FAO Economic & Fiscal Outlook

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FAO Report Economic & Fiscal Outlook

Economic Outlook

- The pace of economic activity in Ontario moderated noticeably through the second quarter, reflecting a decline in exports and slower growth in household spending.
- Based on Ontario's economic performance over the first half of 2016, the FAO has revised down its projection for real and nominal GDP growth compared to its outlook in the spring report.
- Canadian real GDP is projected to grow by 1.2 per cent down from a forecast of 1.7 per cent. Weakness in the Canadian economy was a result of the Alberta wildfires but also weaker than expected non-energy exports and business investment.
- The net operating surplus of corporations declined by 0.3 per cent over the first half of 2016 primarily reflected in declines in corporate profitability in the manufacturing and banking sectors.
- He notes that there have been declines in employment among the core participation rate (age 25-54). Also, long term unemployment rate remain worse than pre-recession levels.
- Risks:
    - Sharp rise in housing prices: The FAO indicates that a housing correction could have negative economic impacts.
    - Underperforming business investment:

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- The FAO notes that global economic growth remains tentative. However, Ontario's economy has continued to grow.
- As the FAO notes "Ontario's economy posted strong real GDP growth over the second half of 2015 and into the first quarter of 2016" and expects a boost to growth in the third quarter.
- For the first half of 2016, Ontario posted stronger GDP growth than Canada, the U.S. and almost all other G7 countries.
- The FAO also notes that most advanced economies continue to experience weak business investment and poor labour market results.
- Yet business investment in Ontario increased by 0.6% in the second quarter of 2016, and 0.9% in the first quarter.
- At the same time, Ontario's labour market continues to grow.
- Even the FAO acknowledges this, and is projecting solid job growth in Ontario for

2016.
- Ontario has recovered all of the jobs lost during the recession, and employment is now 5.2% or 343,200 above the pre-recession peak.
- Back pocket indicators for Q2:
  - Household spending increased (0.4%)
  - Business investment increased (0.6%)
  - Residential investment increased (0.9%)
  - Whole sale trade increased (0.8%)

Fiscal Outlook

- FAO is projecting deficits of $4.1 billion in 2016-17 and $1.9 billion in 2017-18 – update based on change in accounting treatment of jointly sponsored pension plans.
- Excluding the accounting change, the FAO estimates that deficits would be $2.6 billion in 2016-17 and $0.4 billion in 2017-18 –improvements from the FAO's spring outlook report.
- Strong increase in tax revenue (8.3 per cent increase) as reported in Public Accounts.
- In April 2016, non-tax revenue was boosted by the Province's sale of a further 15 per cent of Hydro One generating $0.6 billion in one time proceeds.
- Public Accounts reported that the province's net debt rose 7.3 per cent in 2015-16 to $305.2 billion –higher than the projection included in the FAO's spring outlook.
- The FAO expects Ontario's net debt to rise by $61 billion over the next five years – about $16 billion higher than the FAO's spring outlook.
- Debt is expected to peak at 41.1 per cent. This is above the FAO's spring outlook.
- Risks:
  - Economic growth could be weaker than expected: this would have a negative impact on tax revenues.
  - Strong tax revenues as a one-time increase: if unusually strong tax revenues do not carry forward, this could cause a risk to the economic plan.
  - Program spending: If program spending grows faster than projected, the fiscal balance will deteriorate.

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- We are committed to balancing the budget by 2017-18.
- As the FAO notes, we are also incorporating new commitments into our plan to make everyday life easier for the people of Ontario.
- At the same time, we are managing spending.
- In fact, the FAO has acknowledged our ability to hold average annual growth in program spending to 1.4 per cent over the past four years without making cuts to services or raising taxes.
- Continued economic growth is helping to keep the province on track to balance.
- Ontario's recent Economic Accounts confirm that Ontario's economy is growing at a solid pace.
- These investments will help enhance the public services that Ontarians rely on, as well as stimulate growth.
- In fact, Moody's upgraded our credit rating to stable which reflects confidence in our

government's plan to grow the economy and create jobs.

- A growing economy and new jobs are the best way to support Ontario families and generate revenues on the path to balance and long-term prosperity.
- Total long-term borrowing in 2016–17 is forecast to be $26.4 billion -our smallest borrowing program since 2008–09.
- Progressive Conservatives managed to increase provincial debt from $90.7 billion to $132.6, by the time they were voted out
  - Not only did they increase debt, but they made massive and unsustainable cuts to services.