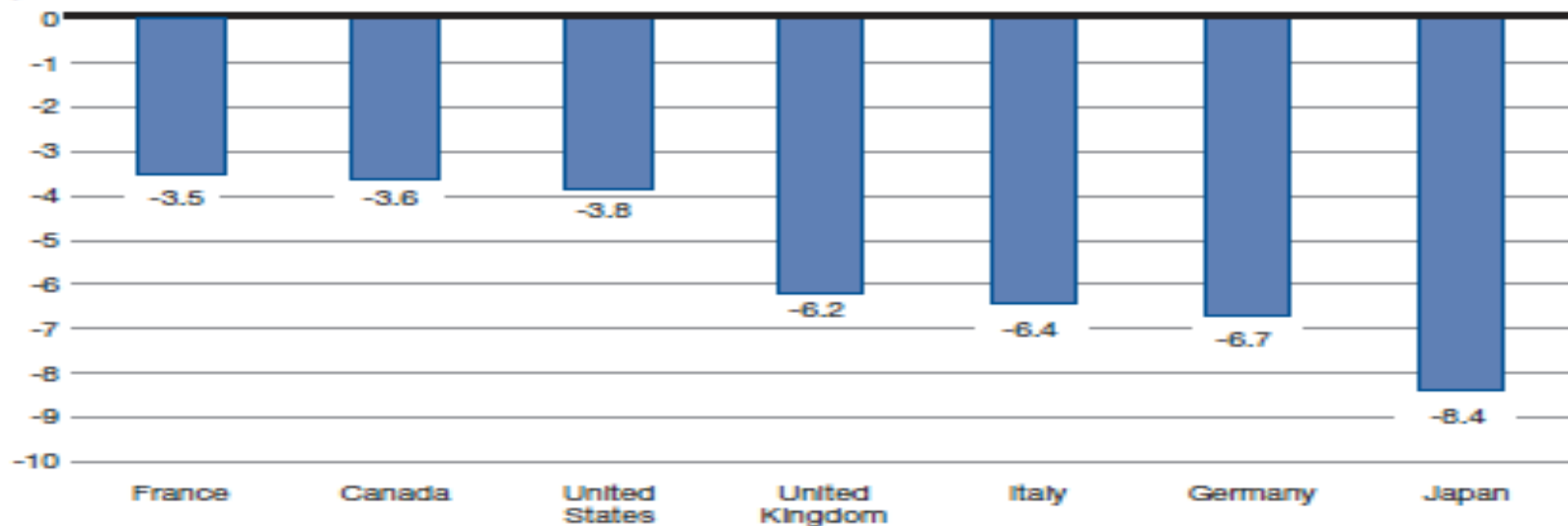
Relative Performance

Canada has fared better than virtually all other G7 countries during the global recession

Chart 2.6

Overall Contraction in Real GDP During the Recession

per cent



Note: The overall contraction in GDP is measured by the peak-to-trough decline in real GDP in each country: 2008Q2-2009Q3 for United Kingdom; 2008Q2-2009Q2 for Italy; 2008Q2-2009Q1 for France, Germany and Japan; 2008Q3-2009Q2 for United States; 2008Q4-2009Q2 for Canada.

Sources: Statistics Canada; U.S. Bureau of Economic Analysis; Japan Cabinet Office; U.K. Office for National Statistics; Deutsche Bundesbank; Institut national de la statistique et des études économiques; Istituto nazionale di statistica.

Was This a Great Depression?

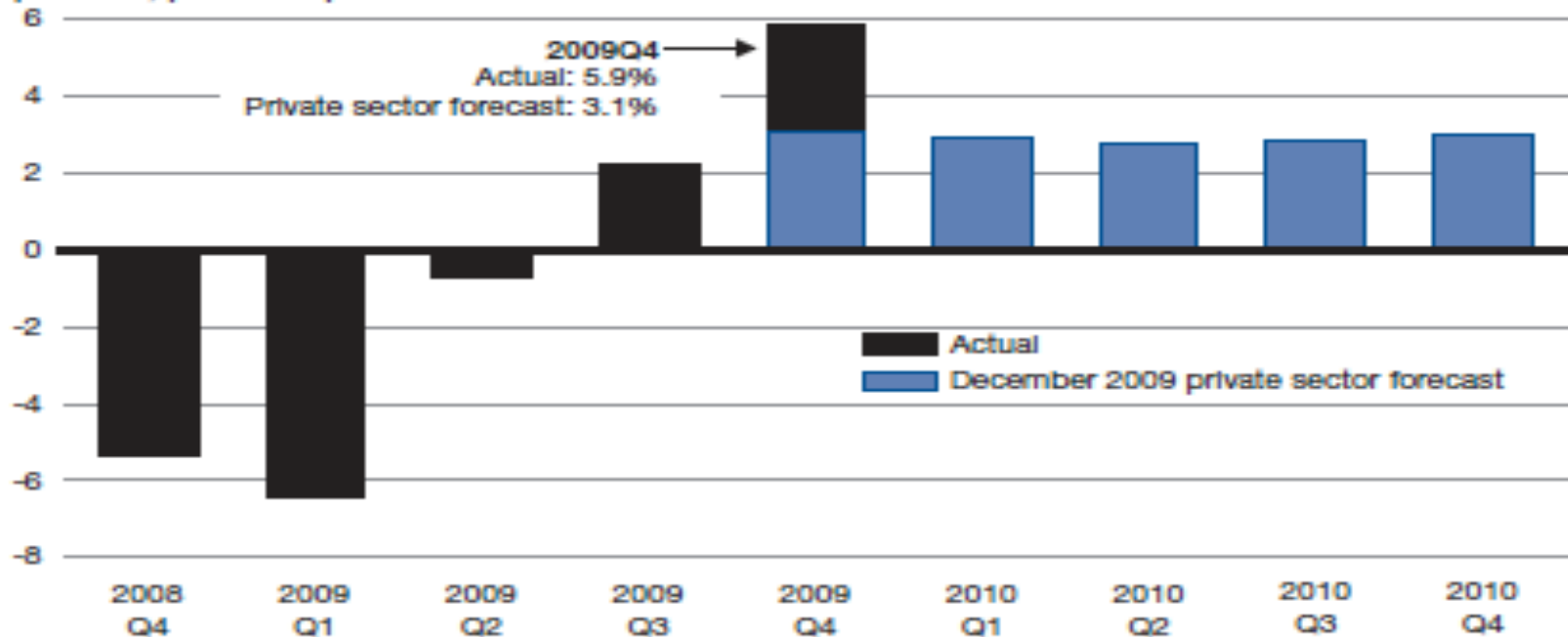
- Great Depression
 - Unemployment in Canada reached 27 percent
 - GNP value dropped 43 percent
 - Exports dropped 50 percent
- Other Comparisons
 - 1981-82 Recession – Unemployment hit 13 percent and 595,000 job losses (5 percent employment drop)
 - 1991-92 recession – Unemployment hit 12 percent and about 450,000 jobs lost.
 - 2009 recession – about 440,000 jobs lost. Unemployment rate in 2009 was 8.3 percent.

US Economy Growing Slowly

Modest economic recovery expected in the U.S.

Chart 2.5
U.S. Real GDP Growth Outlook

per cent, period to period at annual rates



Sources: U.S. Bureau of Economic Analysis; Department of Finance December 2009 survey of private sector forecasters.

Federal Budget

Federal Finances

Table 4.2.3

Summary Statement of Transactions (Including Budget 2010 Measures)

	Projection						
	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
	(billions of dollars)						
Budgetary revenues	233.1	213.9	231.3	249.0	266.5	282.7	296.5
Program expenses	207.9	237.8	249.2	241.4	245.2	251.4	257.7
Public debt charges	31.0	29.9	31.3	35.3	38.9	39.8	40.6
Total expenses	238.8	267.7	280.5	276.7	284.0	291.2	298.3
Budgetary balance	-5.8	-53.8	-49.2	-27.6	-17.5	-8.5	-1.8
Federal debt	463.7	517.5	566.7	594.3	611.9	620.3	622.1
Per cent of GDP							
Budgetary revenues	14.6	14.0	14.4	14.8	15.0	15.2	15.2
Program expenses	13.0	15.6	15.6	14.3	13.8	13.5	13.2
Public debt charges	1.9	2.0	2.0	2.1	2.2	2.1	2.1
Budgetary balance	-0.4	-3.5	-3.1	-1.6	-1.0	-0.5	-0.1
Federal debt	29.0	33.9	35.4	35.2	34.4	33.3	31.9

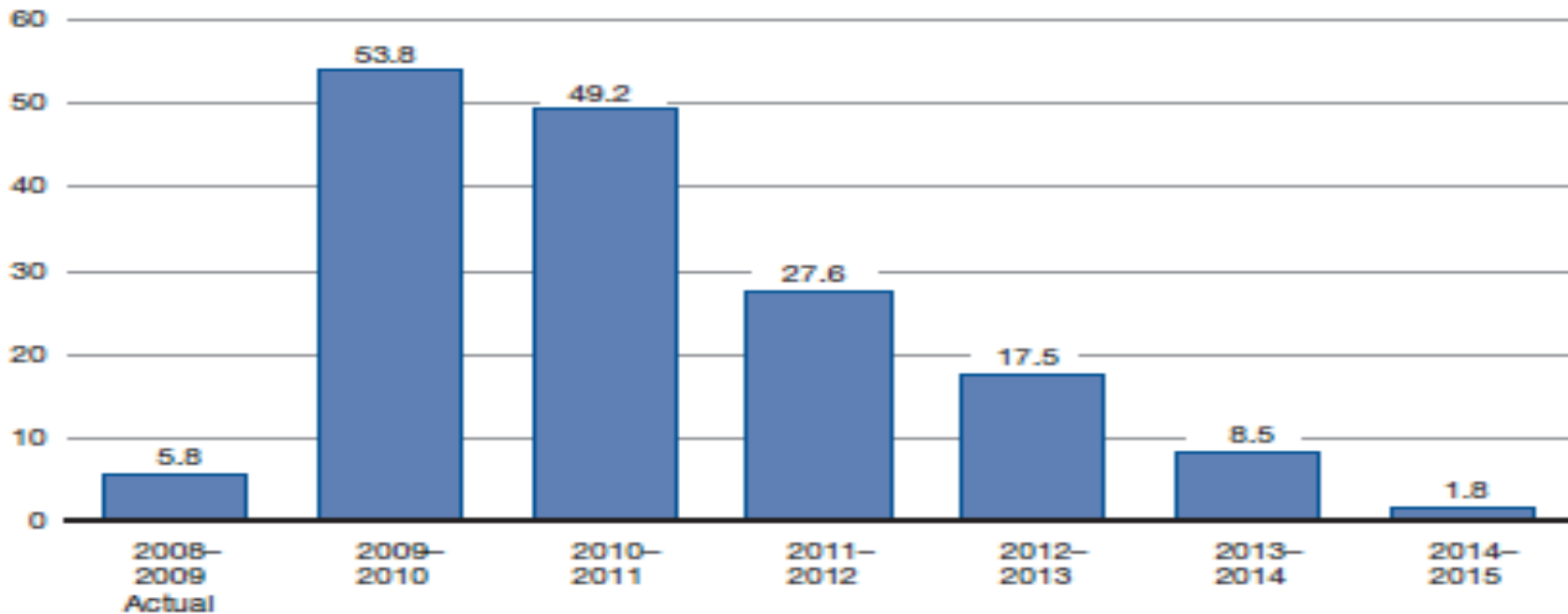
Note: Totals may not add due to rounding.

Federal Deficit

Rapid decline in deficits

Chart 1.1
Federal Budgetary Deficit

billions of dollars



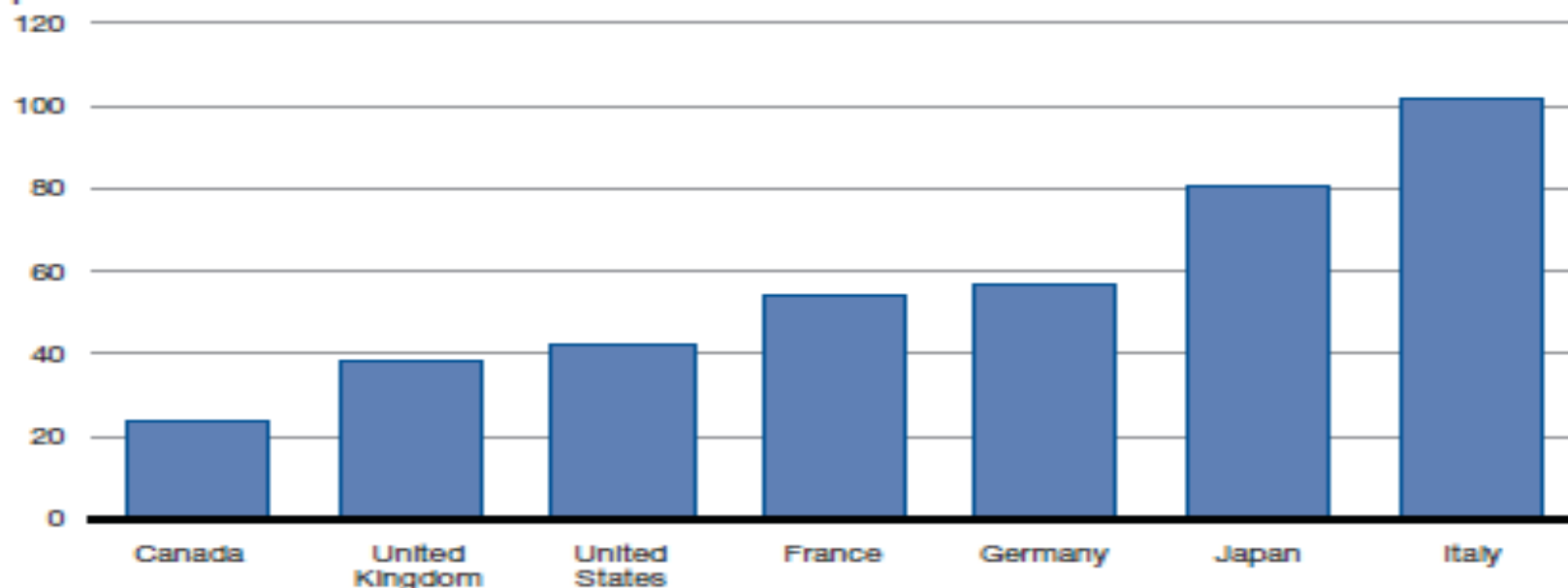
Source: Department of Finance.

Relative Debt Performance

Canada entered the recession with the strongest fiscal position in the G7

Chart 2.7
Total Government Net Debt in 2007

per cent of GDP



Source: IMF, *World Economic Outlook* (October 2009).

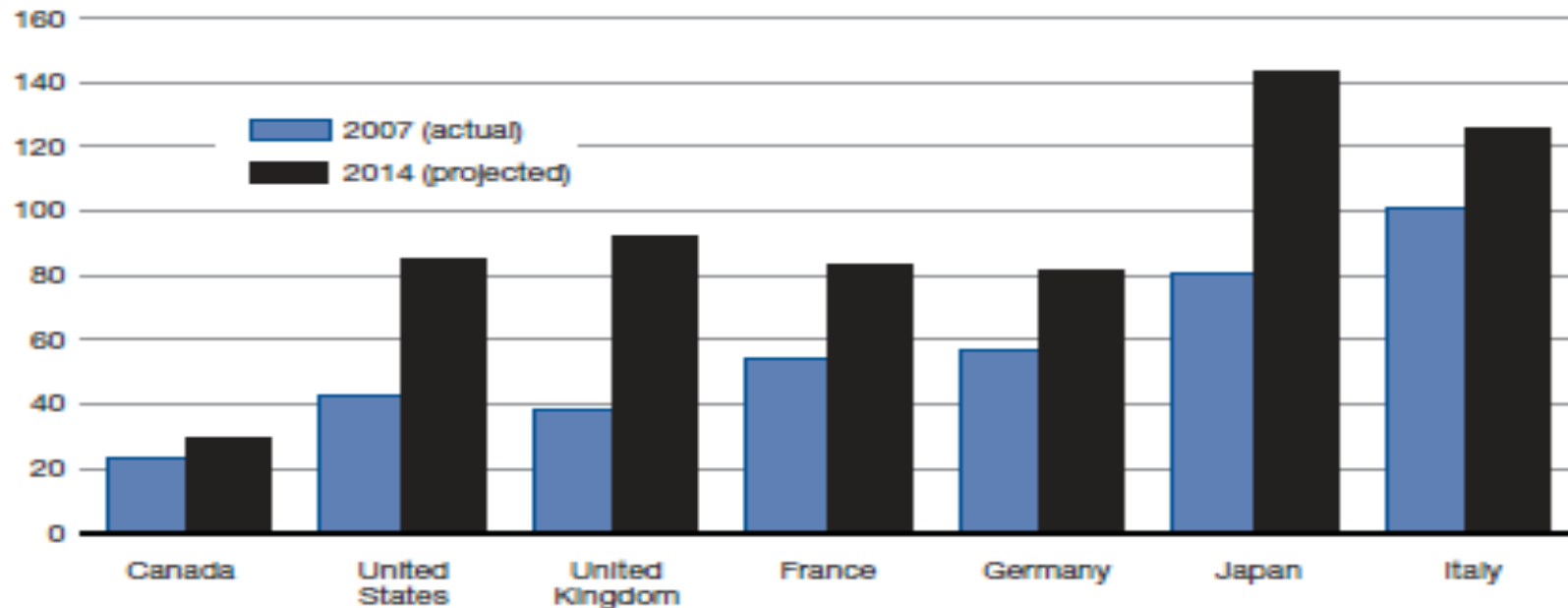
Debt-GDP Comparison

Canada's fiscal advantage

Chart 4.1.7

Total Government Net Debt-to-GDP Ratio

per cent of GDP



Source: International Monetary Fund, *World Economic Outlook*, (October 2009).

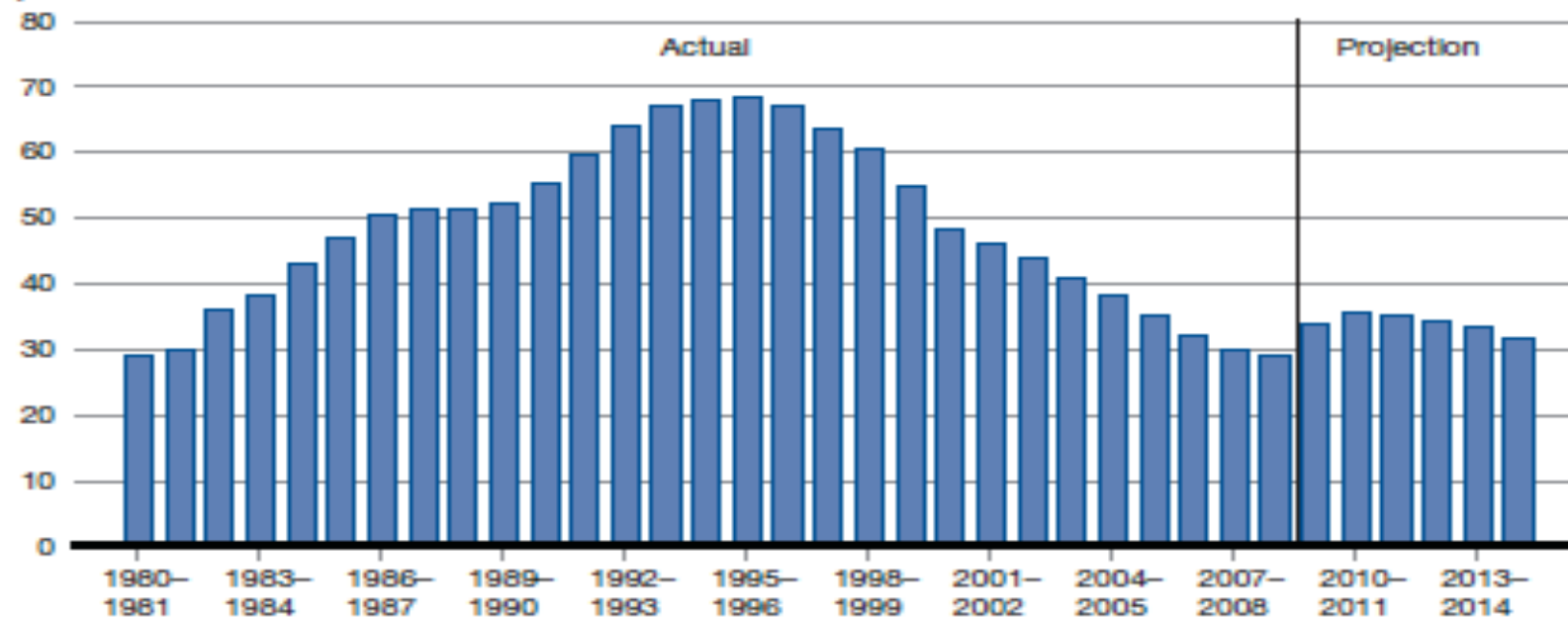
Trend in Federal Debt-GDP

Falling debt burden

Chart 4.1.6

Federal Debt-to-GDP Ratio

per cent of GDP



Sources: Department of Finance; Statistics Canada.



Ontario Economy & Budget

Ontario Economy

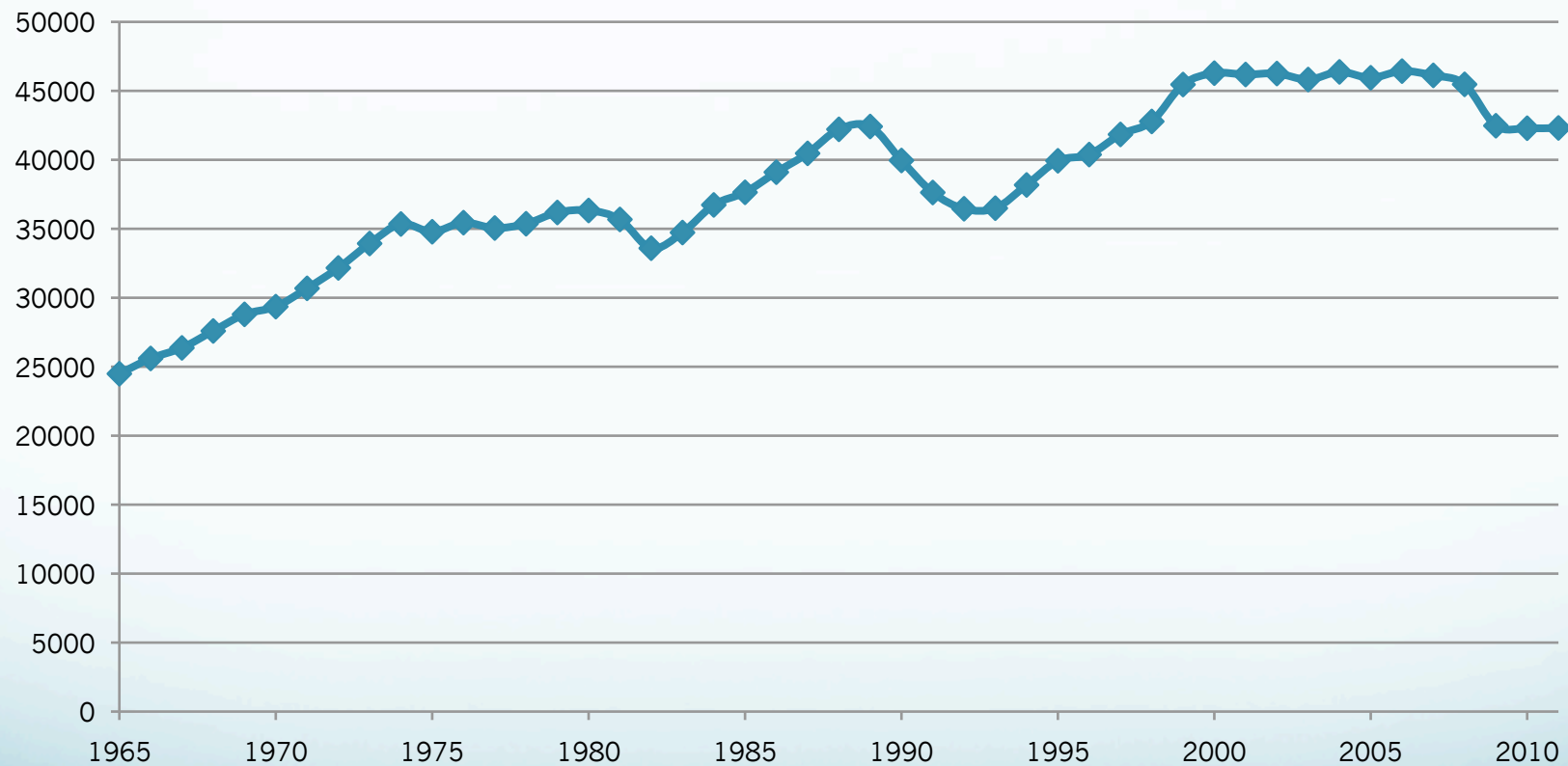
- Hard hit by recession in terms of employment losses- accounts for half of recession job losses
- Longer term economic issues
 - Flat real per capita GDP – Ontario no longer No. 1
 - Rising public debt and deficit levels
 - High energy costs – electricity –costs rising again
 - Weakness in auto sector
 - High Canadian dollar & weak U.S. economy

Recent Indicators: Ontario

- GDP Growth: 2.7% (Forecast for 2010)
- Unemployment Rate: 8.8% (March 2010)
- New Vehicle Sales: +22.0% (Feb 2010)
- Retail Trade: +6.5% (Jan 2010)
- Residential Building Permits: +67.8% (Feb 2010)
- Ontario does appear to be rebounding well.

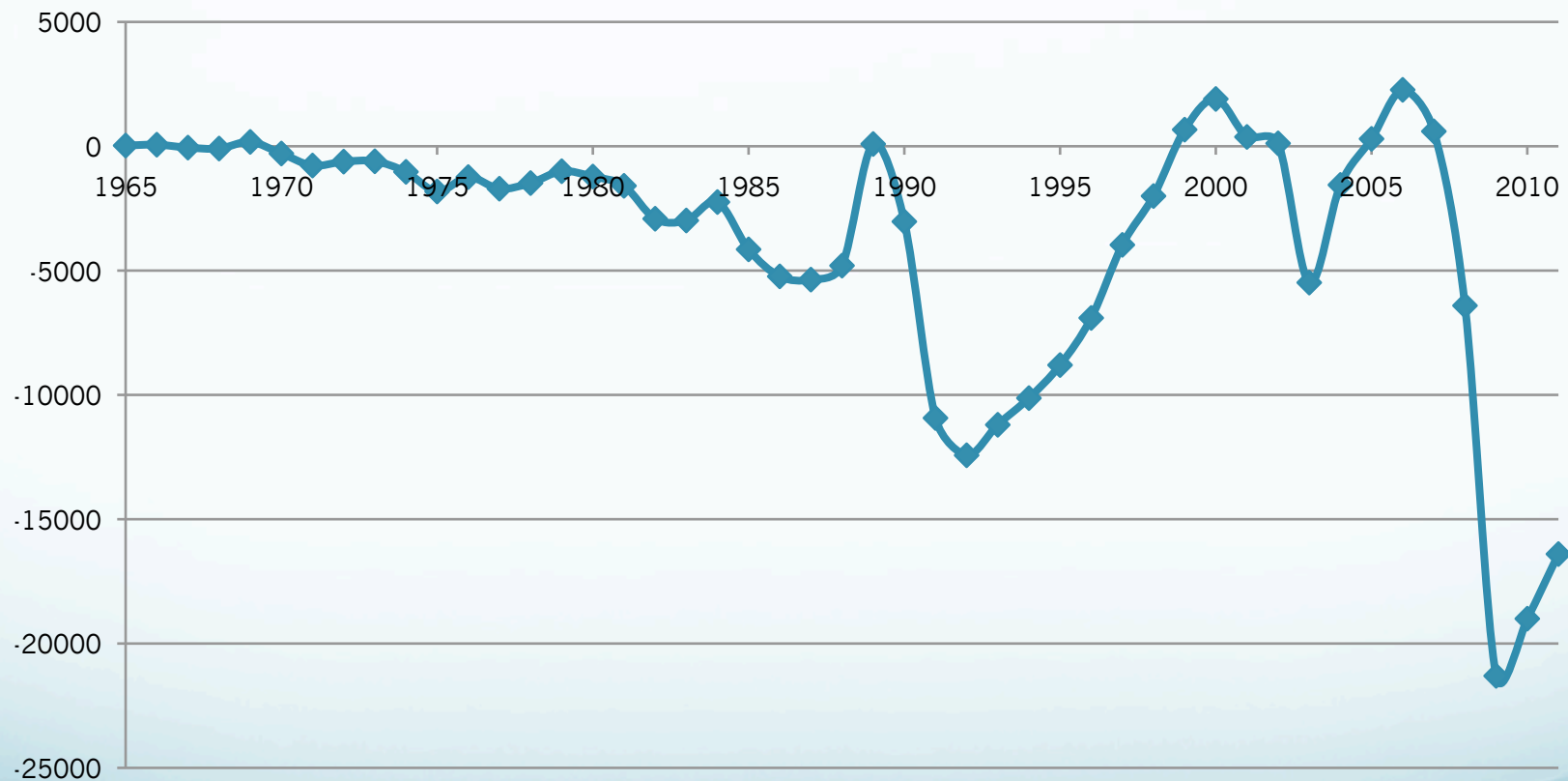
Ontario's Income Stagnation

Real Per Capita GDP (2008 dollars)



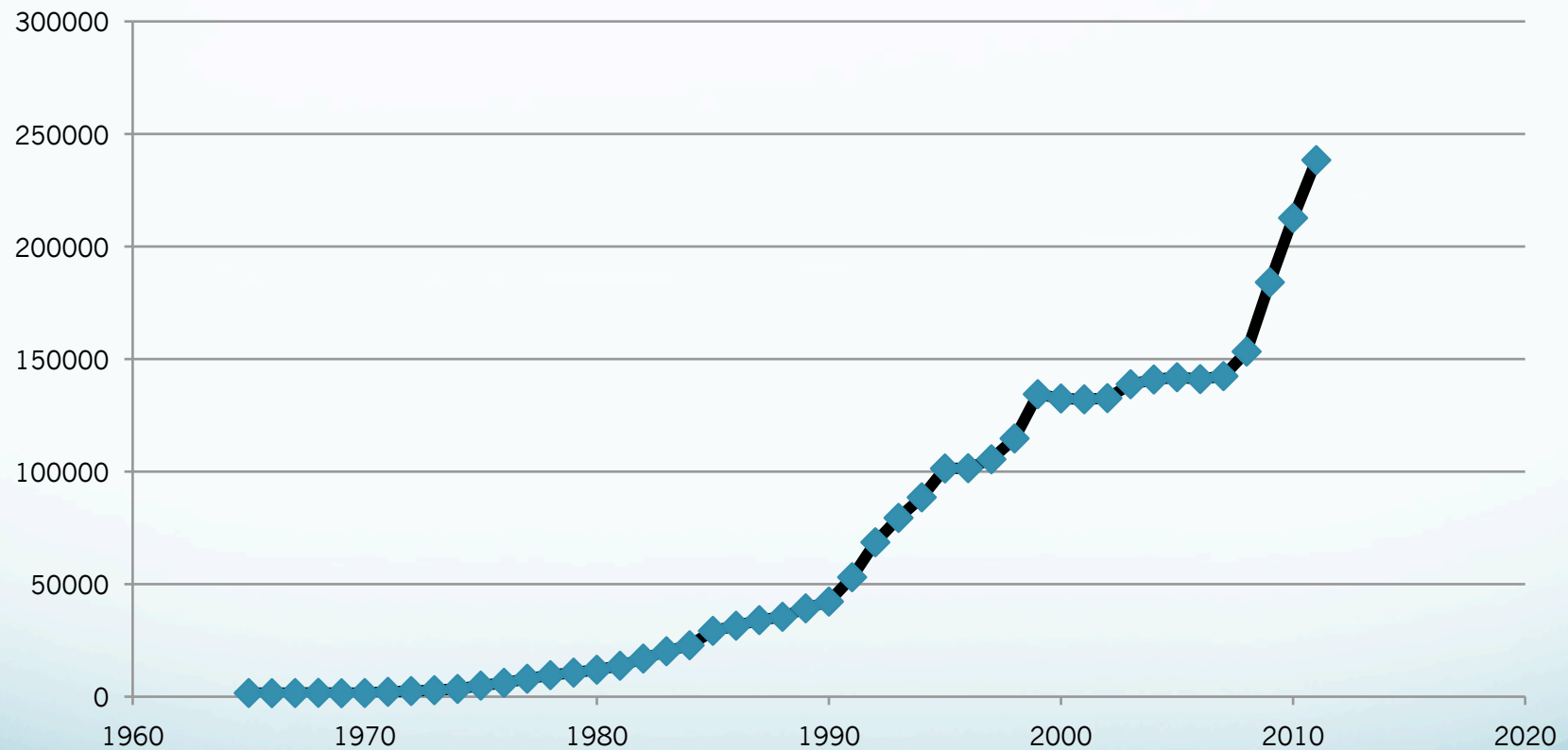
Ontario's Deficit

ONTARIO DEFICIT (millions of \$)



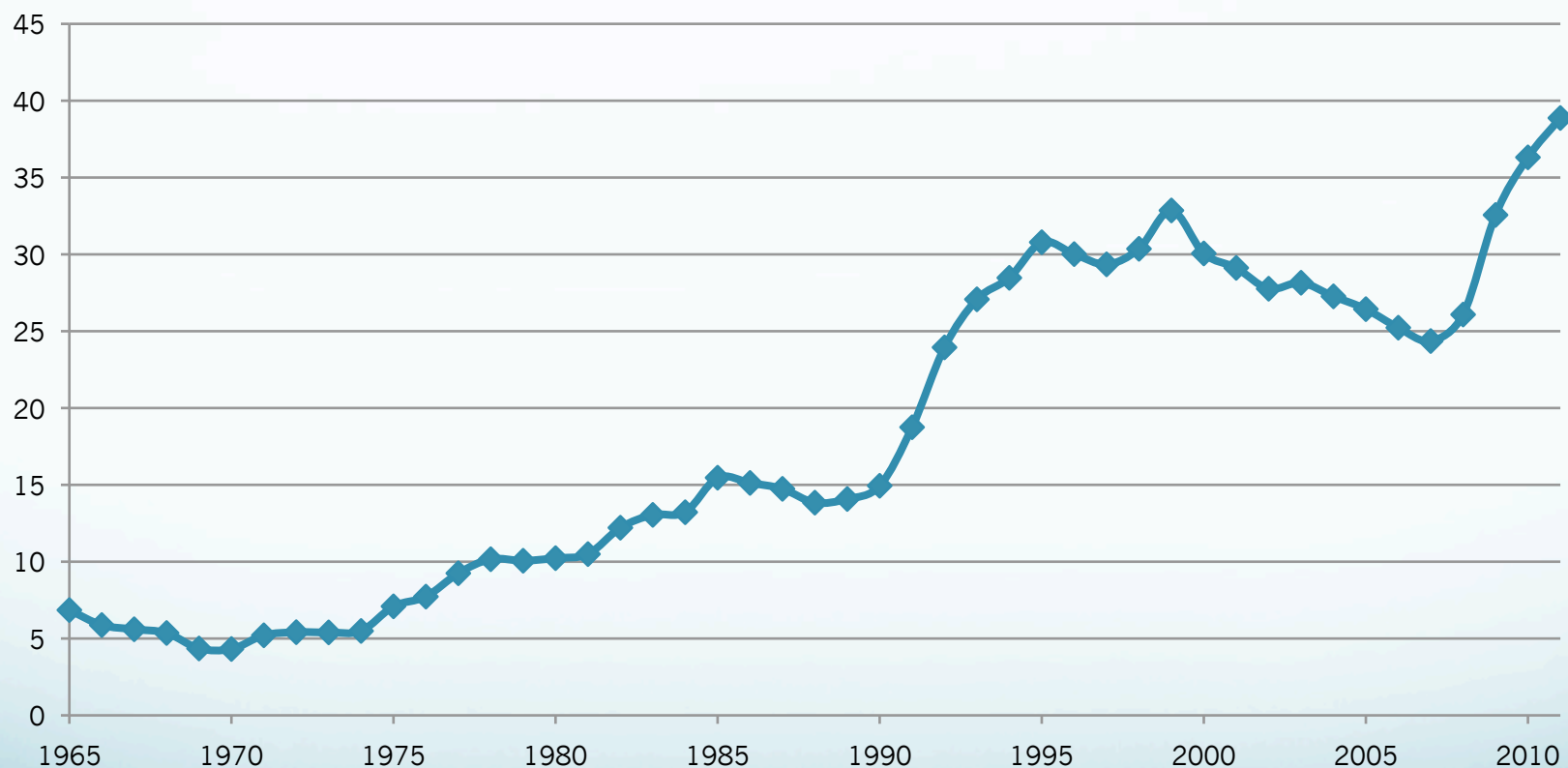
Ontario's Debt

ONTARIO DEBT (millions of dollars)



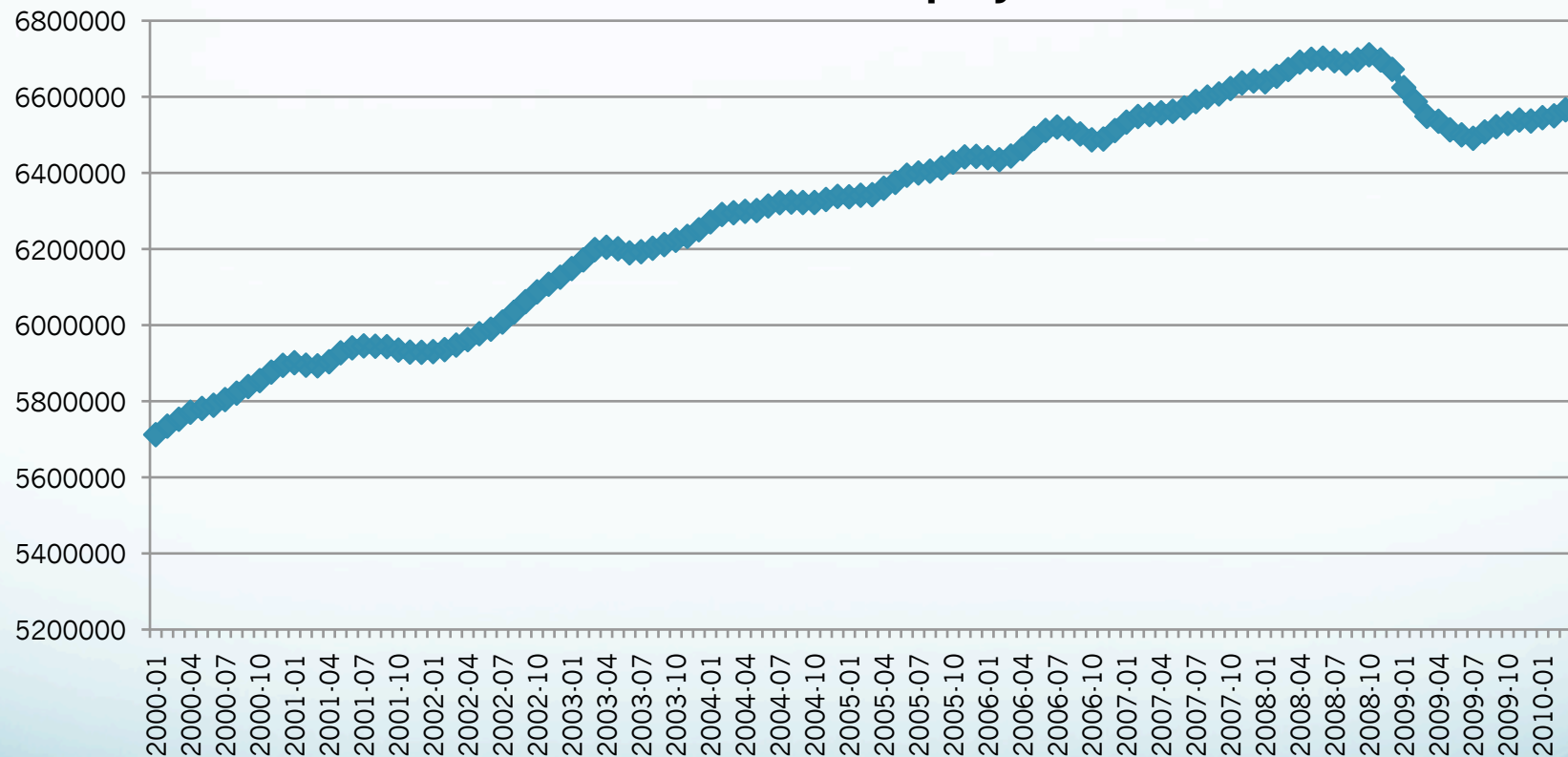
Ontario Debt to GDP Ratio

ONTARIO NETDEBT/GDP (%)



Ontario Employment: 2000-2010

Ontario's Recent Employment Levels

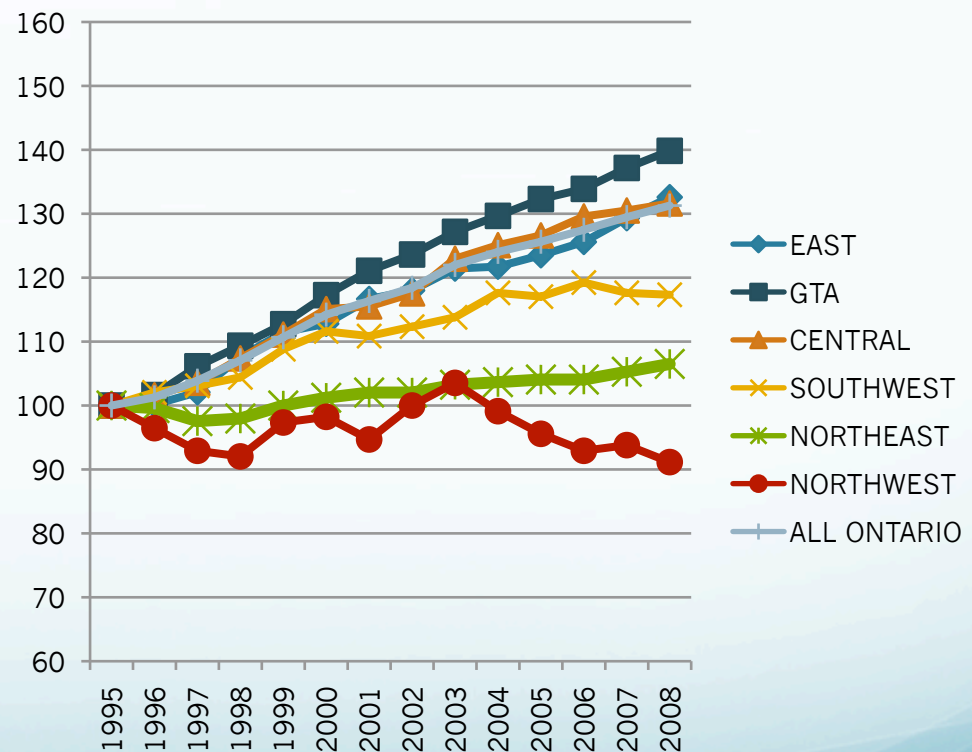


Regional Employment Performance Variation Up to Recession

Employment Growth

- Since 1995, employment level has grown by 31 percent for Ontario. But 40 percent in GTA. Southwest, NW & NE grew 19, -10 and 7 percent respectively.

Employment Index:
1995=100

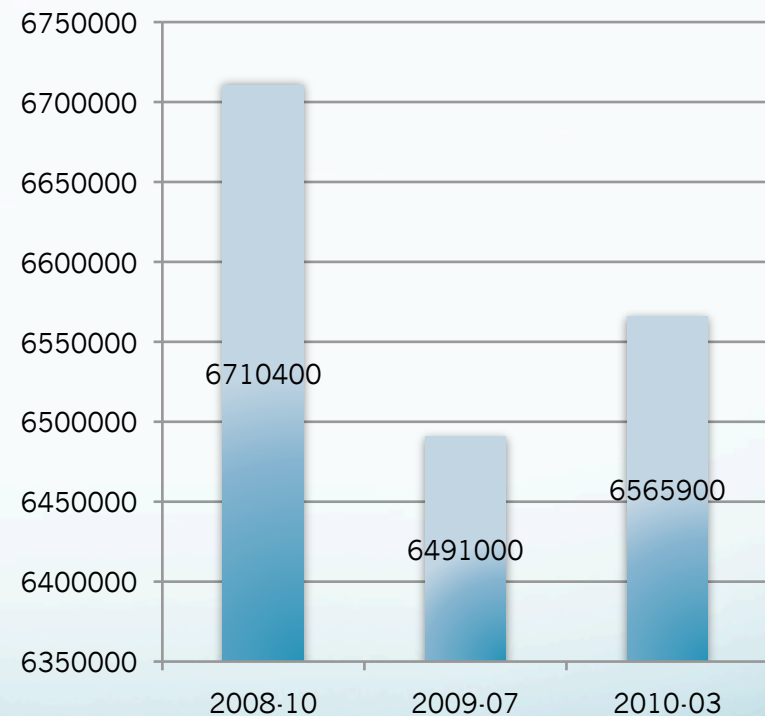


Ontario's Recession

Analysis

- From peak to trough: October 2008 to July 2009
- Loss of 220,000 jobs or 3.3% of employment
- Since July 2009, 75,000 jobs have been created

Employment



Ontario Economic Performance & Projections

(Source: Ontario 2010 Budget)

	2009	2010	2011
<i>Real GDP</i>	-3.4	2.7	3.2
<i>Retail Sales</i>	-2.5	3.9	4.6
<i>Housing Starts</i>	-32.9	15.1	3.4
<i>Unemployment Rate</i>	9.0	9.1	8.5
<i>CPI Inflation</i>	0.4	1.9	2.1
<i>3-month T-Bill rate</i>	0.3	0.6	2.2
<i>U.S. Real GDP Growth</i>	-2.4	3.1	3.0

Ontario Budget: Expense Outlook

Ontario's Medium-Term Expense Outlook

Summary of Medium-Term Expense Outlook¹
(\$ Billions)

Table 24

	Interim 2009-10	Plan 2010-11	Outlook	
			2011-12	2012-13
Programs				
Health Sector	43.5	46.1	48.0	49.5
Education Sector ²	20.6	21.4	22.3	23.0
Postsecondary and Training Sector	7.2	8.1	7.1	7.0
Children's and Social Services Sector	13.1	13.9	14.2	14.7
Justice Sector	3.9	4.4	4.6	4.7
Other Programs	20.5	22.0	16.7	15.5
Total Programs	108.8	115.9	112.9	114.3
Interest on Debt	8.9	10.0	11.1	12.5
Total Expense	117.7	125.9	124.1	126.9

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

² Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Spending Analysis

- Total spending expected to rise 8 percent between 2009/10 and 2012/13 (118 to 127 billion \$)
- By Spending Area
 - Health 14%
 - Education 12%
 - PSE & T -3%
 - Social Services 12%
 - Justice 21%
 - Other Programs -24%
 - Debt Interest 40%

Ontario Budget: Revenues

MEDIUM-TERM REVENUE FORECAST

Summary of Medium-Term Outlook
(\$ Billions)

Table 13

Revenue	Interim 2009-10	Plan 2010-11	Outlook	
			2011-12	2012-13
Taxation Revenue	65.8	71.6	74.9	79.3
Personal Income Tax	24.0	25.9	26.7	28.3
Sales Tax	17.4	19.1	20.3	21.4
Corporations Tax	5.4	7.4	8.0	9.4
Education Property Tax	5.7	5.3	5.3	5.2
Ontario Health Premium	2.7	2.9	3.0	3.2
All Other Taxes	10.5	10.9	11.6	11.9
Government of Canada	18.6	23.7	21.5	21.1
Income from Government Business Enterprises	4.1	4.2	4.4	4.6
Other Non-Tax Revenue	8.0	7.4	7.0	7.0
Total Revenue	96.4	106.9	107.7	112.0

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Revenue Analysis

- Total revenue expected to rise 17 percent between 2009/10 and 2012/13 (96 to 112 billion \$)
- By major category
 - PIT 18%
 - PST/HST 23%
 - CIT 74%
 - Federal Transfers 13%

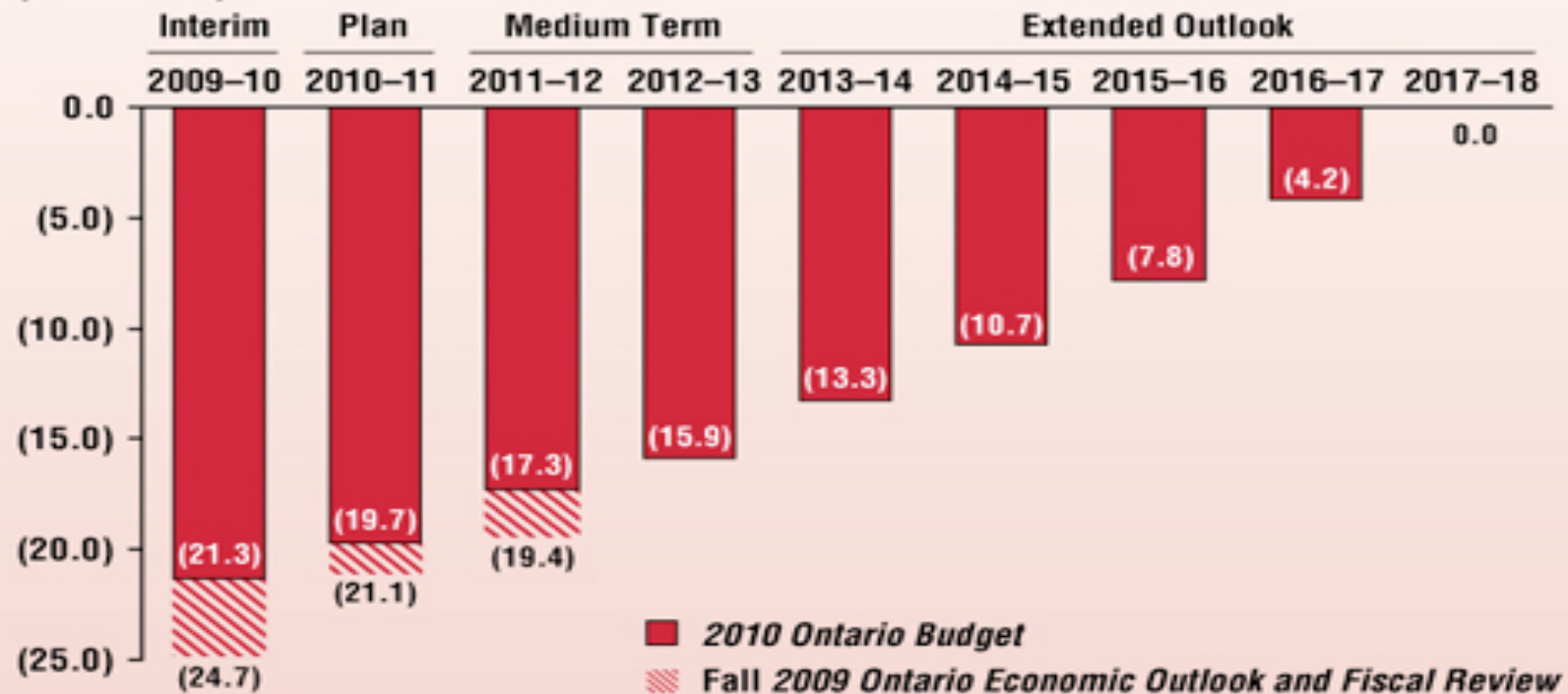
Revenue Rising Faster than Spending and Yet...Ontario's Deficit Plan

Ontario's Plan to Eliminate the Deficit



Chart 8

Fiscal Balance
(\$ Billions)



Analysis-I

- Ontario economy hit hard by recession but appears to be recovering – long term productivity and income growth a concern.
- Government energy policy a concern – higher electricity rates.
- Government banking on Northern economic development in “Ring of Fire”
- Ontario government has adopted a “go-slow” approach to the deficit – any major budget cuts appear to have been deferred to after 2011 election.
- Provincial government taking some action to slow growth of health spending – but those costs will still go up despite plans to reduce some spending.

Analysis -II

- Interest rates a major risk given – a 1% rise in interest rates will add 500 million in spending.
- Value of Canadian dollar-rising.
- Education sector is still a government priority especially at elementary and secondary levels
- Post-secondary sector facing longer term financial issues

Future Issues

- If fiscal picture worsens, look for more explicit spending and wage restraints but unlikely before 2011 election
- Long term for education sector – appears to be a government priority in the near and medium term.
- Long term enrollment issues will require a shift in funding strategies – “quality” agenda



Questions