Economic Commentary
November 3 2022

Federal Economic Statement

The Federal Government's release of the Fall Economic Statement (FES) was highlighted by improve fiscal outlook compared to Budget 2022 with modest new spending initiatives targeting lower- income Canadians. At the same time the FES emphasized downside risk for the economy as recession risks mount.

The main highlights from the FES was a smaller deficit profile than previously projected, a theme consistent with what has been observed at the provincial level. The deficit for 2022-23 is projected at $36.4 billion in the FES compared to Budget 2022's $52.8 billion projection. Deficits are also smaller through the remain fiscal outlook period to 2026-27 but the pace of reduction slows. The projected deficit-to-GDP ratio declines from 1.3 per cent in 22/23 and 1.1 per cent in 24/25 before moving towards near balance by 2026-27.

The government's improved fiscal position reflects stronger than expected revenues, particularly income taxes which averages $27 billion higher annually than Budget projections. This includes a $37.1 billion increase for 2022-23, as inflation pressures and high commodity prices have lifted national income and corporate income tax revenues. Rather than fanning further inflationary flames, the government has chosen to allow much of the increased revenue to reduce the deficit rather than boosting spending by the full amount. Indeed, the government emphasized keeping the powder dry in the event it is needed to shore up the economy.

The FES included about $22 billion in measures, albeit some were already announced previously such as doubling to the GST tax credit for six months and the Canada Dental Benefit. New measures were relatively modest and highlighted by $4 billion over six years to automatically advance payment of the Canada Workers Benefit, $2.7 billion for elimination of interest on federal student and apprentice loans. $6.7 billion was allocated for investment tax credits for clean investments. Broadly the FES highlighted prior announcements such as the GST tax credit, prior commitments related to investments in infrastructure. The government also announced plans to tax share buybacks at a 2 per cent rate consistent with measures announced in the U.S. in force for January 1, 2024.

While the fiscal situation is much improved for 2022/23 the pace of deficit reduction is anticipated to slow. Inflation has boosted nominal income but the resulting economic slowdown from higher interest rates will create challenges for government finances. After growing by 11.8 per cent this year, nominal GDP growth slows to 2.6 per cent in 2023 and an average of near four per cent during the remainder of the forecast. Real GDP is forecast to slow from 3.2 per cent in 2022, and decline to 0.7 per cent in 2023, before recovering to a near 2 per cent rate thereafter. Projected corporate income taxes are expected to decline in 2023/24 after this year's surge before holding steady.

The federal government debt-to-GDP ratio will continue to decline with a projected 42.3 per cent in 2022/23 following 45.5 per cent in 2021/22. This metric is unchanged in 23/24 and slides to near 40 per cent in 2025/26. That said, higher interest rates will lift public debt charges with levels rising from $24.5 billion in 2021/22 to $34.7 billion in 22/23 and $43.3 billion in 23/24.

Federal Finance also recognized risks of a more challenging fiscal environment than its baseline and included a downside scenario. This scenario reflects persistent inflationary pressures, further monetary policy tightening, and deeper recession. In this downside scenario, the deficit reaches $49.1 billion in 2022/23, $52.4 billion in 23/24, and $42.3 billion in 24/25. This scenario would likely involve even further fiscal support from the government and larger deficits.'

Federal Fiscal Table, $ billions							
		Projection					
	2021/22	22/23	23/24	24/25	25/26	26/27	27/28
Budgetary Revenues	413.3	445.9	462.5	479.4	500.8	520.3	542.4
Budgetary Expenses	468.8	437.8	443.8	457.6	469.1	479	491.9
Public Debt Charges	24.5	34.7	43.3	42.7	42.9	44.1	44.8
Net Actuarial Losses	10.2	9.8	6	4.6	3.3	0.6	1.2
Budgetary Balance	-90.2	-36.4	-30.6	-25.5	-14.5	-3.4	4.5
% of GDP							
Budgetary Balance	-3.6	-1.3	-1.1	-0.9	-0.5	-0.1	0.1
Public Debt Charges	1	1.2	1.5	1.4	1.4	1.4	1.3
Federal Debt	45.5	42.3	42.2	41.6	40.4	38.9	37.3

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