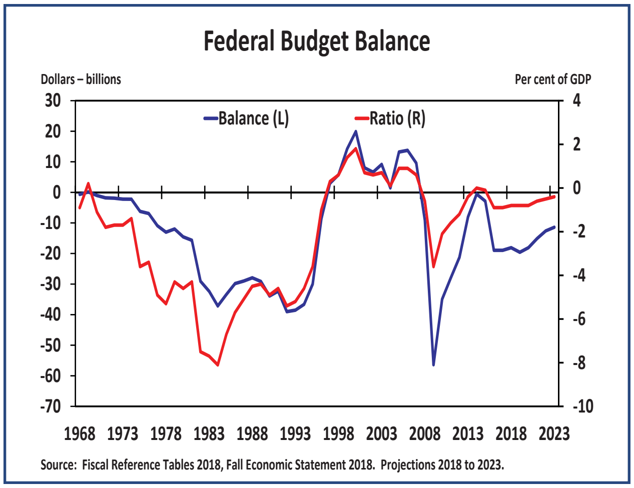
Federal Fall Economic Statement 2018

The federal government delivered its *Fall Economic Statement 2018* providing a fiscal update to *Budget 2018* and outlined initiatives to improve Canada's competitiveness through accelerated depreciation measures, increased support for innovation, expand international trade opportunities, reduced interprovincial trade barriers, and updated federal regulations. No tax cuts were announced. The budget deficit and debt projections follow the same pattern as previously.



Highlights:

- Improve competitiveness by allowing the full cost of machinery and equipment used in the manufacturing and processing of goods to be deducted for tax purposes.
- Introduces the Accelerated Investment Incentive to allow businesses to write off a larger share of their costs in the year an investment is made.
- Specified clean energy equipment eligible for immediate full-cost write-off.
- Provide $800 million over five years to the Strategic Innovation Fund to support innovative investments with $100 million to focus on the forest sector.
- Initiate an Export Diversification Strategy to increase Canada's overseas exports by 50 per cent by 2025.
- Remove interprovincial trade barriers to transport goods more easily, to harmonize food regulations and inspections, to align regulations in the construction sector including harmonization of building codes, and to facilitate trade in alcohol.
- Modernize federal regulations and encourage regulators to consider economic competitiveness when designing and implementing regulations.
- Create a Social Finance Fund that gives charitable, non-profit and social purpose organizations access to new financing, and connects them with non-government investors.
- Advance pay equity by ensuring that women and men in federally regulated sectors receive equal pay for work of equal value.

Summary Statement of Transactions, billions of dollars

	Actual	Projection					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Budgetary revenues	**313.6**	**328.9**	**339.2**	**352.1**	**367.9**	**382.1**	**396.7**
Program expenses	310.7	320.2	328.3	337.3	348.2	359.0	370.8
Public debt charges	21.9	23.8	27.5	29.9	31.8	32.7	34.3
Total expenses	**332.6**	**344.1**	**355.8**	**367.2**	**380.0**	**391.7**	**405.1**
Adjustment for risk		-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Budgetary balance	**-19.0**	**-18.1**	**-19.6**	**-18.1**	**-15.1**	**-12.6**	**-11.4**
Federal debt*	**671.3**	**687.7**	**707.3**	**725.5**	**740.6**	**753.2**	**764.7**
	Per cent of GDP						
Budgetary revenues	**14.7**	**14.8**	**14.6**	**14.7**	**14.8**	**14.8**	**14.8**
Program expenses	14.5	14.4	14.2	14.1	14.0	13.9	13.8
Public debt charges	1.0	1.1	1.2	1.2	1.3	1.3	1.3
Budgetary balance	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.6**	**-0.5**	**-0.4**
Federal debt	**31.4**	**30.9**	**30.5**	**30.3**	**29.8**	**29.2**	**28.5**

Source: Fall Economic Statement – 2018 *Accumulated deficits

- Government intends to introduce measures to support Canadian journalism.
- The federal deficit is projected to decline from $19.6 billion in 2019–20 to $11.4 billion by 2023–24, with the federal debt-to-GDP ratio expected to decline to 28.5 per cent in 2023–24 from 30.5 per cent in 2019-20.

These new measures will cost $2.9 billion over the next five years with the bulk occurring between 2020-21 to 2022-23 fiscal years.

The budget deficit begins to decline in 2021-22. In this fiscal year 2018-19, the deficit increases to $18.1 billion from 15.1 billion originally in *Budget 2018*.

A stronger than forecast economy generated $5.5 billion more revenue in 2018-19 compared to expectations in *Budget 2018.*

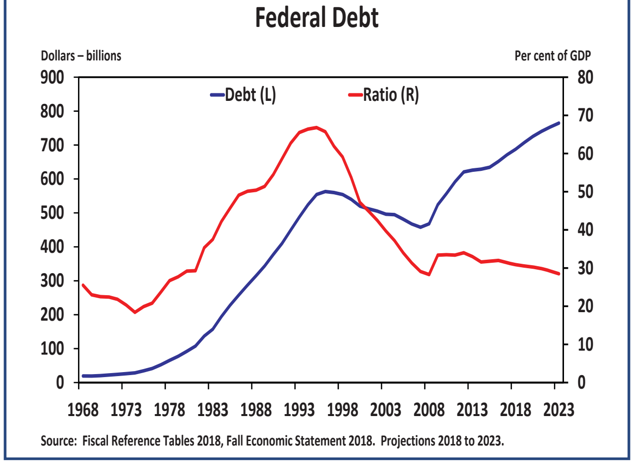
The federal debt is $18.1 billion higher in 2018-19 in the fiscal update compared to *Budget 2018*. Total debt is now projected at $687.7 billion, or 30.9 per cent of GDP, compared to $669.6 billion and 30.1 per cent of GDP in *Budget 2018*.

The new investment incentives proposed will allow businesses to write off a larger share of their costs in the year an investment is made. New tax incentives to encourage investment in Canada are worth $14 billion over five years. Immediate expensing will apply to qualifying assets acquired after November 20, 2018 and gradually phased out starting in 2024 to no longer be in effect for investments after 2027. These measures will cause the overall tax rate on new business investment to fall to 13.8 per cent from 17.0 per cent, which compares to 18.7 per cent in the U.S. after its tax reforms.

Business investment spending should increase as a result of these incentives, but not necessarily, if market conditions are not supportive of realizing profitability from those new investments. Taxation is one factor behind investment spending but other factors such as final prices and operating costs are probably more important. Reducing interprovincial trade barriers, harmonizing provincial regulations, and opening up to more international markets plays an important role.

A new fund for social finance will allow charities and non-profit groups to finance new ideas. The federal government will make $755 million available over 10 years.

The government will spend $1.1 billion over the next six years to increase Canada's overseas exports by 50 per cent.



Source: Fiscal Reference Tables 2018, Fall Economic Statement 2018. Projections 2018 to 2023.

$135 million is being promised to support B.C. and Quebec fisheries, including the Pacific salmon population

The Financial Consumer Agency of Canada will review how banks handle consumer complaints.

Economic Projections

- *FES 2018* economic forecasts were similar to those in *Budget 2018,* and notably, 2019 forecasts were upgraded while 2020 was downgraded. Growth in real GDP was less than two per cent annually between 2020 and 2023with nominal GDP growth less than four per cent annually.
- Interest rates are seen rising about 100 basis points between 2018 and 2023. The U.S.-Canada exchange rate to reach 81.1 cents in 2023.
- Oil prices are range-bound between $US 65 and 71 per barrel through 2023.

The projections are the average of private sector forecasts which are used as a basis for fiscal planning. However, the linkages between revenue and expense budget items and these forecasts are very loose. Federal government budgets do not provide much detail behind line item estimates and projections, unlike some provincial government budgets.

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Economic Forecasts

	2018	2019	2020	2021	2022	2023
Real GDP growth	2.0	2.0	1.6	1.6	1.9	1.9
GDP inflation	2.2	2.1	1.7	2.0	2.0	2.0
Nominal GDP growth	4.2	4.1	3.3	3.7	4.0	3.9
Nominal GDP level (billions)	2,228	2,318	2,395	2,484	2,583	2,684
3-month treasury bill rate	1.4	2.1	2.4	2.4	2.4	2.6
10-year government bond yield	2.3	2.8	3.0	3.1	3.2	3.3
Exchange rate (US cents/C$)	77.6	78.4	78.7	79.5	80.2	81.1
Unemployment rate	5.9	5.8	6.0	6.1	6.0	6.0
CPI inflation rate	2.4	2.1	1.9	1.9	2.0	2.0
U.S. real GDP growth	2.8	2.5	1.8	1.8	2.0	1.9
WTI crude oil price ($US per barrel)	67	68	65	65	68	71

Source: Fall Economic Statement - 2018