Highlights:

- Government to run declining deficits from 2018-19 to 2022-2023 before balancing the books by 2023-24
- No new taxes announced in 2019 Ontario Budget
- Fiscal 2019/20 deficit pegged at $10.3 billion
- The net-debt to Gross Domestic Product (GDP) ratio will remain above 40 per cent as the government runs deficits and modest economic growth puts downward pressure on GDP growth.
- Government forecasts economic growth of 1.7 per cent over forecast period, down from an annual average of 2.4 per cent from 2016 to 2018.

Analysis

2019 Ontario Budget: Protecting What Matters Most, tabled on April 11 marks the first budget under the helm of the new conservative government. The budget policies were aimed at key groups including students, seniors, families and business owners.

The government projects declining deficits from 2018-19 to 2022-2023 before balancing the books by 2023-24. With many proposed programs and sizeable tax measures, government expenses growth will substantially outstrip revenues in 2018-19 before gradually turning around given expected modest economic growth. This budget does not announce any new taxes, which may dampen government revenues at the start of projections until the economy returns to its full capacity.

Fiscal Outlook

The government projects a $11.7 billion deficit in fiscal year 2018-19. Over the medium term, the government is projecting steadily declining deficits of $10.3 billion in 2019-20, $6.8 billion in 2020-21 and $5.6 billion in 2021-22—returning to balance by 2023-24.

Revenues will grow modestly at the start of the projection (0.1 per cent in 2018-19) given increased expenses, no new taxes and slower economic growth. Expenses will increase at the start significantly (5.3 per cent in 2018-19) due to substantial program expenditures (5.5 per cent in 2018-19), as the government implements many new measures announced in the budget. Beyond the first year of the government’s projections, revenues will average 3.0 per cent annually to 2023-24, expenses will average 1.3 per cent and program expenditures 1.0 per cent. This is a function of an expected gradual improvement to the economy providing greater tax revenue and program expenditure being heavily front loaded to set-up new initiatives.

Net debt to GDP is forecast to gradually rise from 39.2 per cent in 2017-18 to a peak of 40.7 per cent by 2019-20 before decreasing to 38.6 per cent by 2023-24.

Economic Outlook

The economy is a key driver of government revenues and related risks. The government anticipates Ontario’s economy will evolve at a moderate pace from 2019 to 2024 due to a less supportive external environment and increased risk factors. Over the forecast period, Ontario’s economy will grow by an average real GDP of 1.7 per cent down from the 2.4 per cent average from 2016 to 2018. Moreover, employment growth will moderate over the forecast period slowing down from a 1.5 per cent yearly average from 2016 to 2018 to a 1.1 per cent yearly average from 2019 to 2024.

Ontario government consulted with private-sector economists, including Central 1 Credit Union, to
create their baseline projections. The government’s planning projections are below consensus, which is not abnormal for budgetary planning and adds a level of prudence to revenue expectations.

Given Ontario’s significant trade exposure, moderation in the province’s growth is closely aligned with a slowing U.S. and global economy. The slowdown in global growth reflects several factors including elevated geopolitical tension, financial market volatility and concerns regarding growth prospects in China. Uncertainty persists around U.S.–China trade issues, the United Kingdom’s exit from the European Union and the pending ratification of the Canada United States Mexico Agreement (CUSMA).

Over the forecast horizon, improving export volumes—due to the budget’s business-friendly policies and a favourable exchange rate—will be offset by other sectors facing headwinds, including automobile manufacturing. The projected closure of the General Motors plant in Oshawa will affect Ontario’s auto production. Improving exports will spur greater business investment propping up the province’s economy in the latter half of the forecast.

Household consumption is expected to moderate, given gradually rising interest rates and significant debt levels keeping households from making more interest-rate sensitive purchases. Household consumption will grow in line with moderate employment and wage growth.

Housing market activity—a key source of economic growth in the province—will further decline in 2019 following 2018’s decline. The government feels the housing market will gradually improve due to greater business investment and hiring over time. Moreover, the government has committed to increasing housing supply to alleviate affordability concerns.

Key tax measures

- Effective January 1, 2020, the Estate Administration Tax would be eliminated for taxable estates with assets of $50,000 or less and would be reduced by $250 for larger taxable estates.

- New Ontario Childcare Access and Relief from Expenses (CARE) tax credit. CARE tax credit will provide about 300,000 families with up to 75 per cent of their eligible child care expenses including care in centres, homes and camps.

Budget news for credit unions

In this budget, the government has signaled their commitment to reviewing and modernizing the Credit Unions and Caisses Populaires Act, 1994. The government has already enacted regulatory amendments to allow credit unions to enter into syndicated loan agreements led by banks and federally regulated credit unions.

Noteworthy programs or expenditures

- Committing up to $1 billion over the next five years to create up to 30,000 child care spaces in schools, including approximately 10,000 spaces in new schools.

- Investing an additional $384 million in hospitals and $267 million in home and community care. The government will also create Ontario Health Teams to move towards an integrated health care delivery model.

- Investing $3.8 billion for mental health, addictions and housing support over 10 years. This will start with the creation of a mental health and addictions system.

- Introducing a new dental program for low-income seniors who lack benefits. Individual seniors with annual incomes of $19,300 or less, or senior couples with combined annual incomes of $32,300 or less, will be able to receive dental services in public health units, community health centres and Aboriginal Health Access Centres across the province.
• Creating 15,000 new long-term care beds over the next five years and upgrading 15,000 older long-term care beds to provide more appropriate care to patients with complex health conditions.

• Investing $1.4 billion in school renewal in the 2019–20 school year to improve the conditions of schools to support better learning and keep students safe.

• Increasing the supply of housing through the forthcoming Housing Supply Action Plan to make home ownership and renting more affordable.

• Contributing $11.2 billion of the total estimated $28.5 billion cost to support four rapid transit projects in the Greater Toronto Area. This includes a proposed new Ontario Line, the Yonge North Subway Extension to Richmond Hill and Markham, the Eglinton Crosstown West Extension into Etobicoke and completing the Scarborough Subway Extension by 2029–30.

• Increasing GO Transit rail service significant (largest increase in five years), including more trips per day, route expansions and looking at the feasibility of providing flexible food and beverage services across the GO Transit rail network.

• Providing $3.8 billion in provincial corporate income tax relief over six years through faster write-offs of capital investments under the Ontario Job Creation Investment Incentive.

• Cutting red tape by 25 per cent by 2020. Once fully implemented, these changes are expected to provide Ontario businesses with more than $400 million in ongoing savings on compliance costs.

• Implementing Driving Prosperity—a plan to strengthen competitiveness, innovation and talent in Ontario’s automotive sector.

• Supporting the reduction of the Workplace Safety and Insurance Board’s (WSIB) average premium rates from $2.35 to $1.65 on every $100 of insurable payroll. The reduction is effective as of January 1, 2019 and will save employers $1.45 billion in 2019.

• Establishing trade education programs that encourage Ontarians to enter skilled trades, get retrained in trades and become aware of job benefits in trades.

• Launching a pilot initiative to bring highly skilled immigrants to smaller communities.

• Creating a new Northern Ontario Internship Program that will remove the requirement of internship applicants to be recent university or college graduates. This allows new workers, people starting a new career, the unemployed and the underemployed to be eligible for the program.

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## Ontario’s Fiscal Plan

<table>
<thead>
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<th></th>
<th>Actual ($ billions)</th>
<th>Interim</th>
<th>Medium Term Outlook</th>
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<tr>
<td>Total revenue</td>
<td>150.6</td>
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<tr>
<td>Total expense</td>
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<tr>
<td>Interest on debt</td>
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<td>Surplus/(Deficit)</td>
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<td>Net Debt as a Per Cent of GDP</td>
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<td>Accumulated Deficit as a Per Cent of GDP</td>
<td>25.3</td>
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## Economic Outlook for Ontario

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<td>Real GDP Growth</td>
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Source: Ontario Budget 2019. Forecast commences 2019

p = projections