FAO Report - Economic Update

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Hi All,

Reminder that the FAO's economic update will be released tomorrow.

Please find below our analysis of the two sections and Minister Sousa's response.

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

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.

Statement

I would like to thank the Financial Accountability Officer (FAO) for releasing his fall economic and fiscal outlook for Ontario. We welcome the advice of the FAO as we continue to make investments to grow our economy and make everyday life easier for people all across Ontario.

As our economy continues to grow we remain on track to balance the budget in 2017-18. We have beaten our deficit reduction targets seven years in a row and our recently released Public Accounts showed that we have once again beaten our targets.

Despite a challenging global economic climate, Ontario's economy continues to grow. In this latest report 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. Thanks to this growth the FAO also notes that Ontario saw "surprisingly strong" and "higher than expected" tax revenues further helping to ensure we balance the budget in 2017-18.

Our *2016 Budget* focused on strategic investments that will help generate economic growth and job creation. A growing economy and new jobs are the best way to support Ontario families while balancing the budget. The FAO not only projects solid job growth for Ontario but also notes that the measures we are taking to make everyday life easier for Ontarians, like expanding child care spaces and rebating a portion of household electricity bills will provide additional supports for Ontario families.

We will continue to strategically manage spending while making smart investments to support economic growth and prosperity. In the coming weeks, our government will be providing an update on the province's economic and fiscal plan.