An Overview of Ontario’s Economic and Fiscal Situation

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Summary

- 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

- 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

http://economics.lakeheadu.ca/dimatteo/dimatteo.html
Ontario Economy Stagnating

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

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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)

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

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Ontario’s Employment

- 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…

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Productivity Decline

Ontario Real GDP Per Employed Person (1991-2010)

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What does declining productivity mean?

- 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%.

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Declining Productivity and the Public Sector

- 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.

http://economics.lakeheadu.ca/dimatteo/dimatteo.html
Ontario’s Public Finances

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

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

http://economics.lakeheadu.ca/dimatteo/dimatteo.html
Accumulated Deficits Plus Interest Charges Generates Debt

ONTARIO NET DEBT (millions of dollars)

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

http://economics.lakeheadu.ca/dimatteo/dimatteo.html
Debt to GDP Comparison

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Conclusions

- 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.