Federal Budget 2024 Review

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central 1 Economics

Federal Budget 2024: Funding Intergenerational Fairness (or Conflict)

The federal government's Budget 2024 was themed on intergenerational fairness (or maybe conflict) and providing more affordable housing options for young people while still holding to some semblance of fiscal restraint too soothe bond market and inflation fears.

On headline numbers they did this. The government's deficit for 2023-24 is held at $40 billion with a slight dip in both 24/25 and 25/26, before heading to $30 billion and lower thereafter. There is no sightline for a return to a balanced budget, but under the government's own fiscal guardrails introduced in the Fall Economic Statement, it hopes only to keep deficit-to-GDP ratio below one per cent from 2026-27 onwards.

The headline deficit numbers are roughly in line with what was published in FES 2023, but with the need for some fiscal gymnastics and help of some economic tailwinds to get there in the short-term. Holding to the guardrails does not mean spending restraint. A flurry of announcements prior to the budget coming down around housing and other measures ensured another spending budget by the current government, with a projected offset by new tax measures (tax the rich) under what was themed under intergenerational fairness.

New budget spending measures introduced in Budget 2024 tallied up to $52.9 billion in spending from 2024/25 to fiscal year 2028/29. For the deficit, this was neutralized by upward revisions to previously forecast nominal GDP growth for 2023 and 2024, the latter of which is already looking to be higher than forecast, and by extension, a larger than expected tax base over the forecast horizon. The big policy announcement to pay for the spending was a hike to the capital inclusion rate that will impact wealthier households and businesses.

Where did the new funding go?

Intergenerational fairness was the main theme of Budget 2024 as the messaging clearly targeted younger millennials and gen z households and shattered dreams of housing affordability and cost of living pain. Redistribution comes from taxing those with more. Productivity was given a nod and a handshake, but new taxation measures suggest this is a bit of lip service.

Housing was unsurprisingly a big beneficiary as the government wrapped numbers around its recent plan "Solving the Housing Crisis: Canada's Housing Plan" released on April 12. The government wants to see 3.87 million homes built by 2031, boosting construction by 2 million more than what would already have been built. Audacious yes, realistic – not, but funding and plans will help. The Budget added $8.6 billion on top of existing funding over the fiscal horizon. Reaching this goal is a combination of immigration management, but also to unlock federal lands for housing (including leaseholds rather than selling off), building on existing Canada Post offices, and purchasing lands from other levels of government.

Meanwhile, the government is using its borrowing power to support new construction, including another $15 billion commencing in 2025/26 in new loan funding for the Apartment Construction Loan Program, adding to the CMHC Housing Accelerator Fund, while providing $6 billion over 10 years for a new Canada Housing Infrastructure Fund for infrastructure tied to housing supply and densification. Other housing measures included efforts to improve productivity and taking a page from B.C. creating a catalogue of more standardized housing designs to streamline construction. The Budget also is allocating $409 million over four years for low interest loans to support the creation of secondary suites. On the labour front, measures were included to boost apprenticeship and recognition of foreign construction credentials.

For households, both buyers and renters saw some applicable announcements. As already announced, 30-year amortization products will be allowed on new buildings for first-time buyers beginning August 1. Meanwhile, the First Time Homebuyers withdrawal plan will be boosted from a maximum of $35,000 to $60,000, while the grace period for payback for those buying from 2022-2025 has been extended three years. It remains to be seen if this is good policy given the potential for boosting demand and prices, and a rotation from productive assets towards housing. The government provided $15 million to a Renter Protection Fund, is proposing a bill of rights, and pushing for rents to be included in credit history. Significant funds were also allocated to homelessness.

Under the "Lifting up every Generation" section, a catch-all social measures that came up to $10.5 billion, key program funding including $4.8 billion for the Canada Disability Benefit which will supplement current provincial programs. $1 billion is set aside for the National School Food Program. Other measures including support for students.

On ***productivity and growth*** measures a sizable chunk of funds ($2.3 billion over 5 years) were set aside to boost AI development and business scale up, alongside funding for other scientific research. A clean electricity tax credit ($7.2 billion cost over five years) to invest in transmission and generating stations.
Investments in indigenous measures reached $9 billion with substantial outlays to support younger individuals, and infrastructure spending.

New Taxation for Some

This has been noted as a spend and tax budget. Indeed, new revenue sources play a significant role in allowing the government to meet its fiscal guard rails. Specifically, the federal government is increasing the capital gains inclusion rate for households on annual gains above $250,000. Up to $250,000 the inclusion rate will remain one half, and for any amounts above will move to two-thirds. For corporations and trusts, the inclusion rate will move to two-thirds for all gains. Principal residents will remain exempt. The measure is expected to raise ***$19.4 billion over 5 years.***

The adjustment to capital inclusion rates is only anticipated to impact 0.1 per cent of the population. However, it is worth noting that this would impact individuals with investment properties, while it could dissuade entrepreneurs to invest in Canada given potential impact on exits of business. To offset this, the government is proposing the Canadian Entrepreneurs' Incentive which will reduce the inclusion rate to 33.3 per cent on a lifetime maximum of $2 million in eligible capital gains.

Economic outlook

While tax measures primarily fund the new budget measures and hold deficits within guardrails, the other component is the state of the economy and fiscal assumptions, which is based on private- sector forecasts. The current outlook is for real GDP to grow at 0.7 per cent this year, 1.9 per cent in 2025 and near two per cent in the years after. Nominal GDP rises near four per cent per annum. The short-term outlook is reasonable if not overly conservative given a brisk start to the year. We peg growth this year in the 1 to 1.5 per cent range, although future years could be slowed by reductions in population growth. Moreover, the government's interest rate forecast is a risk, particularly for longer 10-year yields given recent patterns pointing to both a delay in U.S. rate cuts, and potential for a higher terminal policy rate in Canada.

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