

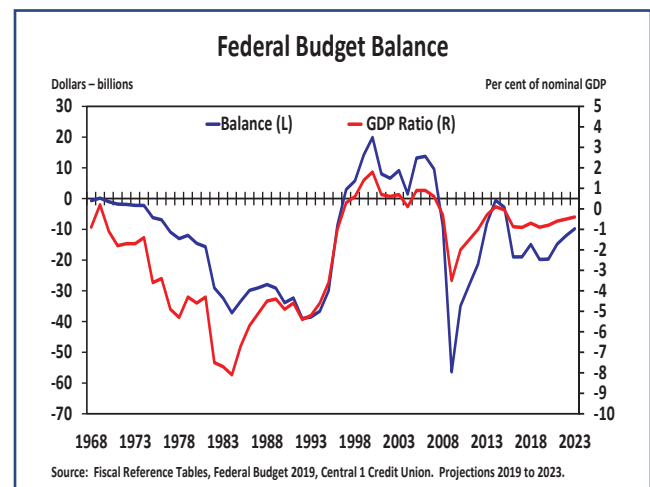
Summary: Investing in the middle class is the main theme in the government's pre-election budget. *Budget 2019* provides measures to incent first-time home buyers, fund skills training, provide interest expense relief for students, develop a national pharmacare plan, and fund various infrastructure initiatives. The fiscal plan envisions a declining deficit trajectory as in the prior full budget and budget update. The federal debt will rise each year, though decline relative to the economy.

Significant measures:

First-Time Home Buyer Incentive: *Budget 2019* proposes \$1.25 billion in funding to the Canada Mortgage and Housing Corporation (CMHC) for a new First-Time Home Buyer Incentive. This will provide for shared equity mortgage for first-time homebuyers, in essence an interest-free down payment loan. The incentive provides funding equal to 5 per cent of the purchase price for existing homes, or 10 per cent for newly constructed homes. The larger down payment reduces the purchaser's mortgage loan and monthly mortgage costs. The loan would be repaid at the time of resale. This is available to first-time home buyers with household incomes under \$120,000 per year and home price cannot exceed four times the participant's annual household income. More program details are forthcoming with the program expected to be implemented by September 2019. Funding ends in three years.

Home Buyers Plan: The Home Buyers Plan (HBP) individual withdrawal limit from a Registered Retirement Savings Plan (RRSP) to purchase or build a home without having to pay tax on the withdrawal was raised to \$35,000 from \$25,000. The withdrawal is tax free provided it is repaid over a 15-year period.

Rental Construction Financing Initiative: *Budget 2019* provides an additional \$10 billion over nine years in financing, extending the program until 2027–28. This program was launched in 2017 and enhanced in *Budget 2018*.



Housing occupied a prominent place in Budget 2019 with the new First-Time Home Buyer Incentive a response to the ongoing affordability problem. It is also an effort to stimulate the slowing housing market and economy and mitigates some of the negative impacts of the federal B-20 regulations on the housing market. Rental construction volumes to date have disappointed.

Canada Training Credit: *Budget 2019* introduces a non-taxable credit for eligible tuition costs and related training fees. The Canada Training Credit provides eligible individuals with \$250 per year up to a maximum of \$5,000 over a lifetime. Any unused balance will expire at the end of the year in which the individual turns 65. This is available to workers with earnings of at least \$10,000 (including maternity and parental benefits) and income less than around \$150,000 a year.

A related measure is the Employment Insurance (EI) Training Support Benefit. This new benefit—expected to be launched in late 2020—would be available through the EI program and would provide up to four weeks of income support, every four years.

These measures are positive but rather modest in scale. Skills training is an important component of a more productive and competitive economy. Other measures to improve skills are more affordable student loans, expanding the Canada Service Corps, digital skills funding, expanding the Student Placement Program, along with other initiatives.

National Pharmacare Plan: The Government intends to move forward on a national pharmacare plan in *Budget 2019*. A Canadian Drug Agency is proposed to make prescription drugs more affordable. Other elements will be introduced at a later date.

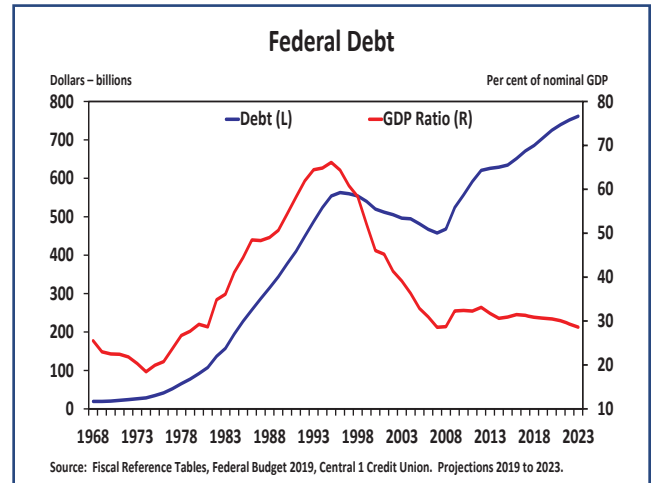
Fiscal Plan: *Budget 2019* is slightly restrictive during the five-year plan with program spending growing at a slower pace than the economy. Revenue growth exceeds total expense growth each year resulting in declining deficits. The budget deficit is projected at \$19.8 billion in fiscal year (FY)19/20 declining to \$9.8 billion in FY23/24. These deficits include a \$3 billion risk allowance. The federal debt rises each year reaching \$761.7 billion in FY23/24. As a share of nominal Gross Domestic Product (GDP), debt-to-GDP edges down to 28.6 per cent in FY23/24 from 30.8 per cent in FY18/19. Both the deficit and debt-to-GDP ratios are and will be below historical averages.

The current fiscal plan is an extension of the fiscal and policy strategy under this government. Some will argue the budget does not go far enough to achieve a balanced budget sooner and does not leave the government much room to respond during an economic recession. Others will see it as a missed opportunity by not spending more on social and economic needs, because there is fiscal room to make up for past underfunding. Improving the economy's competitiveness and productivity will be another strategic area seen by some as not receiving enough attention.

Economic Forecast: The projection has nominal GDP growth between 3.4 per cent to 4.0 per cent annually comprised of 1.6 per cent to 2.0 per cent real GDP growth and annual inflation around two per cent. There is a divergence in growth trends between Canada and the U.S. with the latter slowing into 2021 while Canada is accelerating. This is possible, but unlikely.

Higher interest rates each year are forecast, which is consistent with the budget's economic growth forecast. Debt servicing costs rise each year at a faster pace than the economy as a result of higher rates and debt levels.

Economic projections appear on the optimistic side, particularly in 2020 and 2021. The impact of slower nominal GDP growth of one percentage point is about six to eight billion dollars annually in less revenue. The forecast allowance can absorb some unexpected revenue loss developments.



Revenue: Overall revenue rises slightly faster than nominal GDP. Personal income tax revenue rises faster than the economy and accounts for most of the total revenue gain. Corporate tax revenue is projected to decline in FY19/20 and to modestly increase thereafter. Corporate income tax revenue as a share of the economy is projected to decline while personal income tax revenue increases.

No new significant revenue measures were included in *Budget 2019*. Tax measures were introduced in prior budgets.

Expenses: Program spending will grow at a slightly slower pace than nominal GDP, sending the program expense-to-GDP ratio down to 13.8 per cent in FY23/24 from 14.6 per cent in FY18/19. During the five-year plan, spending on persons is projected to rise 26.6 per cent, led by a 32.5 per cent rise in elderly benefits, which is driven by demographic changes. Transfers to other governments lags nominal GDP growth each year, increasing 15.9 per cent over the five-year period compared to 20.0 per cent for the economy.

Notable new spending measures:

Government Operations, Fairness and Openness: \$453 million in FY19/20 and \$1,448 million over the five-year fiscal plan. The main component is insuring income replacement benefits for Medically Released Members of the Forces at \$182 million in year one and \$910 million over five years.

Growth, Innovation, Infrastructure and the Environment: \$459 million in FY19/20 and \$1,442 million during the plan. The largest dollar item is delivering better service for air travellers: \$296 million in year one, \$871 million in year two, and \$1,175 million over five years. Another item is preparing

for a new generation of wireless technology at an estimated cost of \$117 million during the plan. A one-time transfer of \$2.2 billion through the federal Gas Tax Fund to address short-term infrastructure priorities in municipalities and First Nation communities.

Labour Markets, Health, Safety and Economic Prosperity of Canadians: \$334 million in FY19/20 and \$771 million over five years. Two areas account for most of this funding - modernizing Canada's border operations and providing health care to refugees and asylum seekers.

Trade, International Relations and Security: \$248 million in year one and \$260 million during the plan. One measure, supporting the World Bank, accounts for most of this spending.

Financial services: *Budget 2019* proposes legislation to implement a new retail payments oversight framework requiring payment service providers to establish sound operational risk management practices and to protect users' funds against losses. The Bank of Canada would oversee the payment service providers' compliance with operational and financial requirements and maintain a public registry of regulated payment service providers. *Budget 2019* also proposes to introduce technical amendments to the Canadian Payments Act to modernize the governance framework of Payments Canada.

The government proposes legislative amendments to the Criminal Code and Proceeds of Crime (Money Laundering) and Terrorist Financing Act. In addition, complementary legislative measures to strengthen Canada's legal framework and support operational capacity of the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) were also proposed.

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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	311.2	332.2	338.8	351.4	366.7	380.7	395.5
Program expenses	308.3	323.5	329.4	339.7	348.3	358.4	369.1
Public debt charges	21.9	23.6	26.2	28.5	30.2	31.4	33.2
Total expenses	330.2	347.1	355.6	368.2	378.4	389.8	402.2
Adjustment for risk			-3.0	-3.0	-3.0	-3.0	-3.0
Budgetary balance	-19.0	-14.9	-19.8	-19.7	-14.8	-12.1	-9.8
Federal debt*	671.3	685.6	705.4	725.1	739.8	751.9	761.7
Per cent of GDP							
Budgetary revenues	14.5	14.9	14.7	14.8	14.9	14.8	14.8
Program expenses	14.4	14.6	14.3	14.3	14.1	14.0	13.8
Public debt charges	1.0	1.1	1.1	1.2	1.2	1.2	1.2
Budgetary balance	-0.9	-0.7	-0.9	-0.8	-0.6	-0.5	-0.4
Federal debt	31.3	30.8	30.7	30.5	30.0	29.3	28.6

Source: Federal Budget 2019. *Accumulated deficit

Percentage Growth in Key Fiscal Plan Elements

	Actual		Projection				
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Budgetary revenues	6.8	6.7	2.0	3.7	4.4	3.8	3.9
Program expenses	6.7	4.9	1.8	3.1	2.5	2.9	3.0
Public debt charges	3.1	7.8	11.0	8.8	6.0	4.0	5.7
Total expenses	6.4	5.1	2.4	3.5	2.8	3.0	3.2
Federal debt*	3.0	2.1	2.9	2.8	2.0	1.6	1.3

Source: Federal Budget 2019. *Accumulated deficit

Budget 2019 Planning Assumption for Nominal GDP

	2018	2019	2020	2021	2022	2023
	(billions of dollars)					
Budget 2019 fiscal planning assumption	2,223	2,298	2,379	2,467	2,564	2,667
Per cent change in nominal GDP	3.8	3.4	3.5	3.7	3.9	4.0

Average Private Sector Forecasts

Nominal GDP growth (per cent)						
February 2019 private sector survey	3.8	3.4	3.5	3.7	3.9	4.0
Real GDP growth (per cent)						
February 2019 private sector survey	1.9	1.6	1.9	2.0	2.0	2.0
3-month treasury bill rate (%)						
February 2019 private sector survey	1.4	1.9	2.2	2.3	2.4	2.5
10-year government bond yield (%)						
February 2019 private sector survey	2.3	2.4	2.7	2.8	3.1	3.3
Unemployment rate (%)						
February 2019 private sector survey	5.8	5.7	5.9	6.0	6.0	5.9
Consumer Price Index inflation						
February 2019 private sector survey	2.3	1.9	2.0	1.9	2.0	2.0
Exchange rate (US cents/C\$)						
February 2019 private sector survey	77.2	76.3	77.2	77.7	78.2	79.9
U.S. real GDP growth (per cent)						
February 2019 private sector survey	2.9	2.4	1.7	1.7	1.9	1.9
WTI crude oil price (USD per barrel)						
February 2019 private sector survey	66	59	60	61	63	65

Source: Federal Budget 2019.

Revenue Outlook, billions of dollars							
	Actual			Projection			
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income taxes							
Personal income tax	153.6	162.8	170.4	177.8	185.0	192.7	201.3
Corporate income tax	47.8	52.0	46.3	47.0	49.7	50.7	52.8
Non-resident income tax	7.8	9.6	9.7	9.7	9.7	9.8	9.9
Total income tax	209.3	224.3	226.5	234.5	244.4	253.2	264.0
Excise taxes/duties							
Goods and Services Tax	36.8	39.6	40.8	42.1	43.6	45.2	47.0
Customs import duties	5.4	6.9	6.3	5.9	6.1	6.4	6.3
Other excise taxes/duties	11.7	12.0	12.3	12.4	12.6	12.7	12.7
Total excise taxes/duties	53.8	58.5	59.3	60.4	62.3	64.3	66.0
Total tax revenues	263.1	282.9	285.8	294.9	306.6	317.5	330.0
E.I. premium revenues	21.1	21.4	22.0	22.7	23.5	24.4	25.3
Other revenues	27.0	27.9	28.7	30.3	31.9	33.2	34.5
Total budgetary revenues	311.2	332.2	338.8	351.4	366.7	380.7	395.5
Per cent of GDP							
Personal income tax	7.2	7.3	7.4	7.5	7.5	7.5	7.5
Corporate income tax	2.2	2.3	2.0	2.0	2.0	2.0	2.0
Goods and Services Tax	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Total tax revenues	12.3	12.7	12.4	12.4	12.4	12.4	12.4
E.I. premium revenues	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Other revenues	1.3	1.3	1.2	1.3	1.3	1.3	1.3
Total budgetary revenues	14.5	14.9	14.7	14.8	14.9	14.8	14.8

Source: Federal Budget 2019

Program Expense Outlook, billions of dollars

	Actual			Projection			
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Major transfers to persons							
Elderly benefits	50.6	53.3	56.2	59.7	63.3	66.9	70.6
EI benefits	19.7	18.8	19.9	21.5	23.0	24.0	24.8
Children's benefit	23.4	23.9	24.3	24.6	25.1	25.6	26.1
Total	93.8	96.0	100.4	105.8	111.4	116.4	121.5
Major transfers to other government							
Canada Health Transfer	37.1	38.6	40.4	41.8	43.3	44.9	46.6
Canada Social Transfer	13.7	14.2	14.6	15.0	15.5	15.9	16.4
Equalization	18.3	19.0	19.8	20.5	21.3	22.1	22.9
Territorial Formula Financing	3.7	3.8	3.9	4.2	4.3	4.4	4.6
Gas Tax Fund	2.1	4.3	2.2	2.2	2.3	2.3	2.4
Home care and mental health	0.3	0.9	1.1	1.3	1.5	1.2	1.2
Other fiscal arrangements	-4.7	-4.7	-5.1	-5.3	-5.5	-5.8	-6.0
Total	70.5	76.0	76.9	79.6	82.6	85.0	88.1
Direct program expenses							
Fuel charge proceeds returned	0.0	0.6	2.6	3.8	4.9	5.7	5.7
Other transfer payments	47.1	54.1	52.8	55.0	54.5	55.1	56.4
Operating expenses	96.8	96.7	96.7	95.4	95.0	96.2	97.3
Total	144.0	151.5	152.1	154.2	154.3	156.9	159.4
Total program expenses	308.3	323.5	329.4	339.7	348.3	358.4	369.1
Per cent of GDP							
Major transfers to persons	4.4	4.3	4.4	4.4	4.5	4.5	4.6
Major transfers to government	3.3	3.4	3.3	3.3	3.3	3.3	3.3
Direct program expenses	6.7	6.8	6.6	6.5	6.3	6.1	6.0
Total program expenses	14.4	14.6	14.3	14.3	14.1	14.0	13.8

Source: Federal Budget 2019