PAPER A

Growth Continues: Ontario's Economic & Revenue Outlook

Overview

Ontario's economy is forecast to post real growth of 2.2 per cent in 2001. This follows four straight years of robust growth that averaged more than 5.0 per cent annually. The tax cuts and other policies implemented by the Ontario Government have contributed to this growth and are now helping the economy remain healthy despite the current weakening of the U.S. market.

In June 1999, the U.S. Federal Reserve Board began to raise interest rates in order to cool demand and prevent inflationary pressures from emerging. The Federal Reserve Board raised interest rates by 175 basis points between June 1999 and May 2000.

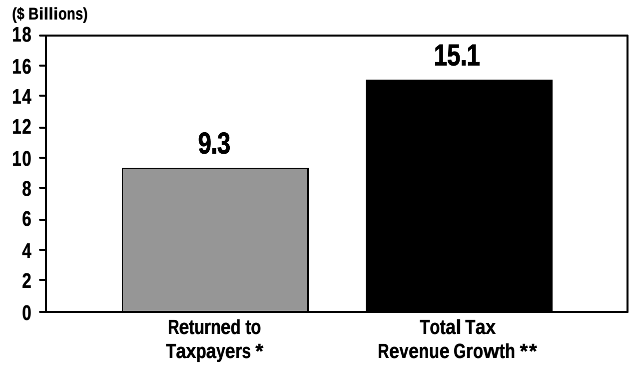
By the second half of 2000, growth in the United States had slowed. Markets for the products of some key Ontario industries, such as autos and telecommunication equipment, had softened. In Ontario, many export-oriented businesses responded with rapid adjustments that in some cases meant eliminating overtime or imposing temporary layoffs.

Underlying resiliency in the Ontario economy is cushioning the effect of the U.S. slowdown. While particular industries have been hit by the slowdown in external demand, other key domestic sectors such as construction, and wholesale and retail trade have continued to grow.

Tax cuts and lower interest rates have set the stage for an upturn in the North American economy. Most private-sector forecasters expect strong growth to resume in the second half of 2001. Ontario's dynamic, competitive economy is well positioned to lead growth in the period ahead, as it has over the past four years.

Ontario's economic growth has generated strong growth in tax revenues. Since Ontario began to cut tax rates, total tax revenue has increased by over $15 billion. Revenue is projected to decline in 2001-02, owing to one-time revenues included in 2000-01. Excluding these one-time revenues, total revenue grows by over $350 million in 2001-02. With a solid foundation in place for Ontario's long-term economic growth, revenues are projected to resume strong growth in 2002-03.

Ontario's Tax Cuts and Tax Revenue Growth



* 2000-01 Annualized value of provincial tax cuts since 1995.
**Increase in annual provincial tax revenue since Ontario tax-cutting began and 2000-01.

Ontario Economic Assumptions and Revenue Outlook at a Glance

(Annual Average)

	1999	2000	2001	2002
Real GDP Growth (per cent)	6.1	5.5	2.2	3.5
Employment (thousands)	5,688	5,872	Up to 6,019	Up to 6,200
Unemployment Rate (per cent)	6.3	5.7	5.5 - 6.0	5.5 - 6.0
CPI Inflation (per cent)	1.9	2.9	2.8	2.0
Provincial Revenue ($ billions)	62.9	64.9	64.3	65.5
Provincial Revenue Excluding One-time Tax Revenue in 2000-01*	***62.9***	***63.9***	***64.3***	***65.5***

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

Sources: Statistics Canada and Ontario Ministry of Finance. Revenues are on a fiscal-year basis.

- Growth in consumer spending and residential investment will be supported by substantial income tax cuts and lower interest rates.

- Business tax cuts that reinforce Ontario's competitive position will strengthen business investment over the medium term.

- Although Ontario's export and import growth has slowed markedly, reflecting slower growth in the United States and the rest of Canada in the second half of last year, trade volumes are expected to strengthen in the second half of 2001.

Economic Growth Continues

The Ontario economy grew faster last year than anticipated at the time of the 2000 Budget. Ontario's real Gross Domestic Product (GDP) grew by 5.5 per cent in 2000, significantly higher than the Budget assumption of 4.6 per cent. Ontario's 2000 growth surpassed that of the rest of Canada, the United States and all of the other G-7 major industrial countries.

Ontario's real GDP growth is projected to slow to 2.2 per cent in 2001. Significantly slower U.S. growth and associated inventory and production cuts in the auto and telecommunication sectors are causing Ontario's growth to moderate in the first half of 2001. The economy is expected to gain strength later this year as lower interest rates and tax cuts stimulate stronger household spending, inventories return to normal levels and stronger U.S. growth boosts demand for Ontario's exports. The expansion is expected to continue in 2002, with real output advancing by 3.5 per cent.

In keeping with Ontario's policy of prudent forecasting, these projections are below the current private-sector consensus. As in previous budgets, a $1 billion reserve has also been included in the 2001-02 fiscal plan to protect against unexpected adverse changes in the economic and fiscal outlook.

Economic Growth Assumptions
(Per Cent)

	2001	2002
Ontario Real GDP Growth		
Private-sector survey average	2.3	3.6
Ontario's Planning Projection	2.2	3.5

Note: The private-sector average is based on nine recent forecasts.
Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 2001).

Solid Foundation for Economic Growth

The measures taken by the Ontario Government since 1995 have laid a solid foundation for economic growth. Cutting taxes, balancing the budget, eliminating red tape, renewing infrastructure, removing barriers to growth and strengthening incentives to work and invest are spurring a healthy economy and a rising standard of living.

These policies have also made the Ontario economy better able to weather the periodic slowdowns that inevitably beset world markets.

Ontario's manufacturers are much more competitive relative to their American counterparts than in the early 1990s. Ontario manufacturing unit labour costs, expressed in U.S. dollars, have declined relative to costs in the United States by about 20 per cent over the last decade. Strong productivity growth and cost control have been important sources of Ontario's enhanced competitiveness.

In addition, the fiscal position of governments in both Canada and the United States has improved sharply. This has enabled governments to continue to lower taxes and made consumers and businesses confident that they will not face tax increases in the future.

Personal income tax cuts and strong job gains mean that more people in Ontario are working and earning more disposable income. Combined with lower interest rates, this has strengthened family finances and contributed to robust household spending.

Businesses too have improved their balance sheets through the 1990s. Corporate debt-to-equity ratios have declined significantly. With less debt, companies have greater flexibility to manage cyclical weakness in demand for their products and to finance investment and innovation.

Inflation is much lower today than 10 years ago, another positive factor for the economy. In Ontario, Canada and the United States, inflation rates are about half what they were in 1990. While energy price increases pushed up inflation rates last year, forecasters expect inflation to trend lower. As well, the slowdown in the U.S. economy has reduced the inflationary risk facing the United States.

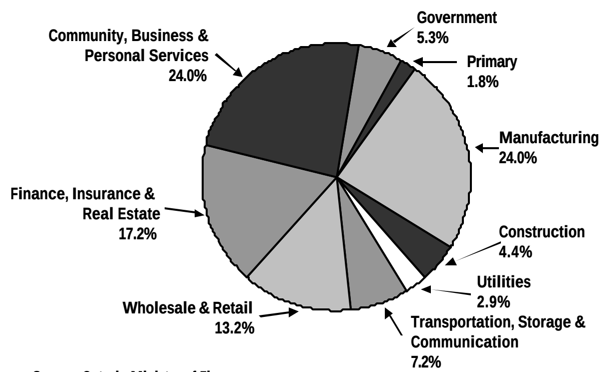
, Core CPI inflation in Canada has fallen from over five per cent in the early 1990s to 1.5 per cent in the last two years.

The benign inflation outlook makes it much easier for monetary authorities in both Canada and the United States to respond to slower growth. The 200-basis-point reduction in the federal funds rate by the United States Federal Reserve Board so far this year and the 100-basis-point decline in the bank rate by the Bank of Canada are expected to boost the pace of economic growth.

Growth since 1995 has been spread across a wide spectrum of industries. The year 2000, for example, saw non-auto manufacturing industries grow by 6.9 per cent; wholesale and retail trade by 6.6 per cent; construction by 3.4 per cent; community, business and personal services by 4.8 per cent, and the high-tech sector by 23.6 per cent.

Structure of the Ontario Economy 2000

(Per Cent Share of GDP)



Source: Ontario Ministry of Finance.

Faster Growth in Second Half of 2001

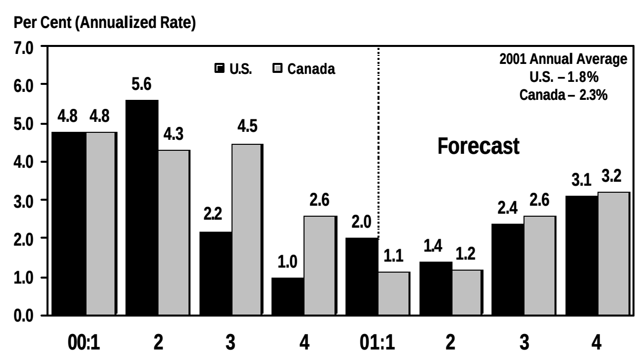
Ontario's economy is expected to gain momentum in the second half of the year as export demand strengthens and lower interest rates and tax cuts promote solid growth in domestic demand.

> *"... the province is relatively well positioned to face a temporary downturn in manufacturing activity as rising personal disposable incomes should bolster domestic demand. Next year real GDP growth is expected to bounce back into the 3.5% range as exports of consumer durable goods to the United States recover."*
>
> ***Royal Bank, April 2001***

- Domestic demand will continue as the primary driver of Ontario's strong growth. Over the past four years, 80 per cent of Ontario's growth reflected domestic spending. Further tax cuts this year and lower interest rates will provide an additional boost to domestic demand, enabling the economy to continue to grow in the face of slower growth of external demand.

- U.S. real GDP rose at a 2.0 per cent annual rate in the first quarter of 2001. Although this growth was well below that of recent years, the strength of the U.S. economy surpassed expectations. Lower interest rates and the tax cuts proposed in the United States are expected to further strengthen U.S. growth later this year.

Quarterly Real GDP Growth, 2000:1–2001:4



Sources: U.S. - U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (April 2001).
Canada - Statistics Canada and Ministry of Finance Survey of Forecasts (April 2001).

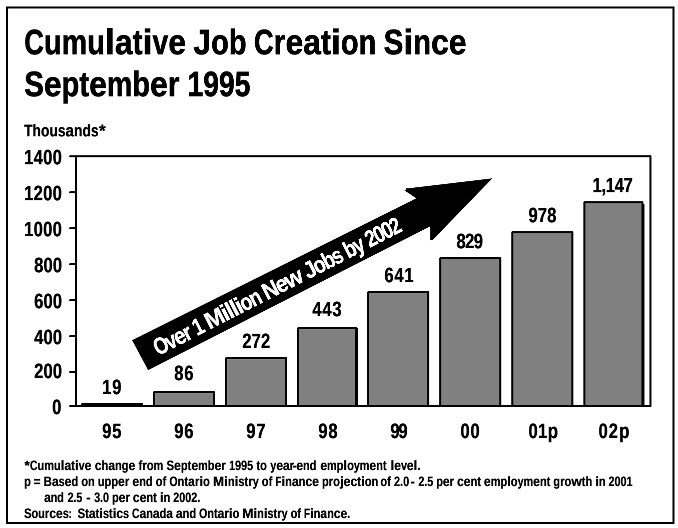
- Ontario's economic performance is expected to strengthen in the second half of this year as households boost spending in reaction to lower interest rates and reduced taxes, recovering U.S. growth bolsters Ontario's exports and firms gain better control of inventory levels.

New Jobs Being Created

Ontario experienced record job creation over the past three years. Despite slower growth in the global economy in 2001, Ontario will continue to create new jobs this year. The pace of job creation is expected to accelerate along with economic growth in the second half of the year.

In July 2000, net job creation met the government's five-year target of 725,000 new jobs. Since then, the economy has generated an additional 97,900 jobs, making solid progress towards the Blueprint target of 825,000 jobs over the next five years.

, Ontario created 558,700 jobs during the 1998-2000 period, the strongest pace of job growth in the province's history. Of these new jobs, nine out of ten were full-time, private-sector positions.



, With economic growth moderating this year, Ontario employment is expected to increase by between 2.0 and 2.5 per cent in 2001. As growth picks up in 2002, employment is projected to rise by between 2.5 and 3.0 per cent.

, A continued flow of new job opportunities, tax cuts and welfare reform are encouraging more Ontarians to participate in the labour market.

, These robust gains in employment, and the associated growth in personal income, have resulted in Personal Income Tax revenue outperforming projections in each of the last six years. In 2000-01, Personal Income Tax revenue was $1,445 million above the 2000 Budget forecast.

- Personal Income Tax revenue is projected to decline in 2001-02. This reflects the inclusion in 2000-01 revenue of $764 million of one-time revenue for higher 1999-2000 Personal Income Tax revenue than reported in the 1999-2000 Public Accounts.

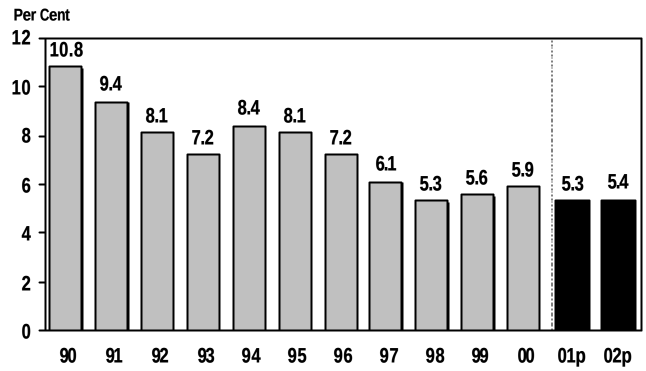
- In addition, the performance of the stock market in 2001 is expected to reduce capital gains, an important factor driving recent Personal Income Tax revenue growth. As well, the impact of the benefits to taxpayers announced in previous budgets and proposed in this Budget slows short-term Personal Income Tax growth. Past tax reductions and proposed lower tax rates, if enacted, will help to shorten the duration and lighten the impact of the current economic slowing.

Lower Interest Rates Support Growth

Interest rates are expected to fall further in both Canada and the United States. The U.S. Federal Reserve Board and the Bank of Canada are expected to cut short-term interest rates by another 50 basis points to support economic growth.

In order to develop cautious projections of Public Debt Interest, a prudence factor has been added to the average private-sector forecast of interest rates. The interest on three-month Government of Canada treasury bills is assumed to be 50 basis points higher than the average private-sector forecast. Interest rates on 10-year Government of Canada bonds are assumed to be 100 basis points higher than the average private-sector forecast.

10-Year Government of Canada Bond Rate



p = private-sector average projection.
Sources: Bank of Canada and Ontario Finance Financial Market Survey (April 2001).

Interest Rate Assumptions

(Average Per Cent)

	2000	2001 Jan-Apr	2001 May-Dec	2002
3-month Government of Canada treasury bills				
Private-sector survey average	**5.5**	**4.7**	4.0	4.1
Ontario's assumption			4.5	4.6
10-year Government of Canada bonds				
Private-sector survey average	**5.9**	**5.5**	5.3	5.4
Ontario's assumption			6.3	6.4

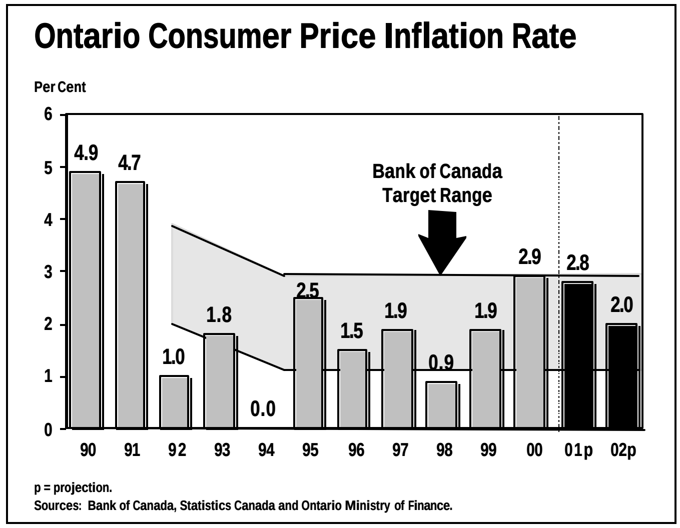
Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 2001).

Inflation Remains Moderate

The Ontario CPI inflation rate is expected to average 2.8 per cent in 2001 and 2.0 per cent in 2002.

- Ontario's CPI inflation rate was 3.2 per cent in March 2001. Excluding food and energy prices, the core Ontario CPI inflation rate was 2.2 per cent in March.

- The annual average inflation rate in 2000 was 2.9 per cent for Ontario, up from 1.9 per cent in 1999. Last year's rise in oil and natural gas prices was the major cause of the increase in the CPI inflation rate.



- Crude oil prices (using West Texas Intermediate as the benchmark) have fallen from $34.40 US a barrel in November 2000 to between $26 US and $28 US recently. Private-sector forecasters expect oil prices to fall to $24 US by the end of April 2002.

Consumer Spending Buoyed by Tax Cuts and Rising Income

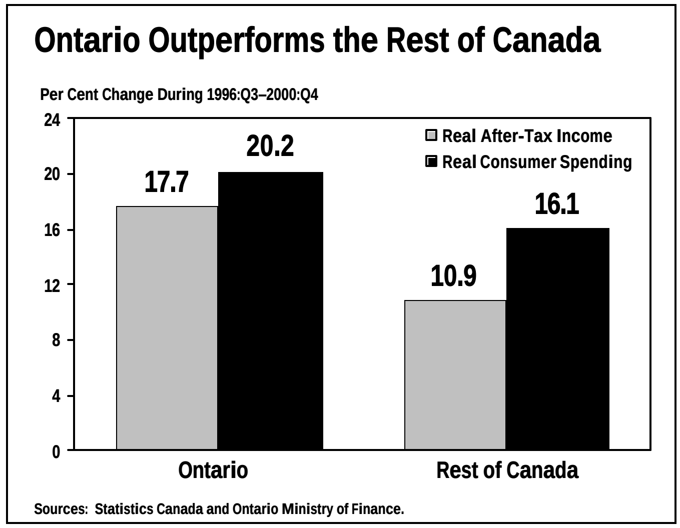
Personal tax cuts and rising income will continue to drive solid growth in consumer spending in 2001 and 2002.

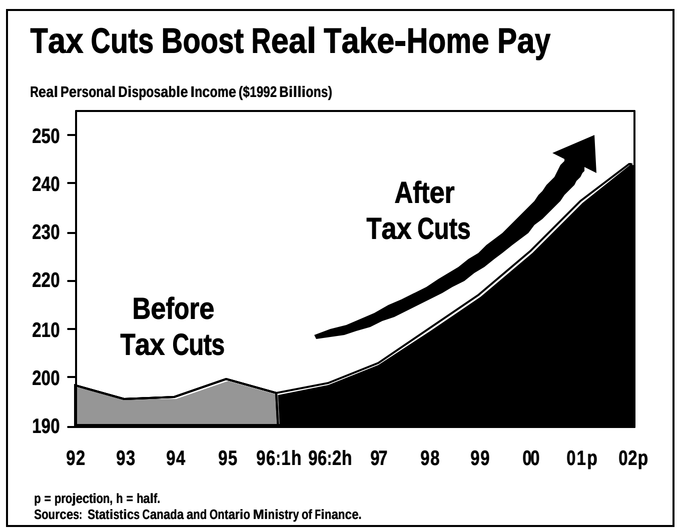
- Real consumer spending surged 4.4 per cent in 2000, supported by strong growth in real after-tax income as a result of tax cuts and strong job creation.

- The strong growth in consumer spending in 2000 boosted Retail Sales Tax revenue by 6.8 per cent in 2000-01. As a result, Retail Sales Tax revenue was $357 million above the 2000 Budget projection.

- Retail Sales Tax revenue is projected to continue to grow in 2001-02 based on higher consumer spending sustained by rising incomes, previously implemented tax cuts and proposed tax cuts.

- From the second quarter of 1996, when Ontario income tax cuts began, to the fourth quarter of 2000, Ontario real disposable income increased by 17.7 per cent, much stronger than the 10.9 per cent pace for the rest of Canada.





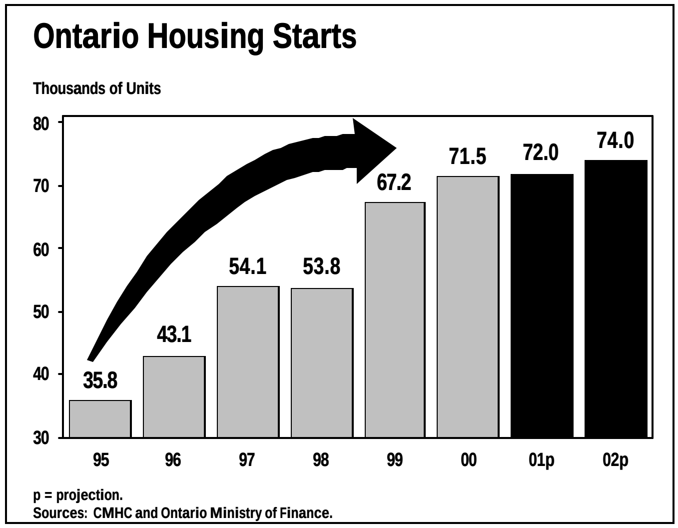
- During the same period, Ontario real consumption increased by 20.2 per cent, higher than the 16.1 per cent rise recorded for the rest of Canada.

- Real disposable income is expected to rise by 4.5 per cent in 2001 and 3.5 per cent in 2002. The continuing increase in disposable income is supported by lower taxes and robust employment growth.

- Real consumer spending is expected to grow by 3.1 per cent in 2001 and 3.3 per cent in 2002.

Housing Outlook Healthy

The housing market is expected to remain healthy in 2001, supported by lower interest rates and higher after-tax incomes.



, Ontario housing starts are expected to total 72,000 in 2001. Residential construction spending in Ontario is projected to rise by 2.6 per cent in 2001, and a further 5.1 per cent in 2002. The Land Transfer Tax (LTT) rebate for first-time buyers of new homes will continue to support housing purchases and the construction industry.

, The strong performance of the Ontario housing market in 2000 increased 2000-01 Land Transfer Tax revenue by $50 million above the 2000 Budget projection.

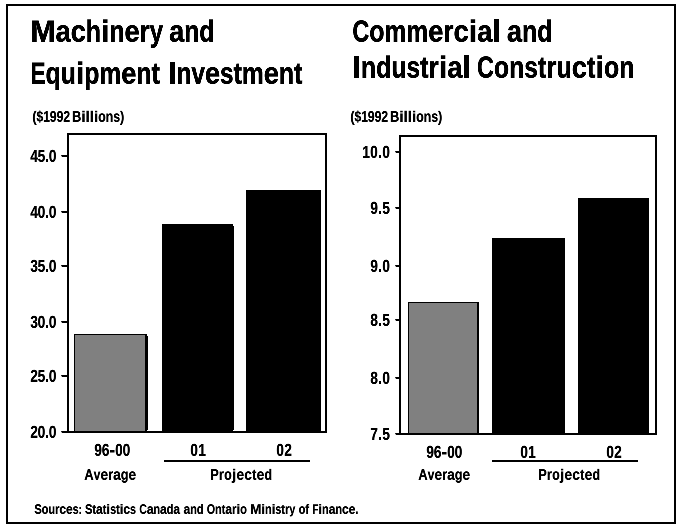
, Land Transfer Tax revenue is forecast to grow in 2001-02 to $670 million from $630 million in 2000-01, reflecting continued strength in the housing market.

, Posted five-year mortgage rates offered by major financial institutions have declined from 8.75 per cent in May 2000 to 7.5-7.75 per cent in early May 2001.

, Ontario housing remains affordable. In 2000, the monthly carrying cost for an average-priced home in Ontario was $1,097 compared to $1,489 in 1990. As a share of after-tax household income, the same average carrying cost was 22.6 per cent in 2000, down from 35.5 per cent in 1990.

Firms Continue to Invest

Healthy investment growth over the past few years has boosted productivity, enhancing Ontario's competitive position in the international economy. Lower business tax rates will encourage companies to continue making capital equipment investments that increase capacity and productivity. Businesses are expected to be cautious in their investment plans in 2001, reflecting slower economic growth. However, capacity utilization remains above its long-term average, and the acceleration in growth in the second half of 2001 is likely to prompt a sharp rebound in investment spending.



Corporate profits grew by 16.2 per cent in 2000. With the temporary slowing of economic growth, aggregate corporate profits are projected to decline by 0.5 per cent in 2001 before rebounding by 9.6 per cent in 2002.

Strong profit growth led to a 12.8 per cent increase in Corporations Tax revenue in 2000-01 to $9,130 million. This was $365 million above the 2000 Budget projection.

Corporations Tax revenue is projected to be below the 2000-01 level in 2001-02. This reflects the inclusion of $250 million of one-time revenue in 2000-01 for higher 1999-2000 Corporations Tax revenue than estimated in the 1999-2000 Public Accounts. Also contributing to the lower projected level of Corporations Tax in 2001-02 is the projected decline in 2001 aggregate corporate profits and the short-term impact of the previously implemented and proposed new Corporations Tax cuts.

The value of Ontario business investment in machinery and equipment in real terms rose by 93 per cent between 1996 and 2000. Real investment in commercial and industrial construction rose by more than 35 per cent over the same period. Measured in constant 1992 dollars, machinery and equipment outlays are projected to reach $42.0 billion in 2002 and commercial and industrial construction is forecast at $9.6 billion.

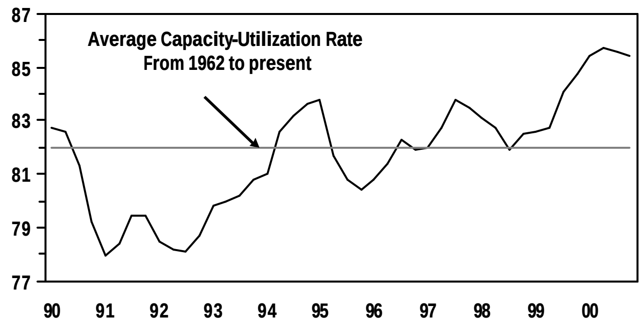
- Machinery and equipment investment is projected to increase by 2.9 per cent in 2001. As economic growth accelerates, businesses are expected to raise their investment spending, with machinery and equipment investment set to grow by 8.1 per cent in 2002.

- Ontario industrial real estate development is growing strongly. Commercial and industrial building permits rose an average of 13.7 per cent per year over the past three years.

- Spending on commercial and industrial construction projects is expected to remain healthy, with a projected average annual increase of 3.4 per cent over the next two years.

High Capacity Utilization Encourages Investment

Capacity-Utilization Rate* in Canadian Goods-Producing Industries (Per Cent)



*Industrial Capacity Utilization is the ratio of actual output to estimated potential output.
Source: Statistics Canada.

Many companies are recognizing Ontario as an attractive location for investment based on its highly competitive business and tax climate and long-term economic prospects. Firms with major projects underway or announced include:

- Electrofuel Inc. in Toronto, which has opened a new manufacturing plant producing batteries for notebook computers, and DuPont Canada, which has formed a fuel cell business unit in Kingston.

- Lofthouse Brass, headquartered in Whitby, which is investing in a new forging product line in its Burk's Falls plant; Great Lakes Power in Wawa, which is redeveloping the Michipicoten High Falls Hydro Dam; and Falconbridge in Timmins, which is investing in a new mine that will be the deepest operating base-metal mine in the world.

Ontario's External Trade Grows

Ontario's high level of exports reflects a healthy, competitive economy. There has been a 51 per cent increase in exports since mid-1995, driven by NAFTA, industrial restructuring and U.S. growth. However, this has been accompanied by a 49 per cent increase in imports. Many Ontario exports, such as assembled cars, use imported components. Under NAFTA, multinational companies have been able to rationalize operations and integrate production across North America. The rationalization, which leads to greater efficiency, has increased the use of imported components in Ontario. Slower growth in the U.S. economy has resulted in weaker Ontario export growth. Part of this has been offset by reduced imports of components.

A different perspective on the role of trade in Ontario's economy is provided by net exports (the trade balance). This is the value of exports minus imports. As the chart indicates, net exports are a lower share of Ontario GDP now than they were in the early 1980s. Net exports as a share of GDP decreased in 2000. Nevertheless, Ontario's real GDP grew by 5.5 per cent in 2000.

Ontario Net International and Interprovincial Exports

Note: p = projection. Net Exports is Exports less Imports in $1992.
Sources: Ontario Ministry of Finance and Statistics Canada.

Ontario's competitive advantages leave it well positioned to maintain its market share in the U.S. economy, and to benefit from the expected future economic rebound.

Ontario's manufacturing industries have had strong productivity growth, and in most manufacturing industries productivity gains have matched or exceeded the growth experienced in the United States. Coupled with improved cost controls and the lower Canadian dollar, this means that Ontario's exporting industries are very competitive. Ontario's unit labour costs in manufacturing relative to costs in the United States, expressed in U.S. dollars, have declined by about 20 per cent since 1990.

- Most private-sector forecasters expect the Canadian dollar to appreciate against the U.S. dollar. A strong currency that reflects a strong and productive economy would be beneficial for Canadians by increasing their purchasing power in world markets. A lower tax burden and other measures that promote increased investment and productivity growth will strengthen the Canadian dollar.

Auto Sales Return to Sustainable Levels

The automotive sector is an important part of the Ontario economy. Ontario is among the world's leading automotive producers, second only to Michigan in terms of auto assembly. The sector accounts for about 5.5 per cent of the Ontario economy and about 3.5 per cent of employment.

- Twelve plants in Ontario assemble cars, light trucks and vans. Ontario's share of North American assembly rose from 14.6 per cent in 1995 to 16.3 per cent in 2000, with employment increasing 8.7 per cent to 74,000 in 2000.

- Ontario's auto-parts production has also grown significantly. Employment has surged by 61.8 per cent since 1995 to a total of 125,000 in 2000. In comparison, parts employment in the United States increased by only 7.4 per cent.

- Ontario's performance reflects its relatively low costs, strong supplier base and favourable business climate.

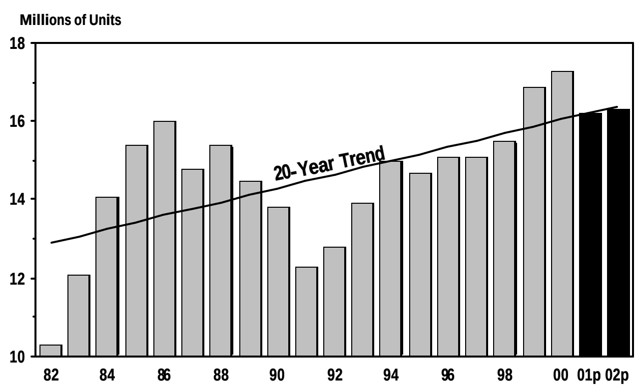
There continue to be healthy levels of reinvestment in Ontario's auto industry.

- Toyota is modernizing its Cambridge plant. General Motors is making a substantial reinvestment in its Oshawa plants. Ford has announced a reinvestment in its St. Thomas plant. Honda recently launched two new vehicle lines at its Alliston plant.

- Parts suppliers are also investing in new capacity in Ontario. UBE is adding a new plant in Sarnia. Keiper is investing in a new plant in London.

- Auto-related research and development in Ontario is expanding significantly, with new initiatives by DaimlerChrysler in Windsor and General Motors in Oshawa.

U.S. Auto Sales Set to Resume the 20-Year Trend



Sources: *Ward's Automotive Report* and *Consensus Forecasts* (April 2001).

- U.S. auto sales reached a record 17.3 million units in 2000. However, sales slowed in late 2000, falling to an annual rate of 16.2 million in the fourth quarter. Over the first four months of 2001, stronger-than-expected demand and competitive pricing led to a rebound in U.S. auto sales to an annualized rate of more than 17 million units.

- The slowdown in U.S. auto sales in the second half of 2000 resulted in a buildup in inventories. However, production cuts and improved sales have brought dealer inventories into better balance recently. North American dealer inventories have fallen from 85 days' supply in January to 63 days' in March.

- Most auto-sector layoffs have been temporary, as auto assemblers adjust their inventories to more manageable levels. Some permanent layoffs are occurring, reflecting ongoing restructuring in the global auto industry.

Growth Prospects for Ontario's High-Tech Sector Remain Strong

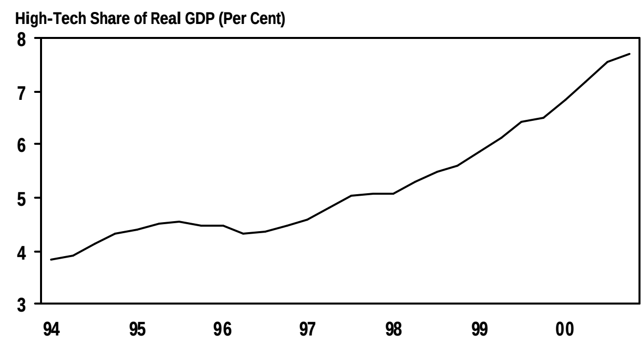
Ontario's high-tech sector, which includes information technology (IT) products and services and telecommunication, continued to create jobs in the first quarter of 2001, with employment reaching 305,000.

- Although communications equipment and parts employment has declined from a year earlier, employment in other parts of the high-tech sector—accounting for 90 per cent of the sector's jobs—has continued to grow.

- Less-cyclical services industries, such as computer and telecommunication services, have led the sector's job growth.

Leading high-tech clusters have developed in the Greater Toronto Area, Ottawa and the Kitchener-Waterloo region, all of which experienced increases in high-tech jobs in the first quarter of 2001.

High-Tech* Share of Economy Doubled Since 1994



*Comprises computer manufacturing, telecommunication and electronic manufacturing, computer services and telecommunication carriers.
Sources: Statistics Canada and Ontario Ministry of Finance.

- Ontario is an attractive location for high-tech firms. This reflects its highly educated workforce, universities and other research and development (R&D) capabilities, as well as its highly competitive business and tax climate.

- Many small, entrepreneurial firms are expanding throughout Ontario and undertaking R&D to develop new products and services for global markets. Typical examples are Med-Eng Systems in Ottawa, which produces personal protective systems; Cymat Corporation in the GTA, which is developing innovative materials technology; and RMH Teleservices in Sault Ste. Marie, which has set up a call centre that also serves U.S. customers.

Since 1994, the high-tech sector in Ontario has grown rapidly, doubling its share of Ontario's economy to almost eight per cent of GDP.

, U.S. real business investment in IT has historically displayed a strong growth trend, contributing to rapid growth in Ontario's high-tech exports. U.S. real business investment in IT is expected to grow in 2001, but at a slower rate than in recent years. However, since IT is a critical element for enhancing competitiveness, the strong uptrend in IT investment is expected to resume over the medium term.

Revenue Outlook

Ontario's strong revenue performance continued in 2000-01, driven by the robust performance of the Ontario economy. Total revenue in 2000-01 was $2,867 million above the 2000 Budget projection, including $2,339 million from higher tax revenue. A detailed assessment of the performance of revenues in 2000-01 is presented in Paper B, *Fiscal Responsibility: Ontario's Plan*.

Revenue is projected to decline in 2001-02, largely as the result of $1,014 million of one-time revenues included in 2000-01. Excluding those one-time revenues, total revenue grows by over $350 million.

- There were one-time increases to Personal Income Tax and Corporations Tax revenues in 2000-01. These are a result of higher 1999-2000 revenue than reported in the 1999-2000 Public Accounts.

Ontario Revenues: 1999-2000 to 2001-02

($ Millions)

	Actual 1999-2000	Interim 2000-01	Projected 2001-02
Taxation Revenue			
Personal Income Tax	17,617	18,975	18,010
Retail Sales Tax	12,879	13,757	14,340
Corporations Tax	8,095	9,130	8,340
All Other	7,290	7,800	8,130
Federal Payments	5,885	6,232	7,359
Income from Government Enterprises	3,708	3,968	3,424
Other Revenue	7,457	5,065	4,667
Total Revenue	62,931	64,927	64,270
Total Revenue Excluding One-time Tax Revenue in 2000-01*	***62,931***	***63,913***	***64,270***

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

- Personal Income Tax revenue is projected to decline in 2001-02. This reflects the inclusion in 2000-01 revenue of $764 million of one-time revenue for higher 1999-2000 Personal Income Tax revenue than estimated in the 1999-2000 Public Accounts. In addition, the performance of the stock market in 2001 is expected to reduce capital gains, an important factor driving recent Personal Income Tax revenue growth. Finally, the impact of the benefits to taxpayers proposed in this and previous budgets slows short-term Personal Income Tax growth.

- Corporations Tax revenue is projected to be below the 2000-01 level in 2001-02. This reflects the inclusion of $250 million of one-time revenue for higher 1999-2000 Corporations Tax revenue than estimated in the 1999-2000 Public Accounts. Also contributing to the lower projected level of Corporations Tax in 2001-02 is the projected decline in 2001 aggregate corporate profit growth and the impact of the Corporations Tax cuts proposed in this and previous budgets.

- Retail Sales Tax is projected to continue to grow in 2001-02 as tax cuts and rising incomes boost consumer spending.

- Continued job gains and income growth are forecast to increase Employer Health Tax revenue to $3,620 million in 2001-02.

- Transfers from the Government of Canada are projected to be $7,359 million in 2001-02. This includes $6,010 million for the Canada Health and Social Transfer (CHST), which incorporates the increase in the CHST allocation and Supplements.

- Other Revenue declines by $398 million, primarily due to the devolution of the Ontario Housing Corporation to municipalities, which reduces revenue by $256 million. Expenditure is also lowered by this transaction. Local Services Realignment revenue falls by $166 million, reflecting a lower level of reimbursable expenditures by municipalities.

- As economic growth picks up beginning in the second half of 2001, total revenues are projected to rise from $64.3 billion in 2001-02 to $65.5 billion in 2002-03.

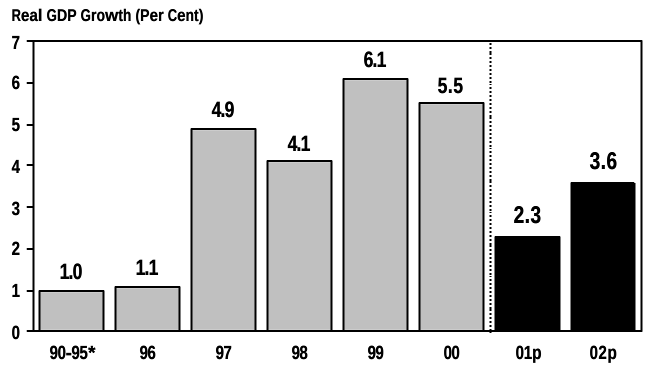
Conclusion

A competitive, growing economy is the basis for sustainable revenue growth. Total tax revenues have risen by over $15 billion or 43.9 per cent since Ontario began cutting taxes. Stronger economic growth is projected to underpin further revenue growth to $65.5 billion by 2002-03.

Ontario real GDP growth will moderate this year and rebound strongly in 2002. The average private-sector forecast calls for the Ontario economy to grow by 2.3 per cent in 2001 and 3.6 per cent in 2002.

Private-sector forecasters are confident that Ontario's economy will continue to grow. Tax and fiscal policies undertaken since 1995 have focused on creating the conditions to increase growth and raise living standards on a sustained long-term basis. The economic fundamentals in Ontario are sound, especially compared to the first half of the 1990s. The economy is competitive, inflation and interest rates are low, real disposable incomes are rising, and consumer, business and government finances are in excellent shape.

Private-Sector Economic Outlook for 2001 and 2002



*Annual average growth. p = projection.
Sources: Statistics Canada, Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 2001).

Ontario is well positioned to weather the temporary slowdown in the United States and post continued real GDP growth in 2001 and 2002.

PAPER A

Appendix

Details of the Ontario Economic Assumptions and Revenue Outlook

The following tables and charts provide further details about the Ontario Ministry of Finance economic and revenue projections. The revenue projections shown include the effect of legislative measures proposed in this Budget and detailed in Paper C, *Tax Cuts: Keeping Promises, Creating Opportunities.*

The Ontario Economy, 1999 to 2002

(Per Cent Change)

	Actual		Projected	
	1999	2000	2001	2002
Real Gross Domestic Product	**6.1**	**5.5**	**2.2**	**3.5**
Personal consumption	4.2	4.4	3.1	3.3
Residential construction	14.7	3.8	2.6	5.1
Non-residential construction	(0.3)	1.1	2.9	3.9
Machinery and equipment	14.1	19.1	2.9	8.1
Exports	11.3	6.8	1.5	4.6
Imports	11.0	7.9	1.4	5.0
Nominal Gross Domestic Product	**6.5**	**7.9**	**4.2**	**5.3**
Other Economic Indicators				
Retail sales	7.3	7.3	4.8	5.0
Housing starts (000s)	67.2	71.5	72.0	74.0
Personal income	4.6	6.4	4.5	5.0
Corporate profits	20.3	16.2	(0.5)	9.6
Ontario Consumer Price Index	1.9	2.9	2.8	2.0
Labour Market				
Employment*	3.6	3.2	2.0 - 2.5	2.5 - 3.0
Unemployment rate* (per cent)	6.3	5.7	5.5 - 6.0	5.5 - 6.0
Provincial Revenue ($ billions)	62.9	64.9	64.3	65.5
Provincial Revenue Excluding One-time Tax Revenue in 2000-01*	***62.9***	***63.9***	***64.3***	***65.5***

* Based on Labour Force Survey.

** Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

Sources: Statistics Canada and Ontario Ministry of Finance.

The following table shows the sensitivity of the fiscal balance to the direct impact of lower interest rates on Public Debt Interest and the impact of stronger economic growth on revenues and expenditures.

Impact of Changes in Economic Assumptions on the Ontario Surplus

($ Millions)

	2001-02
100 Basis Points Lower Canadian Interest Rates	80
1 Percentage Point Higher Real GDP Growth	610

Note: These responses would hold "on average" and could vary significantly depending on the composition of change in income and expenditures.

Source: Ontario Ministry of Finance.

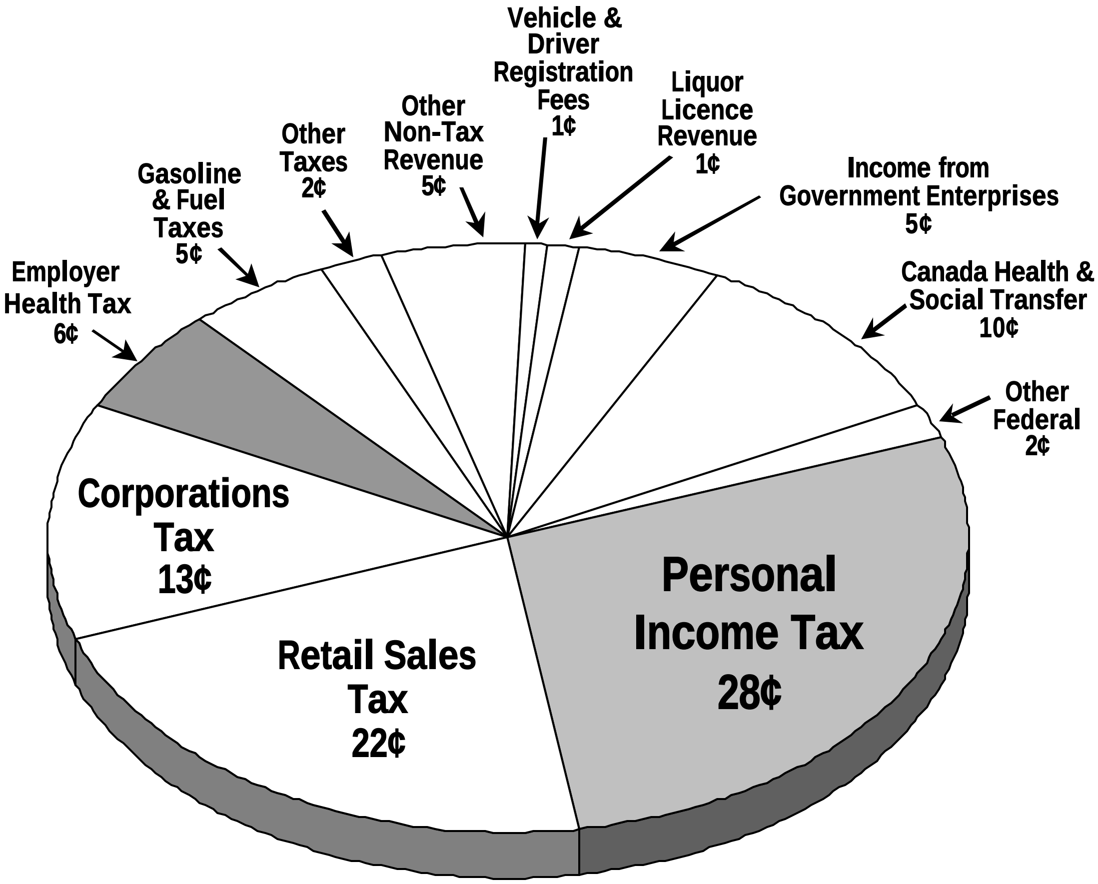
Revenue

($ Millions)

	Actual 1997-98	Actual 1998-99	Actual 1999-2000	Interim 2000-01	Plan 2001-02
Taxation Revenue					
Personal Income Tax	16,293	17,190	17,617	18,975	18,010
Retail Sales Tax	10,843	11,651	12,879	13,757	14,340
Corporations Tax	7,456	7,447	8,095	9,130	8,340
Employer Health Tax	2,851	2,882	3,118	3,455	3,620
Gasoline Tax	2,028	2,068	2,154	2,242	2,300
Fuel Tax	563	592	665	651	655
Tobacco Tax	425	447	481	495	620
Land Transfer Tax	565	470	565	630	670
Mining Profits Tax	40	23	50	90	55
Preferred Share Dividends Tax	60	50	33	40	56
Other Taxation	145	257	224	197	154
	41,269	**43,077**	**45,881**	**49,662**	**48,820**
Government of Canada					
Canada Health and Social Transfer	3,970	3,553	3,967	4,137	5,630
CHST Supplements	-	-	755	758	380
Social Housing	387	358	466	550	530
Student Assistance	18	64	170	40	64
Indian Welfare Services	87	155	85	118	117
Young Offenders Act	59	57	58	56	55
Bilingualism Development	49	55	65	64	64
Employability Assistance for People with Disabilities	53	71	65	58	39
Canada-Ontario Infrastructure Works	116	71	19	-	-
Other	359	131	235	451	480
	5,098	**4,515**	**5,885**	**6,232**	**7,359**
Income from Government Enterprises					
Ontario Lottery and Gaming Corporation	1,485	1,764	1,924	2,150	2,000
Liquor Control Board of Ontario	745	809	845	875	890
Ontario Power Generation Inc. and Hydro One Inc.	-	-	903	918	524
Other	61	(26)	36	25	10
	2,291	**2,547**	**3,708**	**3,968**	**3,424**
Other Revenue					
Vehicle and Driver Registration Fees	820	890	911	930	925
Other Fees and Licences	548	661	667	680	685
Liquor Licence Revenue	506	519	539	525	518
Royalties	286	289	345	219	240
Sales and Rentals	582	640	2,133	585	300
Fines and Penalties	174	50	41	37	40
Local Services Realignment—Reimbursement of Expenditure	519	2,109	1,678	1,389	1,223
Miscellaneous	425	489	1,143	700	736
	3,860	**5,647**	**7,457**	**5,065**	**4,667**
Total Revenue	**52,518**	**55,786**	**62,931**	**64,927**	**64,270**
Total Revenue Excluding One-time Tax Revenue in 2000-01*	***52,518***	***55,786***	***62,931***	***63,913***	***64,270***

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

The Budget Dollar
Revenue
2001-02



Revenue Sources by Category
Per Cent of Total
1997-98 to 2001-02