

## 2019 ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW

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## Easing off (ever so slightly) on the restraint

- Current-year revenues revised \$1.6 billion above Budget 2019 projections.
- Program expenditures boosted by \$0.8 billion.
- 2019-2020 budget deficit revised lower to \$9.0 billion.
- Provincial debt profile slightly improved.
- Small businesses get a tax cut.

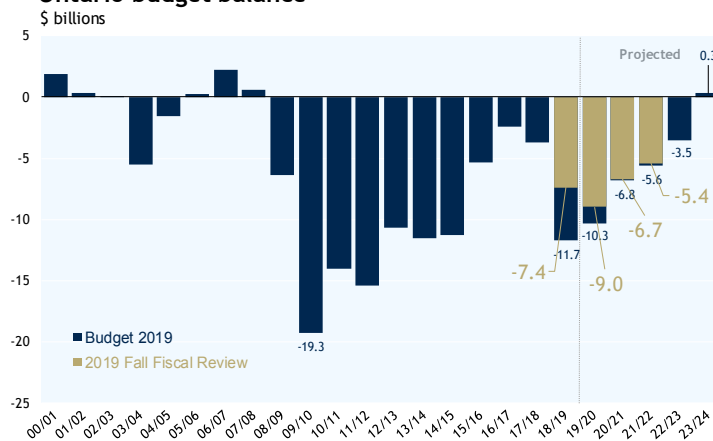
## Stronger-than-expected revenues are a wonderful thing

Ontario Finance Minister Rod Phillips delivered good news in yesterday's fall budget update. He now expects his government will "beat" this year's deficit target by \$1.3 billion *and* boost spending at the same time. This is what a \$1.6-billion upward revision to revenues can do for you. Projections were increased by \$936 million for corporate taxes and \$525 million for personal income taxes. The rebounding housing market also led to a \$90-million rise in the projected land transfer tax revenue. These upward revisions have little to do with the economy—Ontario's economic forecast remains little changed compared to Budget 2019. They mostly arise from the stronger revenue base set by the final estimates for 2018-2019 which exceeded earlier expectations. In fact, the 2018-2019 public accounts released in September are easily the bigger story here. They painted a fiscal picture that was markedly less grim than portrayed as recently as April, and set more favourable starting points for the rest of the fiscal plan. Last year's revenues came in 0.9% (\$1.2 billion) higher than expected and expenditures 1.5% (\$2.4 billion) lower than expected, resulting in a deficit of \$7.4 billion or \$4.3 billion below the estimate shown in Budget 2019. This was also virtually half the conservative government's original projection of \$14.5 billion in the 2018 Economic Outlook and Fiscal Review.

## Sticking to the deficit reduction schedule

Despite the more favourable head-start than anticipated last year, Minister Phillips indicated his government isn't contemplating eliminating the deficit earlier than planned (2023-2024). However, he has trimmed the deficit projections for this year (materially) and the next two (just barely). He now forecasts budget shortfalls of \$9.0 billion in 2019-2020, \$6.7 billion in 2020-2021 and \$5.4 billion in 2021-2022. These are down from \$10.3 billion, \$6.8 billion and \$5.6 billion, respectively in Budget 2019. (The updated pro-

Ontario budget balance



Source: Ontario Ministry of Finance, RBC Economics

## Economic growth assumptions

	2018	2019	2020	2021	2022
<b>Real GDP growth (%)</b>					
Budget 2019	2.2	1.4	1.6	1.5	1.9
Fall Update	2.3	1.4	1.5	1.5	1.9
RBC	2.2	1.5	1.5	-	-
<b>Nominal GDP growth (%)</b>					
Budget 2019	3.4	3.4	3.4	3.2	3.6
Fall Update	3.5	3.4	3.3	3.3	3.6
RBC	3.4	3.6	3.4	-	-

Source: Ontario Ministry of Finance, RBC Economics

jections didn't go beyond the next two years.) It's interesting that this year's deficit is now projected to be \$1.6 billion *higher* than last year's \$7.4 billion shortfall—though any increase ultimately will be less if the \$1-billion contingency reserve is unused. We suspect the government is keeping its options open to 'beat' this year's revised deficit target as well.

### Priority programs get a boost

The government is using part of the added fiscal room to boost spending in a number of priority areas. Children and social services gets an additional \$637 million this year, health \$404 million and education \$186 million. In total, the government is allocating \$1.3 billion in new spending on programs, though \$550 million will come from unallocated contingency funds already budgeted. Program expense growth is now projected to be 0.5% in 2019-2020—stronger than the 0.1% in Budget 2019 but still denoting significant restraint.

### Tax cut for small businesses

There were few new initiatives announced in the fall update, and all were modest dollar-wise. The main one is a reduction in the small business corporate income tax rate from 3.5% to 3.2% effective January 1, 2020. The government estimates the move will save 275,000 small businesses up to \$1,500 annually.

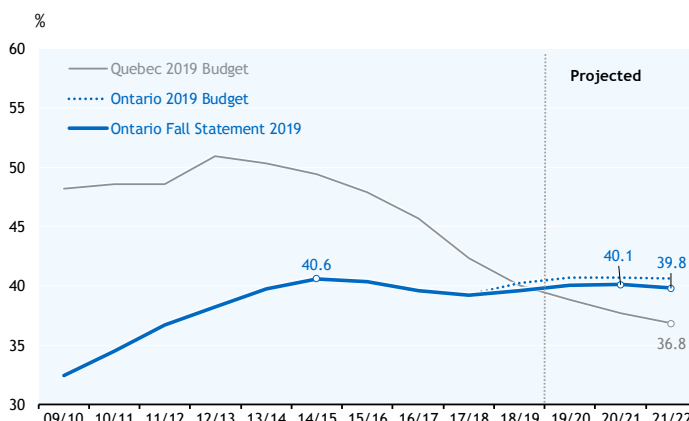
### Slightly improved debt profile

Downwardly revised deficits will help improve Ontario's debt profile. The final net debt tally for 2018-2019 was \$339 billion, \$4 billion lower than estimated in Budget 2019. As a share of GDP, this represented a 0.6 percentage-point decline to 39.6% of GDP. The revised net debt-to-GDP ratio is projected to edge slightly higher to 40.0% at the end of 2019-2020 and 40.1% in 2020-2021, before easing to 39.8% in 2021-2022. This entire profile is a touch lower than projected in Budget 2019. However, Ontario will remain one of the two provinces, along with Newfoundland and Labrador, with the highest net debt-to-GDP ratio in Canada. This is reason enough to maintain a strong focus on restraint.

### Lower expected long-term borrowing this year

The Ontario government now forecasts its long-term public borrowing to be \$31.9 billion in 2019-2020, \$31.7 billion in 2020-2021 and \$31.2 billion in 2021-2022. Total borrowing requirements over these three years are \$5.5 billion below the projections in Budget 2019, including a \$4.1 billion downward revision this fiscal year.

### Net debt as % of GDP



Source: Ontario Ministry of Finance, Ministère des Finances du Québec, RBC Economics

Ontario's fiscal plan					
(\$ billions)	Actual	March budget	November update	Medium-term outlook	
	<u>2018/19</u>	<u>2019/20</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>
Total revenues	153.7	154.2	155.8	161.5	165.4
Total expenditures	161.1	163.4	163.8	167.2	169.8
Program spending	148.7	150.1	150.9	154.0	155.9
Interest on public debt	12.4	13.3	12.9	13.2	13.9
Reserve	-	1.0	1.0	1.0	1.0
Surplus/(Deficit)	(7.4)	(10.3)	(9.0)	(6.7)	(5.4)
Net debt as % of GDP	39.6	40.7	40.0	40.1	39.8

Source: Ontario Ministry of Finance

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