



Economic Commentary

November 15 2022

Ontario deficit heads lower in updated projection, uncertainty ahead

The Ontario government's release of its 2022 Economic Outlook and Fiscal Review was highlighted by a more positive fiscal position albeit with significant economic uncertainty going forward, while Finance Minister Bethlenfalvy announced a modest scattering of measures to support small businesses and address affordability for some of the province's most vulnerable members.

Fiscal Position

Similar to its counterparts at the federal level and other provinces, Ontario's fiscal position has improved substantially since the Budget. The latest deficit projection for fiscal year 2022/23 has declined to \$12.9 billion which is \$7 billion lower than Budget 2022. This declines to \$8.1 billion in 2023/24 and \$700 million in 2024/25. The entirety of this increase reflects a much stronger revenue environment than previously anticipated. Total revenue at \$186.8 billion projected for 2022/23 is \$7 billion higher than Budget 2022 and reflects strength in nominal GDP and the revenue tax base. Specifically, personal income tax revenue is projected to be up \$4.8 billion and corporate tax revenues up \$2.5 billion from baseline. This is partially offset by weaker land transfer taxes and gasoline taxes. Revenues are projected to rise 0.9 per cent from 2021/22 this fiscal year, with growth of 3.2 per cent in 2023/24 and 5.7 per cent in 2024/25.

While the government announced new program spending measures of \$1.1 billion for 2022/23, there was no change to headline expenses as these were captured in the Standard Contingency Fund. Following an 8.6 per cent increase this fiscal year, expenses are projected to be unchanged in 2023/24 and up 1.8 per cent in 2024/25. Interest expenses will rise over the period.

Despite the upshift in revenue, the Ontario government held back with any substantial spending measures in the update. Budgets are normally the time for any major initiatives, while the government is also wary of stoking inflation further.

New measures

New announcements in the update focused on small business tax measures and addressing affordability concerns for more vulnerable households impacted by inflation.

For small businesses, the corporate income tax subject to a \$500,000 limit phases out between \$10 million and \$15 million taxable capital employed in Canada. The government has proposed extending the phase out from \$10 to \$50 million. Tax relief would be about \$185 million over three years.

Addressing affordability, the government is addressing the Ontario Disability Support Program (ODSP) including increasing the monthly exemption to \$1,000 from \$200. Core allowances were adjusted in August 2022, with plans to adjust annually to inflation in June 2023. Low-income seniors will also receive support with a temporary 12-month doubling of the Guaranteed Annual Income System beginning in January 2023. Reduced gas taxes are also pledged to be extended through 2023.

In other policies, the government is looking to support the labour market with an additional \$40 million to the Skills Development Fund and \$4.8 million over two years to expand the Dual Credit program to aid in getting more secondary students into trade or early childhood education programs.

Debt

Ontario's provincial debt is below Budget projections, reflecting the lower deficit. The debt as a share of GDP falls to 38.4 per cent this fiscal year (compared to 41 per cent in Budget 2022), and trends near this pace at 38.7 per cent and 38.3 per cent thereafter. That said, higher interest rates lift total interest charges from \$13.6 billion this fiscal year to \$14.5 billion and \$14.9 billion thereafter.

Economic Outlook

Government fiscal projections going forward face greater uncertainty given an economy that is facing a significant slowdown due to rapid central bank tightening. Government assumptions for growth are based on private sector forecasts (including Central 1) and adjusted lower for prudence. Real GDP growth is projected at 2.6 per cent for 2022, 0.5 per cent for 2023 and 1.6 and 2.1 per cent in 2024 and 2025 which is a marked deceleration from budget 2022. That said, robust inflation pressure is still feeding through nominal GDP with assumed growth of 9.2 per cent this year, before a slowdown to 3.5 per cent in 2023, 3.8 per cent in 2024 and 4.1 per cent in 2025. Employment is forecast to slow to 0.5 per cent in 2023 before bouncing above 1.3 per cent thereafter. Government projections in our view are reasonable for planning but is at risk of downside pressure in the event interest stay higher for longer.

Recognizing uncertainty in the economy, the government also published alternative higher growth and lower growth scenarios. Under the former, the deficit is essentially eliminated by 2023/24 with a surplus generated in 2024/25. In the latter, elevated deficits persists with a near \$14 billion shortfall in 2023/24, before narrowing to a \$8.5 billion deficit in 2024/25.

Ontario's Medium Term Fiscal Plan				
	Actual 2021/22	2022/23 Projection	2023/24	2024/25
Total Revenue	185.1	186.8	192.9	204.1
Tax Revenue	131.7	133.4	137.6	145.9
Program Spending	170.5	185.2	185.0	188.3
Interest on Debt	12.6	13.6	14.5	14.9
Reserve	-	1.0	1.5	1.5
Surplus/Deficit	2.0	-13.0	-8.1	-0.6

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