Ontario Budget 2018 report

Economics

Highlights

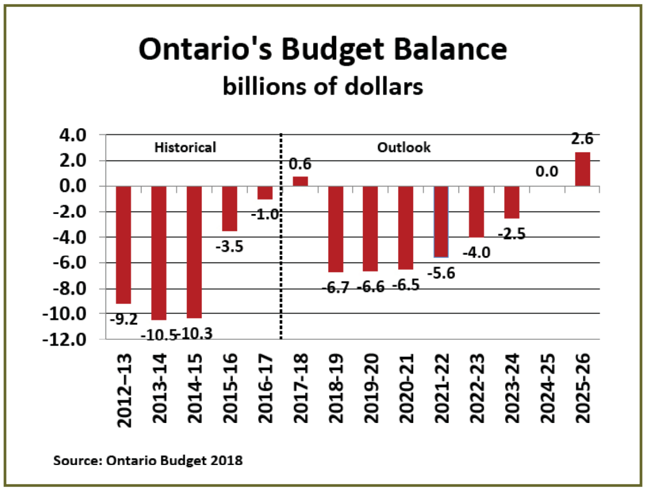
- Higher spending commitments to drive deficits of $6.5 to $6.7 billion in coming years following a projected surplus in 2017-18
- Higher spending initiatives aimed at supporting key groups such as families with children, seniors, students, and individuals with mental and/or physical disabilities
- Net debt to GDP ratio is expected to decrease in the interim 2017-18 to 37.1 from 38 per cent but climb over the next three years
- Expense growth will outstrip revenue growth in the front end of the forecast. As the economy continues to expand revenue growth will outpace expense growth and the deficits will gradually decline until the province balances the books by 2024-25
- Budget 2018 did not mention credit unions

Summary

The Ontario budget, *A Plan of Care and Opportunity*, tabled March 28, followed through on the government's promise to balance the budget and in the interim 2017-18 with a $600 million surplus but projected significant deficits over the coming years..

Given that voters will head to the polls in June this budget was heavy on expenditures aimed at helping key groups in the economy such as families with children, seniors, students, and, people with physical and mental disabilities. In the years after the interim 2017-18 the government will be running significant deficits in the range of $6.5 to $6.7 billion before gradually running smaller deficits and finally balance the budget by 2024-25.

In 2018-19, tax revenue growth will fall to 1.5 per cent from 6.7 per cent while total expenditures will climb to six per cent up from 5.5 per cent. As a result, the debt to GDP ratio will reverse trend and start climbing.



The outlook for the economy calls for moderation. The government is expecting average real GDP growth of 1.9 per cent from 2018-21 due to slowing economic growth in the United States and rest of Canada, rising interest rates, a strengthening Canadian dollar and higher oil prices. Household spending on interest-rate-sensitive items is expected to moderate along with housing market activity as policies put in place last year by this government will keep many prospective buyers on the sidelines.

In establishing their baseline economy projections, the government, as in the past, consulted with private-sector forecasters including Central 1 Credit Union. The government expects a growth profile that is lower than our latest forecast. Given our expectations of greater growth compared to the province, even in a period of uncertainty that will put downward pressure on growth, deficits could come in lower than projected.

Ontario's net debt is projected to be $308.2 billion as of March 31, 2018; $3.7 billion lower than forecast in the *2017 Budget.* Net debt was $301.6 billion as of March 31, 2017.

Accumulated deficit is projected to be $192.4 billion as of March 31, 2018, compared to a projection of $193.5 billion in the *2017 Budget.*

Revenue Growth

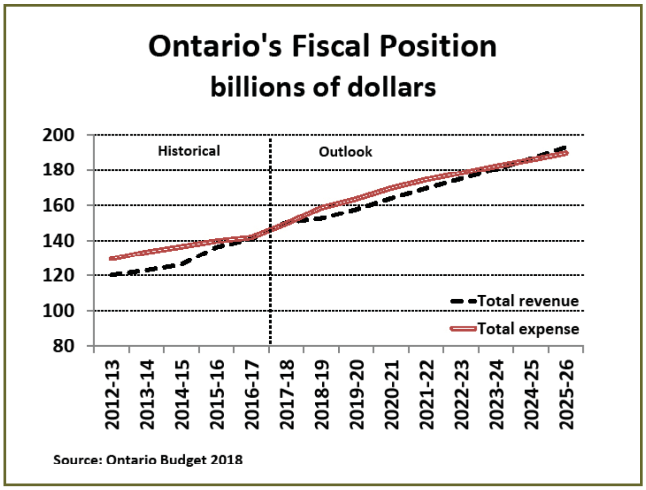
With the backdrop of moderating economic activity on the front-end and gradual pick-up afterwards tax revenues will moderate after the interim 2017-18 period and average 3.2 per cent annual growth for the duration of the forecast horizon.

Over the medium term, from 2018 to 2021, personal income tax revenue growth will grow in the range of 5.3 to 5.9 per cent after increasing by over ten per cent in 2017-18. Despite growing wages through increased minimum hourly wages, increased household debt loads will diminish consumer demand affecting business activity and putting some downward pressure on employment growth especially for areas such as retail sales. New policies put in place to subdue housing price growth will also affect earnings in industries attached to the housing sector at least until people become accustomed to the new rules and return to the market gradually. Sluggish homeownership activity in the front-end will also affect land transfer tax revenues.

Corporate taxes are gradually going to increase as export growth, particularly from increased U.S. demand of Ontario goods and services barring a trade policy mistake, picks-up.

Education property tax revenue grows in line with property valuations. Given strong housing activity in previous periods and elevated valuations these revenues are expected to grow at about six per cent annually for the medium term.

The government's forecasts are cautious especially for revenues. Housing activity will moderate but increased export demand will off-set the declines in housing. As business activity increases businesses will



invest more and that includes labour thus helping to promote consumer demand. We expect revenues to diminish in the front end as the economy traverses some short-term headwinds (i.e., NAFTA negotiations, increased minimum wages, new mortgage stress test, etc.), but the pick-up will be more significant than the province expects helping to grow revenues more.

Expense Growth

This budget sets forth an aggressive spending plan over the next few years aimed at making key investments in infrastructure and programs to help key groups in the economy.

Initiatives such as OHIP+ for seniors and youth, investments in hospital infrastructure, investments in long-term care beds, and mental health services among others will increase health expenses.

Summary of Medium-Term Revenue Outlook	Interim	Plan	Outlook	
($ billions)	2017-18	2018-19	2019-20	2020-21
Revenue				
Personal Income Tax	32.3	35.6	37.7	39.7
Sales Tax	26.0	26.8	27.9	28.9
Corporations Tax	15.8	15.1	15.6	16.0
Ontario Health Premium	3.7	3.9	4.1	4.3
Education Property Tax	6.0	6.1	6.1	6.2
All Other Taxes	15.6	16.0	16.7	17.3
Total Taxation Revenue	99.4	103.5	108.1	112.4
Government of Canada	25.3	26.0	25.7	26.8
Income from Government Business Enterprises	6.1	5.3	6.0	6.6
Other Non-Tax Revenue	19.3	17.6	17.7	18.0
Total Revenue	150.1	152.4	157.5	163.8

Source: Ontario Budget 2018. Forecast commences 2018.

Summary of Medium-Term Expense Outlook	Interim	Plan	Outlook	
($ billions)	2017-18	2018-19	2019-20	2020-21
Programs				
Health Sector	58.3	61.3	64.2	66.6
Education Sector	27.0	29.1	30.1	31.5
Postsecondary and Training Sector	11.1	11.8	12.0	12.0
Children's and Social Services Sector	16.9	17.9	18.7	19.8
Justice Sector	4.8	5.0	5.0	5.0
Other Programs	19.4	20.8	20.4	20.8
Total Programs	137.5	145.9	150.4	135.8
Interest on Debt	12.0	12.5	13.1	13.8
Total Expense	149.5	158.4	163.5	149.6

Source: Ontario Budget 2018. Forecast commences 2018.

Increasing access to affordable child care for many families will increase expenditures in children and social services particularly in 2018-19.

Investments in students such as the proposed grants in lieu of student loans and expenditures to hire more guidance counsellors to serve grade 7 and 8 students before they enter secondary school will increase post-secondary and training expenses.

Because of these and many program expenditures the average program expenditure in Ontario will jump six per cent in 2018-19 and 3.2 per cent in 2019-20 after averaging 1.8 per cent annually from 2011 to 2015. This is one of the most aggressive expenditure plans seen in Ontario in quite a long time, but not surprising given it also reflects an election year platform.

Net Debt on the Rise

Ontario's net debt is projected to be $308.2 billion as of March 31, 2018; $3.7 billion lower than forecast in the *2017 Budget.* Net debt was $301.6 billion as of March 31, 2017.

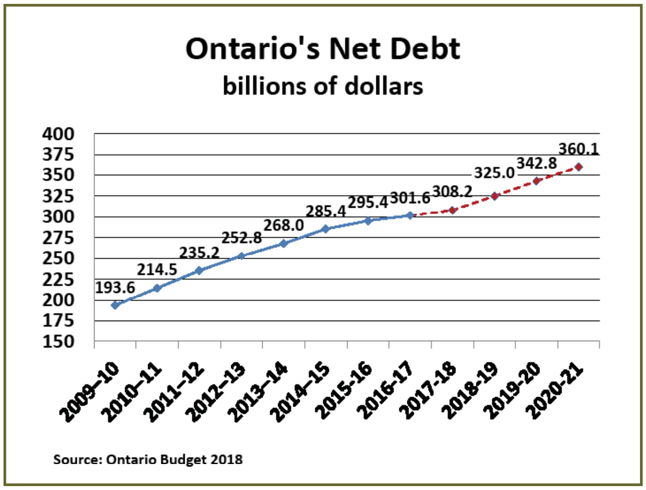
Accumulated deficit is projected to be $192.4 billion as of March 31, 2018, compared to a

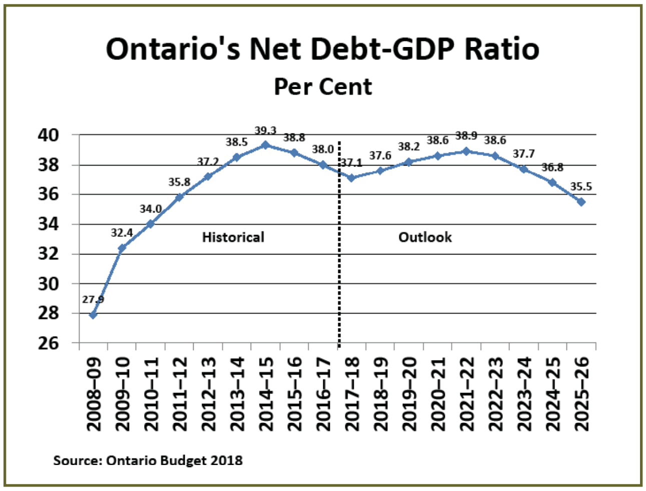
projection of $193.5 billion in the *2017 Budget.*

Given the province's aggressive spending plan net debt and the net-debt to GDP ratio will both rise in the medium term up to 2020-21 before starting to decline

Budget News Specifically Directed at Credit Unions

The Ontario budget 2018 made no mention of credit unions.





Some Key Tax Measures

Ontario proposes to change the Ontario Research and Development Tax Credit to encourage more investment in new technologies and innovation by large businesses.

The Ontario Innovation Tax Credit (OITC) is an eight per cent refundable tax credit for small to mediumsized companies on eligible R&D expenditures. The government proposes to enhance the

OITC to encourage smaller companies to make investments in R&D that will help them grow.

The government aims to target the Employer Health Tax exemption to small employers. In doing so, proposed changes would result in over 20,000 Ontario employers paying $2,400 more EHT per year on average. These 20,000 employers would on average pay additional EHT of less than one per cent of their payroll.

The elimination of the Ontario surtax from the personal income tax system. Currently, Ontario is one of the few remaining jurisdictions in Canada with a surtax calculation. The proposed change to remove the surtax calculation would be coupled with creation of seven statutory rates up from the current five rates. The government suggests that this change would simplify the tax calculation with most of tax filers in the province not seeing an increased to their payable tax.

Noteworthy Programs or Expenditures

As mentioned, this budget is packed with expenditures aimed at helping key groups in the economy. Below are some highlights of key initiatives set forth by this government.

- Making prescriptions completely free for everyone 65 and over through OHIP+, ensuring that no senior citizen ever needs to go without necessary drugs. By eliminating the Ontario Drug Benefit annual deductible and co-pay, this saves the average Ontario senior $240 per year. This expansion of OHIP+ follows the introduction of free prescriptions for everyone under the age of 25 in the *2017 Ontario Budget*.
- Providing more affordable, quality child care by making preschool child care free for children aged two-and-a-half until they are eligible for kindergarten. This is projected to save a family with one child $17,000, on average, and builds on the savings families get from full-day kindergarten.
- Providing better and faster access to mental health and addictions services for hundreds of thousands more children, young people and adults across Ontario — bringing the total funding to more than $17 billion over four years.
- Improving hospitals by providing better access to care, reducing wait times, addressing capacity issues and better meeting the needs of Ontario's growing and aging population through an additional $822-million investment in 2018–19 — the largest single government investment in hospitals in almost a decade. The Province is also investing approximately $19 billion over 10 years to build and renovate hospitals to provide more and faster health care for people.
- Creating 30,000 new long-term care beds over the next 10 years — adding 5,000 new beds by 2022 — to help people who can no longer live independently and provide peace of mind for people who care for them. These new beds are in addition to the 30,000 existing beds being redeveloped.
- Building a fair society and enhancing choice and independence by investing $1.8 billion to strengthen services for 47,000 adults with developmental disabilities and reforming the social assistance system to focus on people rather than on rules and regulations.
- Making college and university tuition free for more than 225,000 students of all ages. Free or low tuition is available for students from low- and middle-income families; tuition is free for those earning up to $90,000, and students from families who earn up to $175,000 are also eligible for financial aid.

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Ontario's Fiscal Plan					Actual	Interim	Plan	Outlook		Recovery				
($ billions)	2012–13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total revenue	120.3	123.0	126.2	136.1	140.7	150.1	152.5	157.6	163.8	169.5	174.9	180.4	186.5	192.9
Total expense	129.5	133.4	136.5	139.7	141.7	149.5	158.5	163.5	169.6	174.4	178.2	182.2	185.8	189.6
Program	118.7	122.3	125.2	128.1	130.0	137.5	145.9	150.4	155.8	159.5	162.7	166.0	169.3	172.7
Interest on debt	10.9	11.1	11.2	11.6	11.7	12.0	12.5	13.1	13.8	14.9	15.5	16.3	16.5	16.9
Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Surplus/(Deficit)	-9.2	-10.5	-10.3	-3.5	-1.0	0.6	-6.7	-6.6	-6.5	-5.6	-4.0	-2.5	-0.0	2.6
Net Debt as a Per Cent of GDP	37.2	38.5	39.3	38.8	38.0	37.1	37.6	38.2	38.6	38.9	38.6	37.7	36.8	35.5
Accumulated Deficit as a Per Cent of GDP	24.6	25.4	25.8	25.2	24.3	23.2	23.1	22.9	22.7	22.5	22.1	21.5	20.6	19.6

Source: Ontario Budget 2018. Forecast commences 2018.

Economic Outlook for Ontario				Forecast			
(Per Cent)	2015	2016	2017e	2018p	2019p	2020p	2021p
Real GDP Growth	2.9	2.6	2.7	2.2	1.8	1.9	1.7
Nominal GDP Growth	5.0	4.3	4.4	4.1	3.9	4.0	3.9
Employment Growth	0.7	1.1	1.8	1.7	1.1	0.9	0.8
CPI Inflation	1.2	1.8	1.7	2.2	2.2	2.1	1.9

Source: Ontario Budget 2018. Forecast commences 2018.

e = estimated

p = projections