



2009 | Ontario Economic Outlook and Fiscal Review



The Honourable Dwight Duncan
Minister of Finance

Statement



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ISSN 1499-5557 (Print)

ISSN 1499-5565 (PDF/HTML)

Ce document est disponible en français sous le titre :

Perspectives économiques et revue financière de l'Ontario de 2009, Allocution



Introduction

Mr. Speaker, I rise today to present the *2009 Ontario Economic Outlook and Fiscal Review*.

In the past year, the recession has had a significant impact on the global economy — and on Ontario.

Many jurisdictions are facing sharp declines in revenues and increasing expenses as people turn to governments for support.

Our task in these times is clear: create jobs, help families and establish the conditions for future economic growth. Our plan to confront the challenge of this global recession, as outlined in the 2009 Budget, was, and continues to be, the right plan for the times.

Like governments all over the world, we have taken firm action. We are investing in infrastructure, in skills training, and in reshaping our tax system — all to ensure that we are ready for growth.

We have spent the last six years making steady progress rebuilding our public services, and now we must turn our attention to sustaining them.

Mr. Speaker, today I will update you on the Province's economic outlook and fiscal circumstances.

Economic Outlook and Fiscal Update

The global downturn continues to dramatically impact families, businesses and governments.

This global recession has been severe and widespread. According to the International Monetary Fund (IMF), world trade is contracting by 11.9 per cent in 2009.

Economies all over the world have contracted — some far more dramatically than ours. The United States and Europe saw striking declines. Both India and China saw notable slowdowns.

Based on the best available advice, we project a decline of 3.5 per cent in Ontario's real gross domestic product (GDP) in 2009, followed by modest gains of 2.0 per cent in 2010 and 3.0 per cent in 2011. Our planning assumptions are more conservative than the average private-sector forecasts.

global recession

widespread impact



supporting
Ontarians through
the recession

keeping people
working

As of the second quarter of 2009, Ontario's real GDP was 5.0 per cent below its pre-recession peak.

Mr. Speaker, due to this global recession, our economy is now the same size as it was in 2005.

Tax revenues are also now at 2005 levels.

As we recently reported in the Public Accounts, corporate tax revenues fell last year by an unprecedented 48.1 per cent — or over \$6 billion.

At the same time, the recession has driven up demand for government services.

More people rely on social assistance. More people require skills training programs. More people go back to college and university. More people rely on health care services. During a downturn, people depend more heavily on public services.

Growth in jobs and government revenue generally lags growth in the economy; it takes time to fully recover from a recessionary period.

Other jurisdictions face all of these challenges just as we do. But Ontario has another distinct challenge and opportunity.

Ontario's auto industry employs hundreds of thousands of people. In fact, more cars are built in Ontario than in any other state or province in North America.

Because of that very fact, the McGuinty government took action: we provided \$4 billion to keep people working all over Ontario and to maintain our leadership in the sector — not just in the auto manufacturing business, but also in auto parts, at auto dealers, and in auto repair shops.

It is worth noting that Ontario is the only subnational jurisdiction in North America to have participated in the auto support plan.

Mr. Speaker, deficits have increased sharply in the world's leading economies. Furthermore, as the impact of the recession becomes clearer, governments have updated their estimates of the size of deficits over the past few months.

The U.S. deficit is almost \$1.5 trillion. Our federal government is acknowledging a deficit of \$56 billion this year — rather than the surplus it projected just a year ago.

Almost all other Canadian provinces are forecasting larger deficits this year. The economic downturn has had a very negative impact on all of us.

Alberta is facing deficits for the first time in 15 years.



The governments of Canada, the United States and some other provinces have all recently adjusted their deficit projections upward for the coming year.

Due to the impact of the global economy on Ontario and our government's desire to invest in the people of this province, the projected deficit is \$24.7 billion in 2009–10.

The deficit for 2009–10 is generally consistent with the size of Ontario's economy, relative to the Canadian economy — and generally consistent, proportionally, to the federal government's deficit.

Mr. Speaker, in recent months we have seen some signs of economic recovery.

Financial markets have started to stabilize; equity markets and housing markets have improved.

According to the most recent available statistics, Ontario's international exports increased in June, July and August.

And most importantly, Ontario's labour market has shown modest job gains in the past four months.

Though these signs are positive, the impact of the global economic recession is still considerable. Household wealth and consumer confidence are below pre-recessionary levels. Retail sales are still down.

The risks to the global economy remain. Just in the past few weeks, the Canadian dollar has risen dramatically. Oil prices can also fluctuate, as we've seen recently. Rapidly rising interest rates could also be a further challenge to our economy, should that occur. The speed of the U.S. recovery will have an impact on our growth as well.

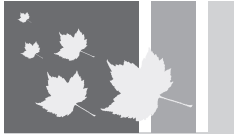
As always, government revenues trail economic performance, so it could be some time before economic growth brings revenues to pre-recession levels.

And we know full well that in communities across Ontario, like in communities around the world, unemployment remains high.

In the near term, therefore, we must continue to invest in job creation, in infrastructure, in skills training — Mr. Speaker, we will continue to invest in Ontario.

signs of recovery

investing in job
creation



investing in
infrastructure

investing in skills
training

Lessening the Impact

At the first signs of an economic slowdown almost two years ago, the McGuinty government took immediate action to lessen the impact on Ontario families by helping to retain jobs and services.

We are investing \$32.5 billion in infrastructure. A new laboratory is underway at the University of Toronto in Mississauga and Highway 17 in Kenora is being improved — to name just two small examples. Shovels are in the ground and people are at work on over 650 projects right across Ontario.

We invested in the auto sector to keep people working.

And we've invested in training. Summer job programs this year helped more than 104,000 young people find summer employment opportunities. Over one million Ontarians have used our skills training programs. Our Second Career program alone has already surpassed its targets by helping almost 21,000 people retrain for jobs in high-demand careers.

In the 2009 Budget, the McGuinty government continued to demonstrate its commitment to the most vulnerable, particularly during the economic slowdown. The Ontario Child Benefit program was accelerated to \$1,100 this summer, two years ahead of schedule. We also increased social assistance rates for the fifth time since 2003.

Our government made a conscious decision to follow the IMF's advice to invest two to three per cent of GDP in stimulus, as other countries have done.

Our focus has also been on positioning Ontario for long-term growth.

The single most important thing we can do to make Ontario's economy more competitive is to modernize our tax system. Our proposed tax cuts and the Harmonized Sales Tax (HST) would give our businesses and families an important advantage in the global economy. The marginal effective tax rate on income from new business investment would be cut in half — sending a strong signal that Ontario is ready for new business growth.

At the same time, 93 per cent of Ontario taxpayers would get a permanent income tax cut. And our lowest income earners would have the lowest provincial tax rate in Canada.

Our proposed comprehensive tax package is going to make a difference to Ontario. It would create jobs, attract new business to this province and sharply improve our competitive advantage.



Our modernized tax system would be more progressive and would better position Ontario for economic growth. It would reduce Ontario tax revenue by \$2.3 billion over four years, an essential and timely investment in our future.

These and other measures introduced in the 2009 Ontario Budget, *Confronting the Challenge*, are helping families weather the global economic storm and prepare for solid economic growth as we emerge from the recession.

Fiscal Sustainability

Mr. Speaker, Ontario, along with most other jurisdictions around the world, is running a deficit in order to preserve and create jobs, and establish a stronger economy after the recession.

Ontarians know that this is the right course during tough economic times.

In our 2009 Budget we made the right choices for today.

As Ontario comes out of the recession, we will eliminate the deficit and pay down debt to ensure the sustainability of the public services we all value.

Today marks the beginning of a journey that will lead to the development of our next budget. We are now launching a broad consultation with Ontarians about how to best sustain our public services.

The Ontario Treasury Board will now review service delivery. It will provide a plan to return the Province to a sustainable and firmer fiscal footing and balanced budgets, while protecting key services.

The Treasury Board's action plan will be part of the 2010 Budget.

That is just our first step. In the coming months and years, we will change how we do business in this province. We are becoming an even leaner and even more efficient provider of quality public services.

Ontario has the second-lowest program expense per capita among all Canadian jurisdictions. We are doing well and we need to do more.

We will call on our partners in the public and the broader public sector to help us sustain public services in the long term. We will also review all agencies, boards and commissions to ensure they are meeting Ontarians' needs and expectations.

It is incumbent upon all of us to participate in this vital conversation — to help us build consensus on how to manage through this challenge.

We will report on our plan to return the Province to balance in the 2010 Budget.

This won't be easy and it will take time. Working together, we can get it done.

ensure sustainability
of public services

review service
delivery



commitment to
education

more competitive
Ontario

Focusing on Priorities

Mr. Speaker, in the coming months we will also continue to focus on our key priorities — the priorities most important to Ontarians: job creation, health care and education.

Education is, and always has been, one of the McGuinty government's core priorities.

We are dedicated to continually improving education in this province. That is why, later this month, Premier McGuinty will make an announcement about phasing in full-day early learning for Ontario's four- and five-year-olds.

This initiative will further increase the competitive advantage already found in our highly skilled and educated workforce.

Full-day learning for our four- and five-year-olds will also help parents take advantage of new job opportunities.

Making this investment will require difficult choices on our part. And we will make them.

Mr. Speaker, our government will balance the commitment to maintain public services while securing a strong and sustainable fiscal footing for Ontario.

That is our task, Mr. Speaker, and we look forward to it.

Conclusion

I have every confidence that Ontario will come through this recession — wiser, more efficient, more competitive, stronger and ready for economic growth.

We have the fundamentals in place: a highly skilled workforce, a strong education system and a passion for innovation.

We can and will compete globally on the basis of our unique strengths.

And as a result, this will always be a province where the standard of living is high, and where each and every one of us has a real opportunity to succeed.

When we come out of this recession, and we will, Ontario will be bigger.

Ontario will be better.

Ontario will be stronger.

Thank you, Mr. Speaker.