Ontario

2002 Ontario Economic Outlook and Fiscal Review

Growth, Prosperity and Continued Opportunity

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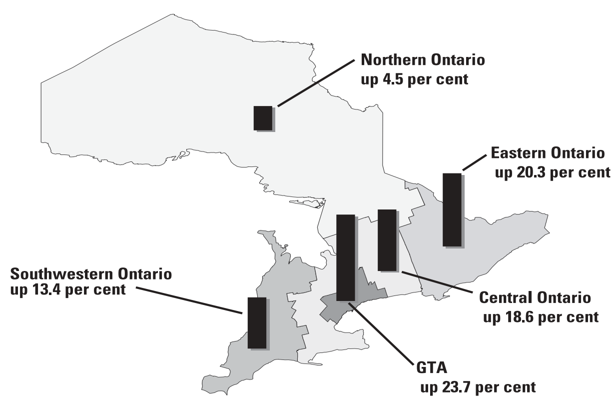
Introduction

Mr. Speaker, I am pleased to provide the Legislature and the people of Ontario with a report on Ontario's finances and the state of our provincial economy.

Mr. Speaker, the Ontario economy is performing better than expected at the time of the June Budget:

- Our economic growth and job creation are leading the average of G-7 countries and the United States.
- The government's plan for a balanced budget this year—our fourth consecutive balanced budget—is on track.
- We are making the needed investments we promised in health care, education and the environment.

Regional Job Growth Since September 1995



Regional figures are seasonally adjusted, three-month moving averages.
Sources: Statistics Canada and Ontario Ministry of Finance.

And here's the best news of all. Since our government's first Throne Speech in 1995, the Ontario economy has created one million net new jobs. That represents more than 46 per cent of all the jobs created in Canada over the past seven years.

Meeting the challenge

Our government is keeping its promise to restore opportunity and prosperity to Ontario.

But it hasn't been easy. My June Budget noted that we were emerging from an economic slowdown that had negatively impacted on our revenues.

This year I'm pleased to report that the performance of our economy is exceeding expectations. Despite ongoing challenges in the global economy, private-sector forecasters now anticipate real economic growth of 3.5 per cent this year, up from a consensus forecast of 3.2 per cent in June.

This strong performance in the face of adversity did not happen by accident.

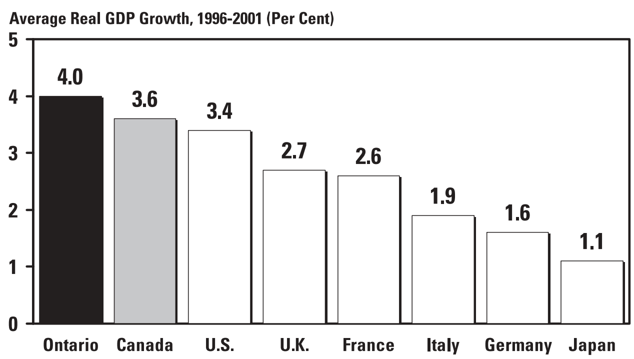
In the first half of the 1990s, Ontario had one of the weakest economies in the industrialized world. High taxation, over-regulation, huge deficits and spiralling debt came with a terrible price.

When recession hit in the early 1990s, we fared much worse than our trading partners. Companies closed their Ontario plants first. Investment and jobs went elsewhere. By 1995, the welfare system was in crisis, with 1.3 million Ontarians forced to resort to social assistance.

Mr. Speaker, our government addressed these challenges directly. We chose prosperity. Since 1995, the people of Ontario and governments led first by Mike Harris and now by Ernie Eves have worked together to put this province back on track.

By cutting taxes, balancing the budget and restoring prudent fiscal management, we have positioned Ontario for growth and jobs. Ontario has truly gone from worst to first in its economic performance.

Economic Growth: Ontario and the G-7



Sources: Statistics Canada, Organisation for Economic Co-operation and Development and Ontario Ministry of Finance.

Between 1985 and 1995, Ontario's real per-capita Gross Domestic Product (GDP) grew by only six per cent, less than one-third of the G-7 average, and only half the average of the other provinces. By contrast, since 1996, per-capita GDP has risen almost 17 per cent, well above the average of the G-7 countries and the United States.

The recently released Second Quarter Economic Accounts show continued strong growth in real GDP of 4.4 per cent at an annual rate, following exceptionally strong growth in the first quarter.

Paying down debt

Mr. Speaker, we are reducing the mortgage on our children's future represented by the Provincial debt. With a surplus of $375 million for 2001-02, Ontario achieved three consecutive surpluses for the first time in nearly 100 years. Since we turned the corner on deficits in 1999, our government has paid down $4.5 billion of net Provincial debt.

We continue to manage our spending carefully. Since 1995-96, real program spending per person, excluding health care and education, is down by close to 30 per cent. As a result of getting Ontario's fiscal house in order, our credit rating has been upgraded three times in the past two years. And we have regained the ability to invest in those priorities that mean the most to our economic prosperity and to our quality of life.

Tax cuts let hard-working Ontarians keep more of their pay

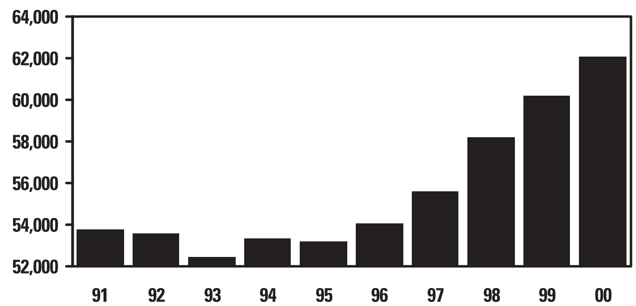
A growing economy and tax cuts have raised the average after-tax and after-inflation income of two-parent families with children from $57,672 in 1995 to $68,707 in 2000, a 19 per cent increase.

In the same period, single-parent families have seen a 33 per cent increase, from $26,568 to $35,272.

And more than 613,000 people have left welfare since our government took office in 1995.

Average Family Incomes in Ontario Continue to Rise

Real Average After-tax Family Income in Constant 2000 Dollars, Ontario



Source: Statistics Canada, *Income in Canada (2000).*

Looking ahead

Mr. Speaker, despite the strong gains we have made in growth and jobs so far this year, many uncertainties remain in the global economy as we move towards 2003. Ontario is not immune to external influences. Private-sector economists have lowered their forecasts for real growth next year from an average of 4.3 per cent last June to 3.5 per cent today.

This more cautious outlook reflects the fallout from the economic events of the past year, coupled with many uncertainties on the horizon:

- World stock markets remain weak.
- Tension is high in the Middle East, and oil prices continue to be volatile.
- And prospects for the U.S. economy remain unclear.

At the same time, demands continue to grow for additional commitments to priority programs.

That is why we must remain committed to our prudent fiscal and economic plan. This government's strong record of lower taxes, smaller government and balanced budgets has encouraged business and consumer confidence in the past year. It has helped keep the economy on a path of strong growth.

Tax cuts drive competitiveness and productivity

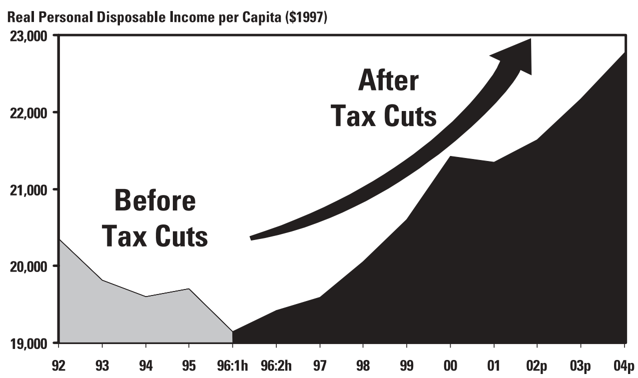
Mr. Speaker, lower taxes are central to our plan to increase the competitiveness and productivity of our economy.

We cut Ontario's personal income tax rate by 30 per cent between 1996 and 1998 and, subject to approval by the House, an additional 20 per cent personal tax reduction will be fully in place in 2004. This year alone, a typical two-earner family of four with $60,000 in net income pays $2,005 less in Ontario income tax.

Ontario's small business income tax rate was 9.5 per cent in 1995, one of the highest in the country. We are bringing the rate down to 5.5 per cent on January 1 and by 2005, it will be further reduced to 4 per cent.

We have lowered the general corporate income tax rate from 15.5 per cent in 1995 to 12.5 per cent today. The general rate would drop to 11 per cent in 2004 and reach 8 per cent in 2006.

Tax Cuts Boost Real Take-Home Pay



p = private-sector survey average, h = half.
Sources: Statistics Canada, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (November 2002).

Consumers are benefiting from other tax cuts. For example, the retail sales tax on auto insurance premiums has been cut from 5 per cent to 2 per cent. It will be reduced to 1 per cent next April and will be entirely eliminated in April 2004.

When you put it all together, individual Ontario taxpayers and businesses are today receiving a total of $14 billion a year in tax relief. Sustained and long-term tax cuts are the engine that helped the economy create one million net new jobs since 1995.

We will complete our current multi-year plan to make tax rates more competitive. We will outline additional steps in next year's Budget. I look forward to the upcoming pre-Budget consultations for advice on a new multi-year plan to ensure that Ontario's tax structure continues to drive increased economic growth and prosperity.

The highest quality health care

Mr. Speaker, ensuring that Ontarians receive the best health care in the world remains one of this government's highest priorities. This year alone, we are increasing our commitment to health care operating spending by almost $2 billion. Since 1995, our commitment has increased by $8 billion.

These investments are paying off. Ontarians now have access to increased diagnostic services such as MRIs, improved cancer care, cardiac care and dialysis services, and more nurse practitioners. And 20,000 new long-term care beds are coming on-stream.

Mr. Speaker, no province can indefinitely continue these kinds of increases to health care without additional support from the federal government. The recently released Romanow Report recognizes this. But the solution it proposes falls far short of what is required.

Over the years, the federal government has cut its share of health care spending from 50 per cent to 14 per cent. If Mr. Romanow's recommendations were implemented, next year's federal contribution would represent only 16 per cent of provincial health and social spending. In three years it would be 17 per cent. His proposed $15 billion in additional federal funding over the next three years is almost $5 billion less than the minimum need identified by the provinces.

The financing of health care is a long-term and growing challenge, particularly for provinces. The Conference Board of Canada recently forecast that health care spending will grow at an average rate of 5.2 per cent over the next 20 years, a rate far in excess of projected average provincial revenue growth of 3.4 per cent. In addition, federal surpluses are forecast to grow rapidly, while provinces continue to face huge challenges in balancing their budgets in the foreseeable future.

Ontario will continue to balance its budget and respond to our citizens' health care needs. Ottawa must pay its fair share. It should not be making matters worse by attempting to claw back $1.3 billion from the Province to cover mistakes the federal government made in calculating its personal income tax payments to Ontario from 1997 to 1999.

Education—the key to our future

Mr. Speaker, excellence in education is the key to opportunity for our young people. That is why we have put in place new and more challenging curricula with higher standards, and comprehensive testing to tell us how well students are learning.

It is important that we support our students with a funding formula that remains fair and equitable. To ensure that student-focused funding is meeting this goal, last spring we appointed Dr. Mordechai Rozanski, President of the University of Guelph, to review the formula. His report will be released shortly. We are committed to addressing Dr. Rozanski's recommendations within the government's fiscal plan.

Investing in priorities

Mr. Speaker, as we committed in the June Budget, we are continuing with our plan to invest in other priority areas that support our prosperity and quality of life, including:

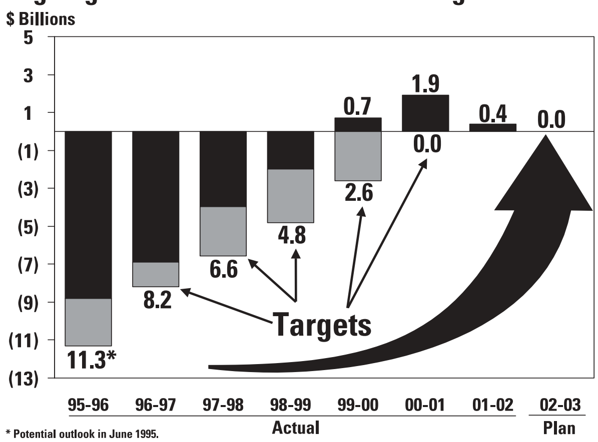
- A clean and safe environment;
- Innovation for a more competitive economy;
- Healthy and growing communities; and
- Infrastructure investments in transportation, schools, hospitals, colleges and universities.

Conclusion

Mr. Speaker, Ontario's economy is sound.

The fundamentals our government has put in place—lower and more competitive taxes, balanced budgets and reduced debt and key investments—set the stage for Ontario's turnaround. They have produced a period of outstanding job growth and economic prosperity that is unparalleled in our history. And our approach is helping this province withstand the challenges of a difficult world economy.

Ongoing Commitment to Balanced Budgets



* Potential outlook in June 1995.
Source: Ontario Ministry of Finance.

But we all know more needs to be done. We want more opportunities for our citizens. We want the Ontario economy to create even more jobs.

With the pre-Budget consultations about to begin, I look forward to hearing advice from members of this House, as well as the comments and suggestions of Ontarians from all walks of life.

Thank you, Mr. Speaker.