

2016 ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW

November 14, 2016

Maintaining the deficit projection but turning the focus toward housing

Ontario Finance Minister Charles Sousa today presented his government’s fall update on the fiscal situation of the province which confirmed that the \$4.3 billion deficit projected for FY16/17 in the March budget is still on track, as is the balance projected in the following two years. The revenue and expenditure numbers were revised slightly (upwardly in all cases)—in part reflecting higher bases from the final FY15/16 estimates—and the contingency reserve was reduced over the three-year fiscal plan; however, the broad picture was little changed. Ontario is still in the final leg of its long journey (nine years!) to balancing its books. While delivering on this long-held promise would normally be expected to take centre stage, this budget update shifted much of the attention to Ontario’s housing market. More specifically, Finance Minister Sousa used the fall statement to announce measures to address housing affordability issues for first-time homebuyers in the province.

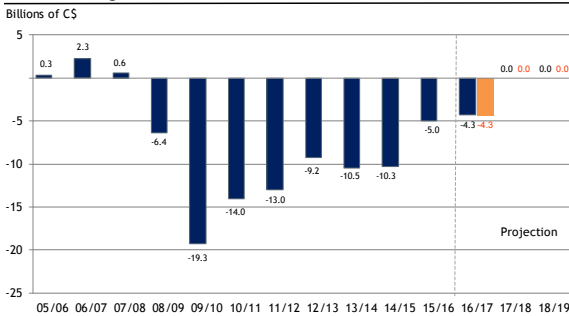
The key housing measure announced today was the doubling of the Land Transfer Tax (LTT) refund for first-time homebuyer from \$2,000 to \$4,000, effective January 1, 2017. The government says that no LTT tax would be payable on the first \$368,000 of a first home (up from \$228,000). Furthermore, the government proposes that the refund be restricted to Canadian citizens and permanent residents, although purchasers who are not Canadian citizens would be able to apply for a refund if they obtain Canadian citizenship or permanent residency within 18 months after the transaction closes. The government estimates the cost of this increased refund to total \$105 million in FY17/18; however, it will be entirely offset by a rise in the LTT tax rate from 2.0% to 2.5% on the portion of the home value above \$2 million, such that this measure is forecasted to have zero net effect on Ontario’s budget balance.

Related to these measures, the Ontario government is proposing to collect data on Ontario’s real estate market such as intended use of properties sold and citizenship status of purchasers. The details of the proposal will be announced in the near future. Finally, the government is freezing property tax rates on apartment buildings and “will review how the high property tax burden on these buildings affects rental market affordability”.

As for the fiscal update *per se*, the changes to the current year’s projections since Budget 2016 consisted of upward revisions of \$2.1 billion to revenues (including \$1.1 billion to personal income tax and Ontario Health Premium revenues, and \$726 million to corporations tax) and \$3.1 billion to program expenses (including a \$2.2 billion pension adjustment and \$300 million provincial rebate for electricity consumers). Interest on debt was revised downwardly by \$381 million and the contingency reserve by \$600 million). These changes left the projected deficit for FY16/17 unchanged at \$4.3 billion.

Ontario’s net debt was revised higher, however, which is disappointing. The government now projects it total \$318 billion at March 31, 2017, up from the \$308 billion it projected in Budget 2016. As a share of GDP, net debt is now forecasted to be 40.3% at March 31, 2017, compared to 39.6% previously.

Ontario budget balance



Source: Ontario Ministry of Finance, RBC Economics Research

Economic growth assumptions

	2015	2016	2017	2018	2019
Real GDP growth (%)					
Budget 2016	2.5	2.2	2.4	2.2	2.0
Private sector average*	-	2.6	2.3	2.2	2.0
Fall Update	2.5	2.5	2.2	2.1	1.9
RBC	2.6	2.7	2.4	-	-
Nominal GDP growth (%)					
Budget 2016	3.6	4.0	4.6	4.2	4.0
Fall Update	4.9	3.4	4.1	4.1	3.9
RBC	4.1	4.6	4.0	-	-

*As of November 14, 2016

Source: Ontario Ministry of Finance, RBC Economics Research

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Ontario's fiscal plan

(\$ billions)	Actual	April Budget	November Update	Projected Outlook	
	<u>2015/16</u>	<u>2016/17</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
Total revenues	128.4	130.6	132.7	140.1	144.9
Total expenditures	133.4	133.9	136.6	139.4	144.1
Program spending	122.4	122.1	125.3	127.7	131.7
Interest on public debt	11.0	11.8	11.4	11.7	12.4
Reserve	-	1.0	0.4	0.7	0.8
Surplus/(Deficit)	(5.0)	(4.3)	(4.3)	0.0	0.0

Source: Ontario Ministry of Finance, RBC Economics Research

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