

# **An Overview of Ontario's Economic and Fiscal Situation**

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# Summary

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- ▶ Economic performance indicators reveal poor long-term performance, the recent recession notwithstanding.
- ▶ Fiscal indicators show rising debt and deficits.
- ▶ The competitiveness of the Ontario economy and the sustainability of its public finances are in peril.
- ▶ Ontario's standard of living facing decline.
- ▶ Declining productivity growth and per capita incomes ultimately will result in poorer public services

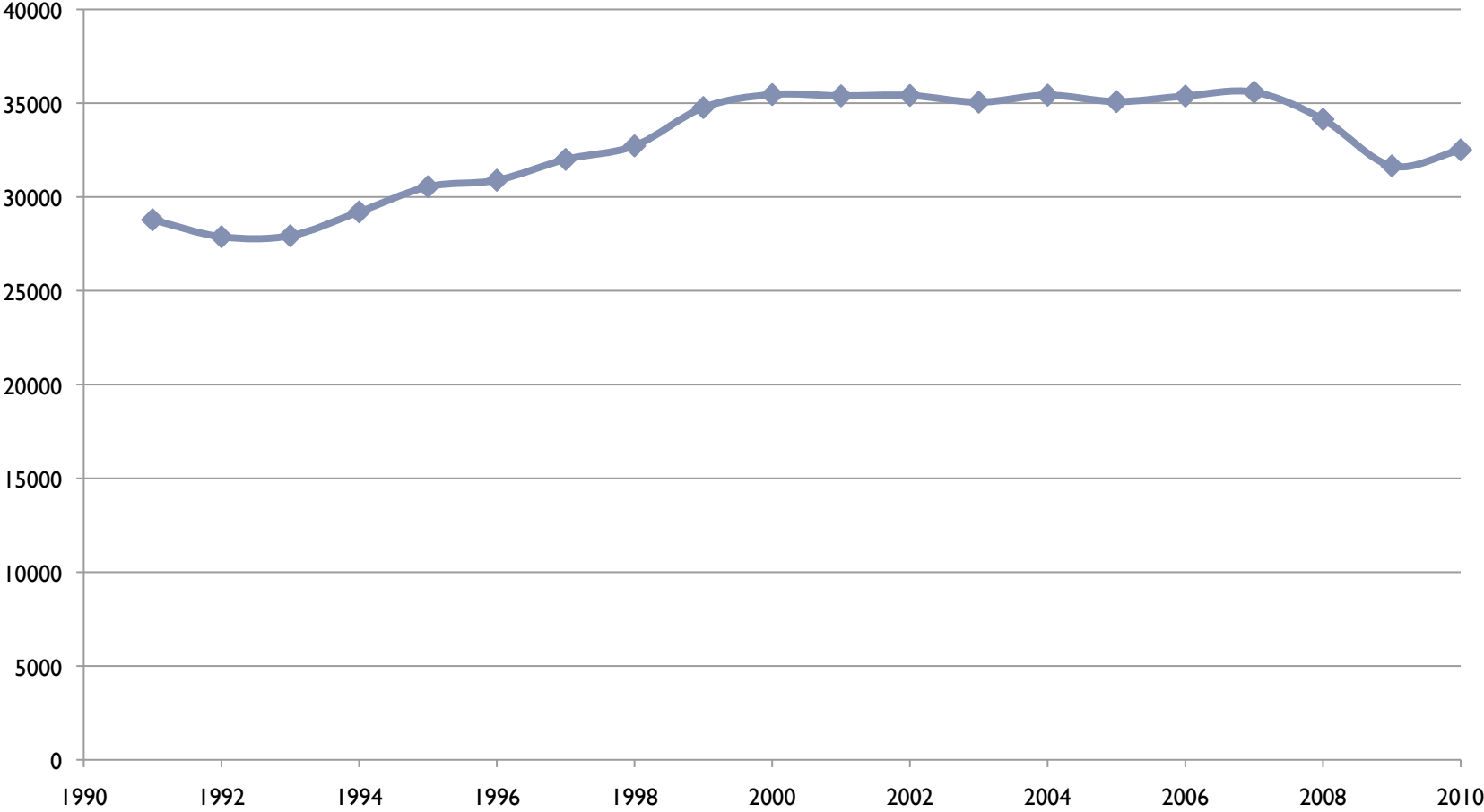
# Some Basic Economic Indicators

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- ▶ Real Per Capita GDP: Value of Provincial output per person adjusted for inflation.
- ▶ Employment: Number of jobs
- ▶ Real GDP Per Employed Person: A measure of productivity.
- ▶ Data sources: Statistics Canada, Government of Ontario

# Ontario Economy Stagnating

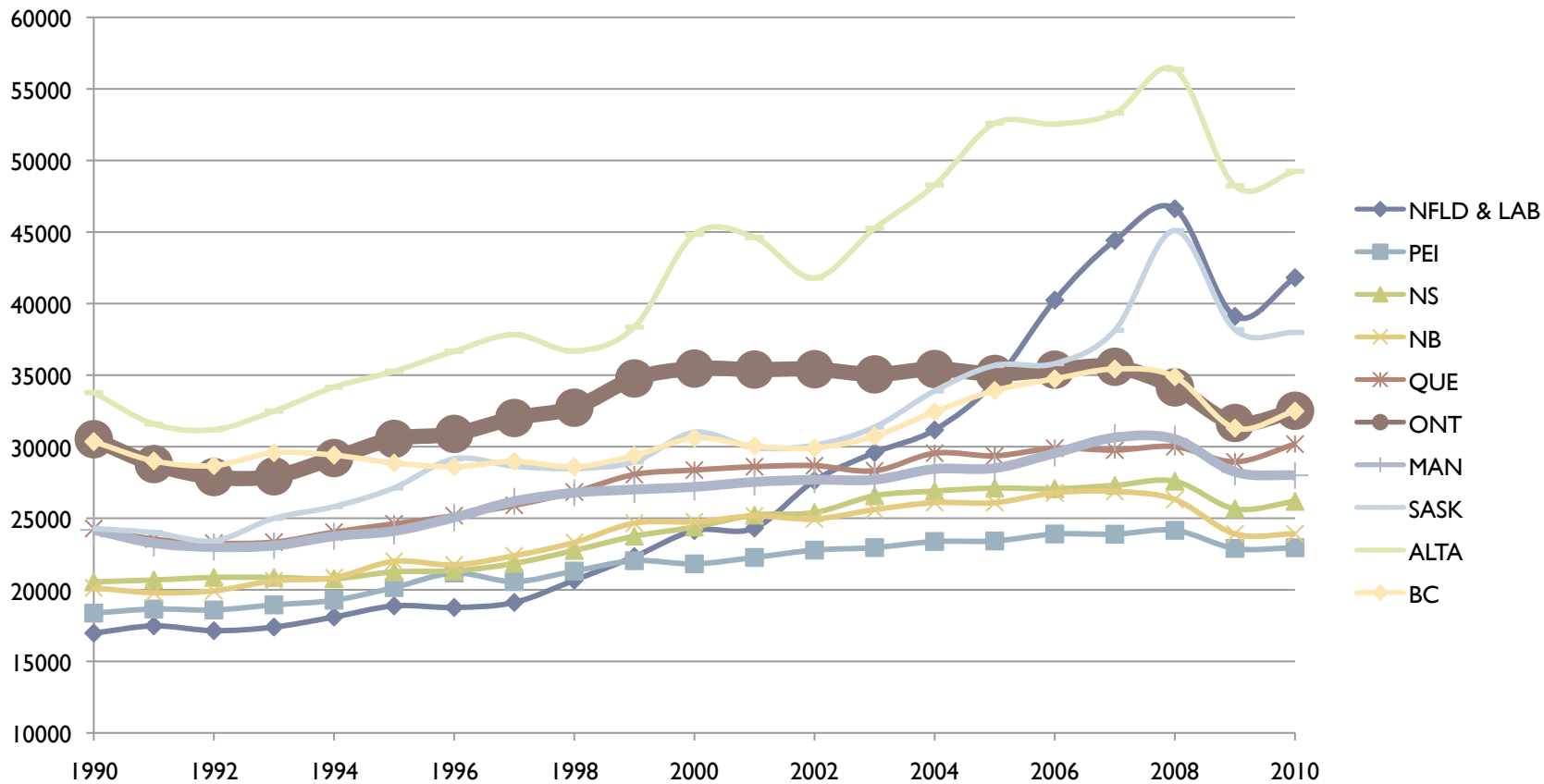
Ontario Real Per Capita GDP: 1990-2010 (1997 dollars)



<http://economics.lakeheadu.ca/dimatteo/dimatteo.html>

# Poor Relative Performance

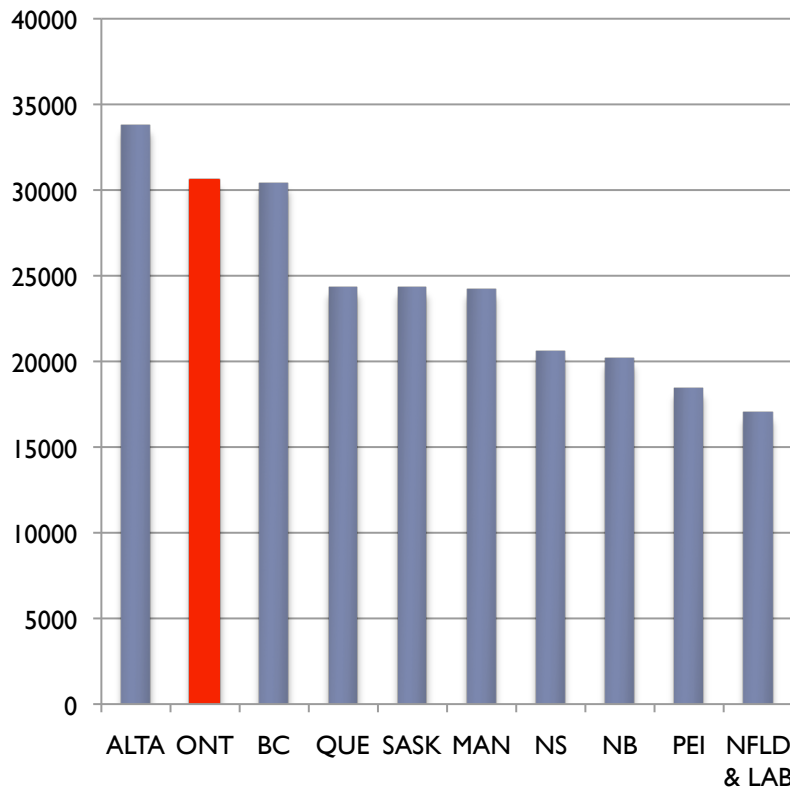
**REAL PER CAPITA PROVINCIAL GDP (1997 DOLLARS):  
1990-2010**



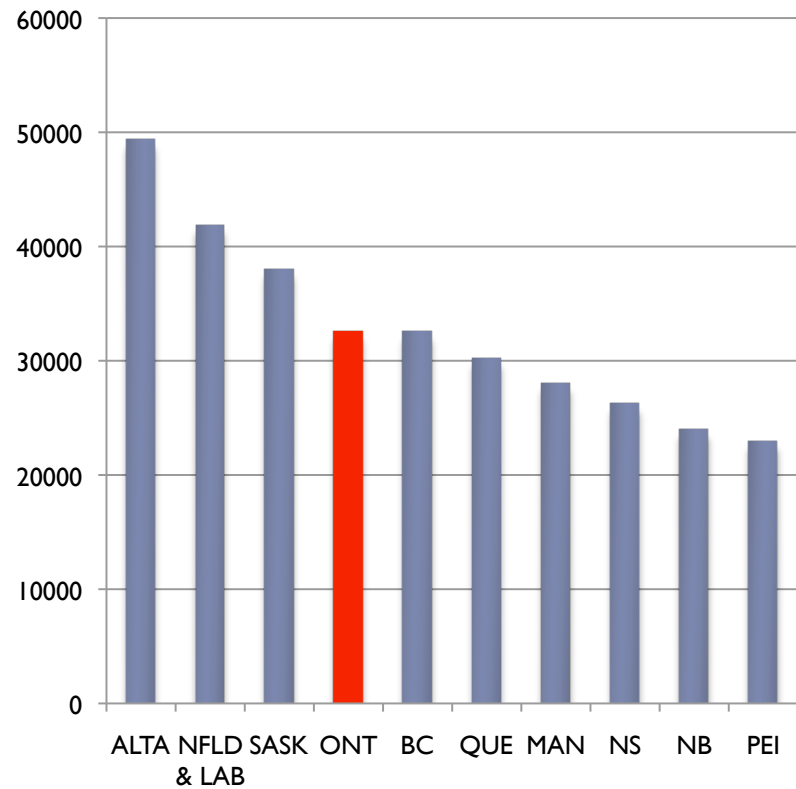
<http://economics.lakeheadu.ca/dimatteo/dimatteo.html>

# Relative Decline in Rankings

**Ranked Real Per Capita GDP  
By Province in 1990 (1997  
dollars)**

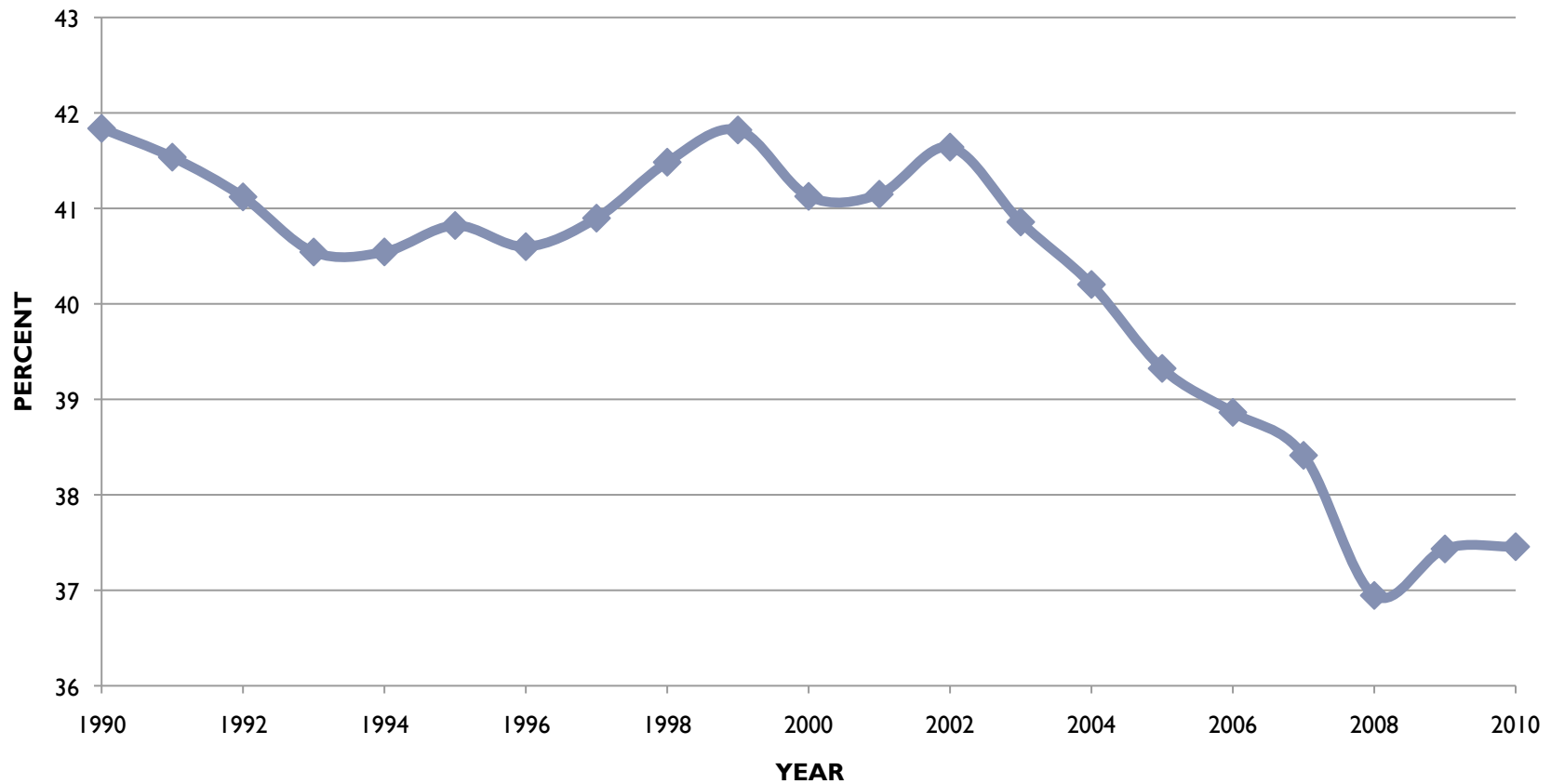


**Ranked Real Per Capita GDP  
By Province in 2010 (1997  
dollars)**



# The Powerhouse is Waning...

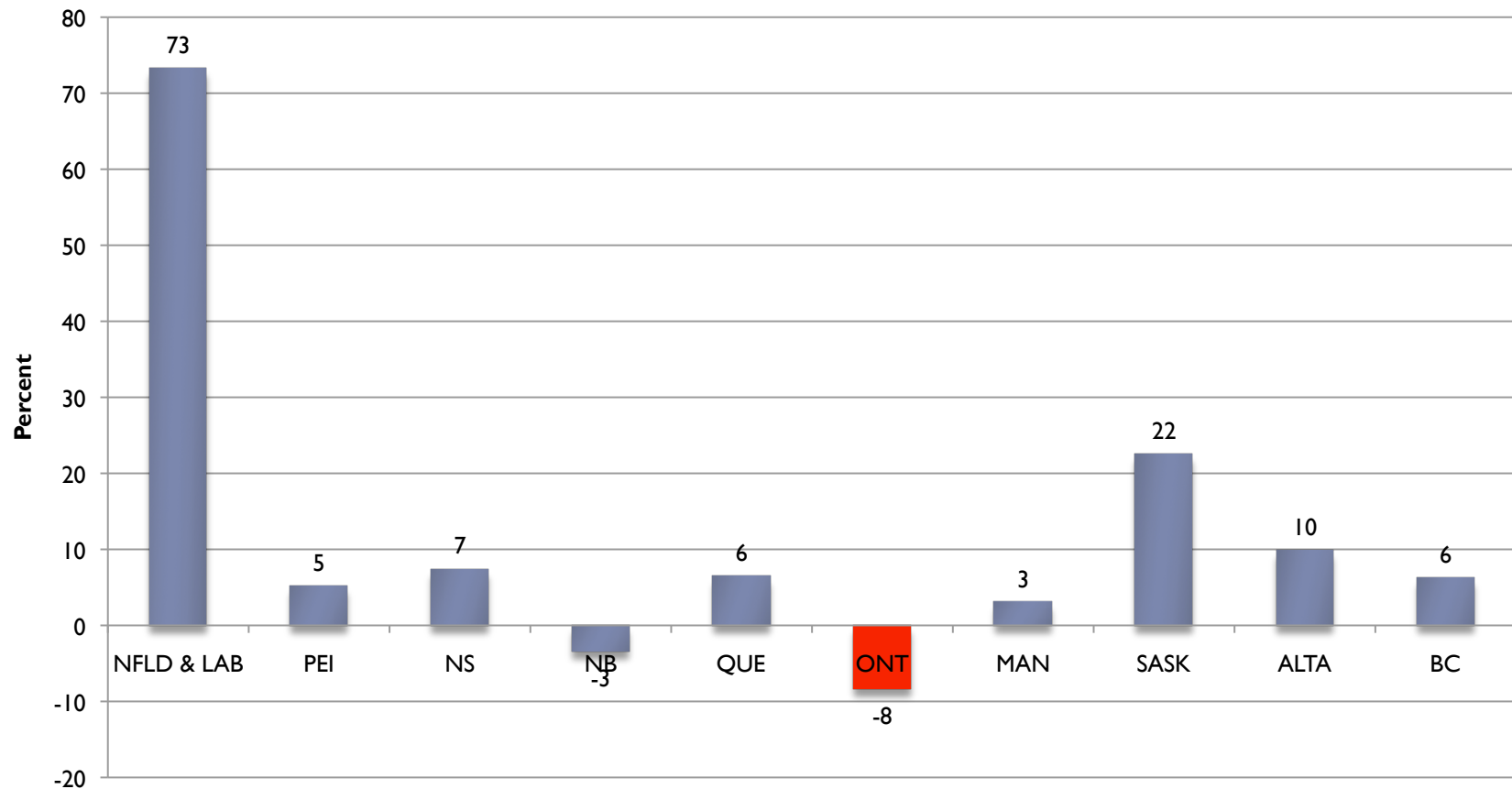
**ONTARIO'S SHARE OF CANADIAN PROVINCIAL GDP:  
1990-2010**



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# Ontario one of the worst performers

**Growth of Real Per Capita GDP: Canada's Provinces,  
2000-2010**

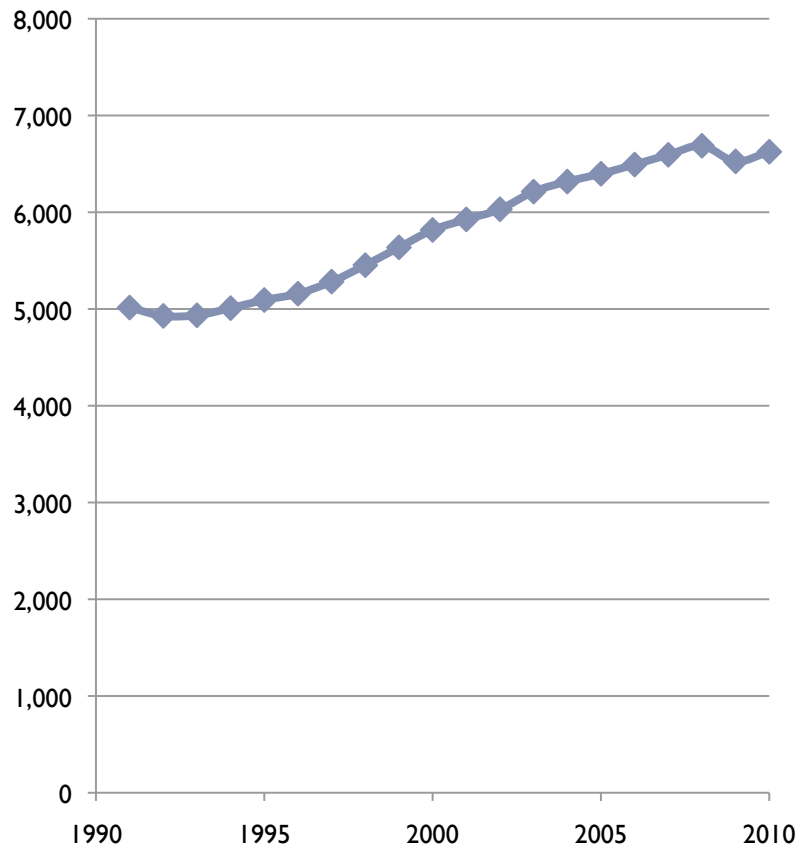


<http://economics.lakeheadu.ca/dimatteo/dimatteo.html>



# Ontario's Employment

**Ontario Employment:  
1991-2010 (000s)**



- ▶ Employment has grown
- ▶ Since 1991, employment in Ontario has grown by 32%.
- ▶ But, when combined with output numbers, the results show poor productivity growth.
- ▶ More employment but producing less per employee...

# Productivity Decline



<http://economics.lakeheadu.ca/dimatteo/dimatteo.html>

## What does declining productivity mean?

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- ▶ Rate of growth of real per capita GDP tells you how your standard of living is improving.
- ▶ At 2% annual growth in real per capita GDP, you can expect your income to double in 36 years. At 4%, it would take 18 years.
- ▶ For the periods 1990-1995 & 1995-2000, Ontario's real per capita GDP grew at -0.9% and 3.3% respectively. For the period 2000-2010, it shrank at -0.3%.

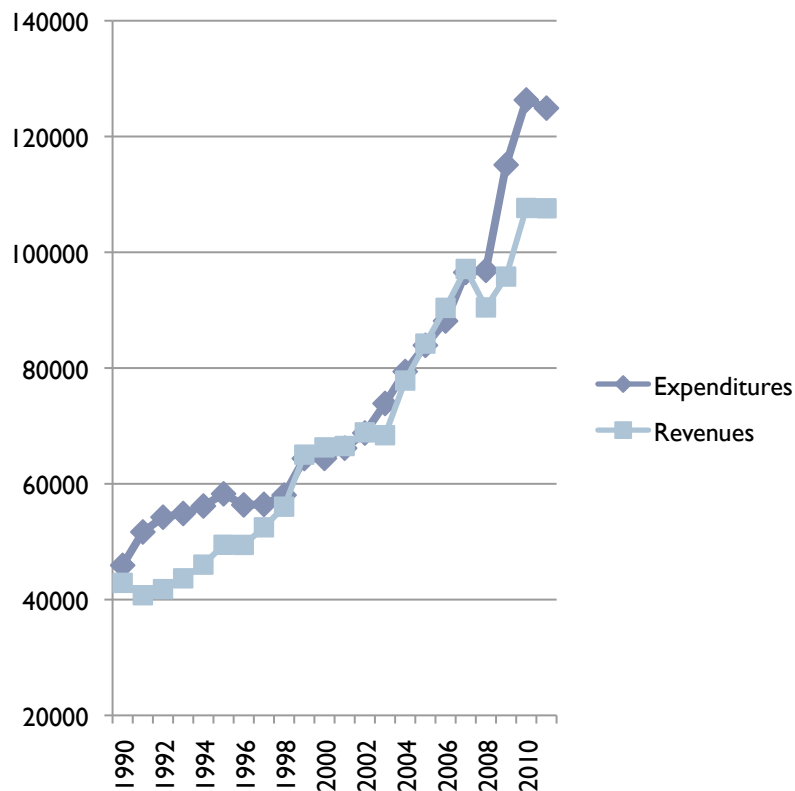
# Declining Productivity and the Public Sector

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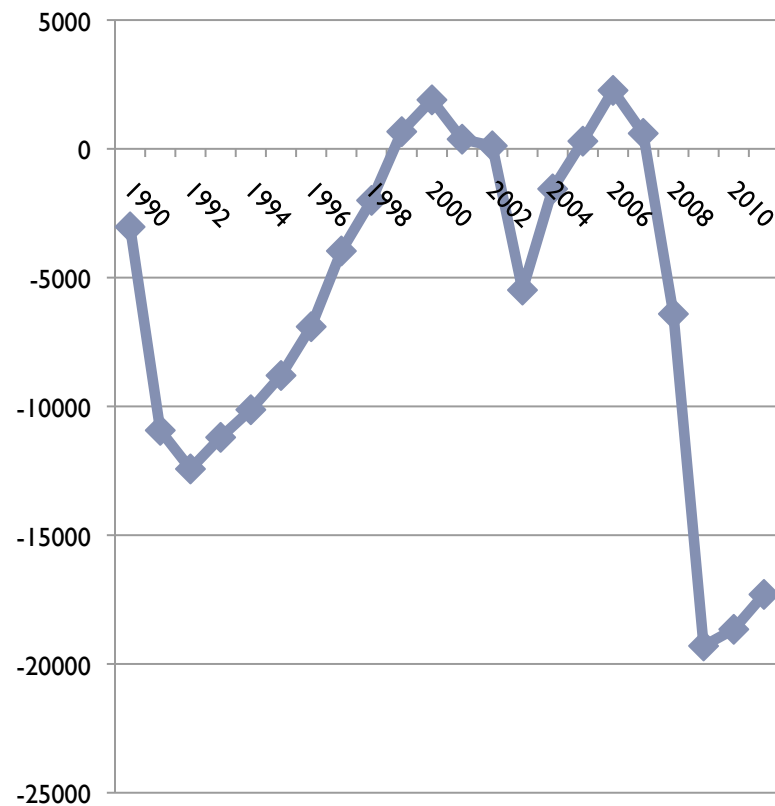
- ▶ Low growth means the tax base does not grow as quickly
- ▶ To increase public expenditures, there must be either more tax revenue or deficit financing.
- ▶ Since 2000, Ontario's expenditures have risen at a faster rate than either its GDP or revenues. Result is deficits and debt - unsustainable public finances.
- ▶ Unsustainable public finances put public programs at risk.

# Ontario's Public Finances

## Ontario Provincial Revenues & Expenditures: 1990-2010 (millions of dollars)

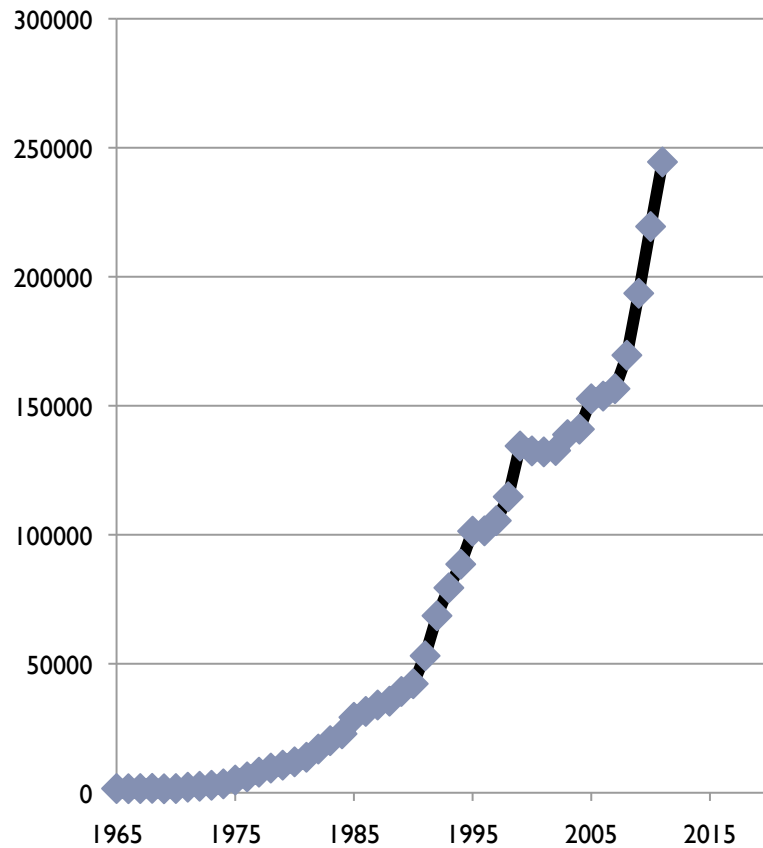


## Ontario's Provincial Deficit: 1990-2010 (millions of dollars)

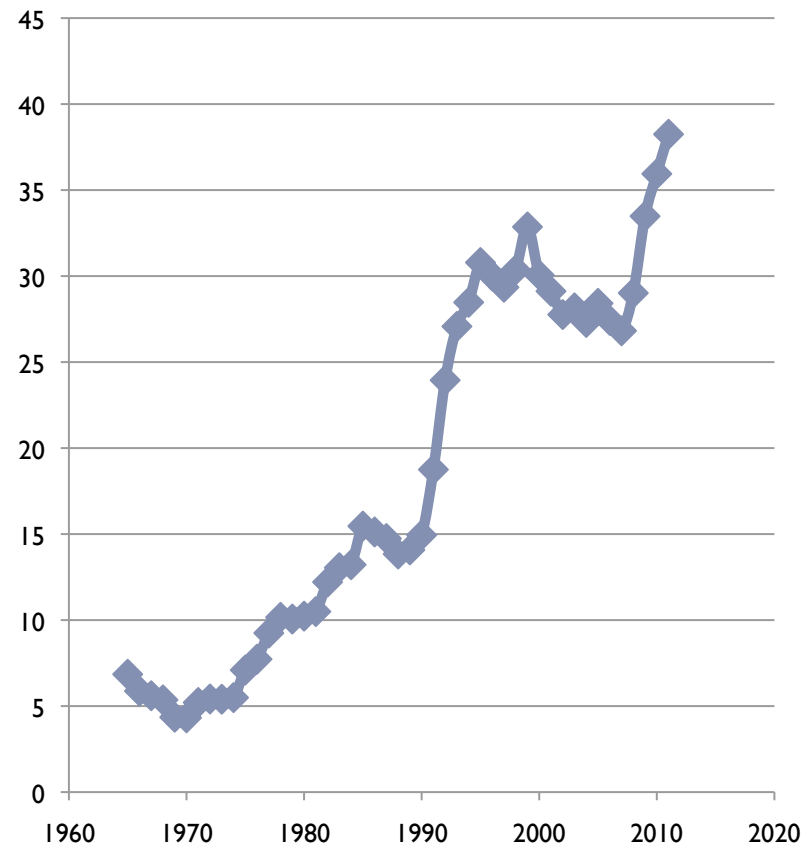


# Accumulated Deficits Plus Interest Charges Generates Debt

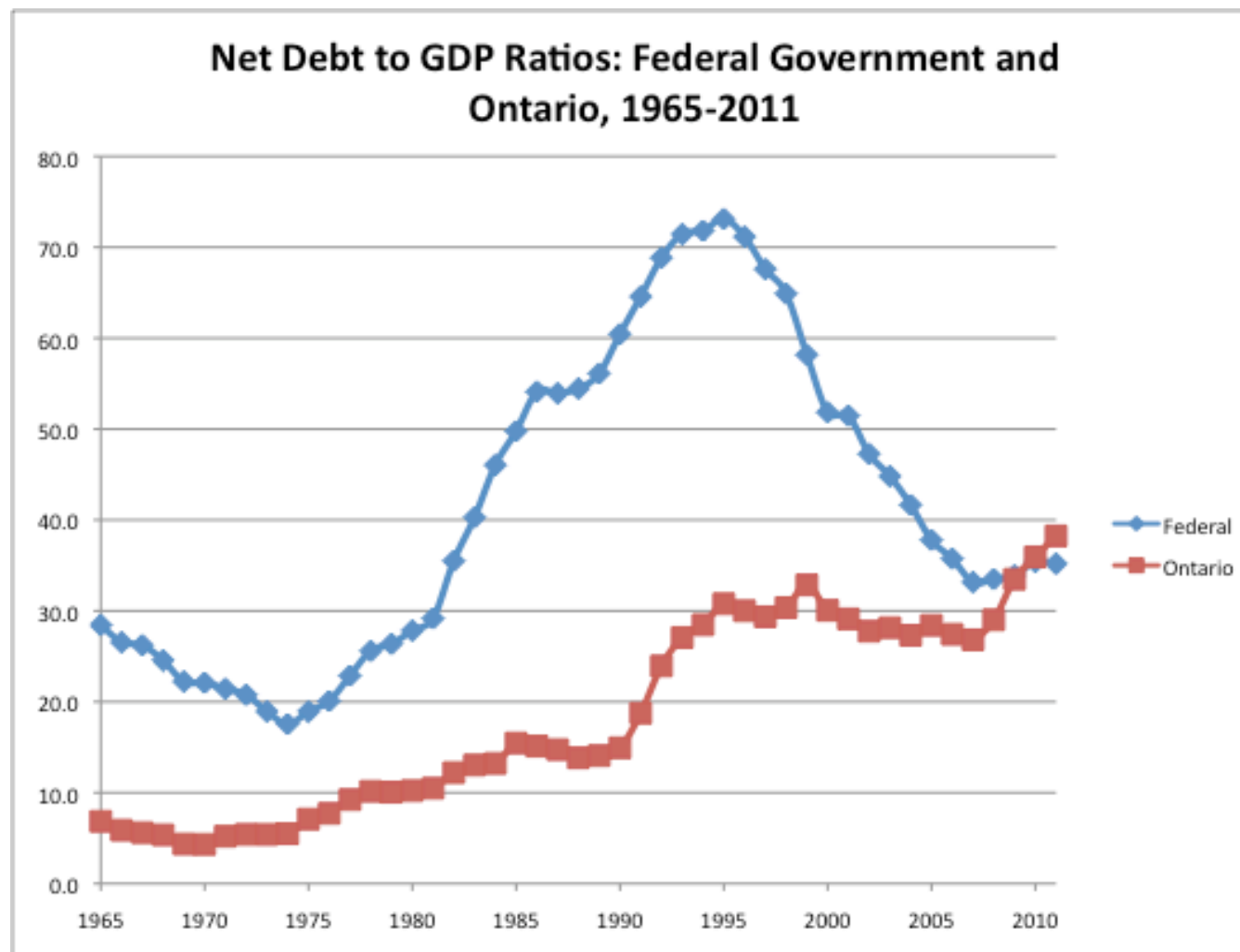
**ONTARIO NET DEBT**  
(millions of dollars)



**Ontario's Net Debt/GDP Ratio (%): 1965-2010**



# Debt to GDP Comparison



<http://economics.lakeheadu.ca/dimatteo/dimatteo.html>

# Conclusions

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- ▶ Ontario's economy is currently in a protracted low growth trajectory.
- ▶ Low economic growth has spilled over into public finances – rising debts and deficits.
- ▶ Long term implication of low productivity is a lower standard of living for all Ontarians.
- ▶ Ultimately, low productivity will generate a lower standard of living and poorer public services in health and education.