



ONTARIO'S ECONOMIC OUTLOOK AND FISCAL PLAN

March 25, 2010

When the McGuinty government took office in 2003, it implemented a prudent and responsible plan that eliminated the hidden \$5.5 billion deficit while investing in education, health care and infrastructure, and growing the provincial economy.

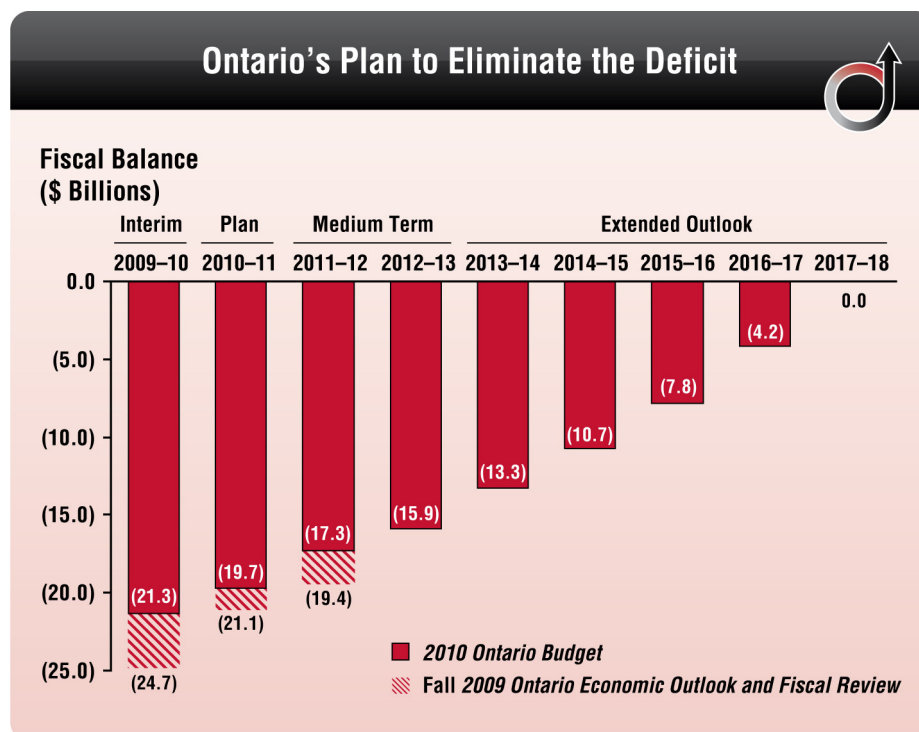
Before the global recession, growth in spending on programs and services by the McGuinty government did not exceed growth in revenues. When the global economic recession occurred, it hit Ontario harder than other provinces, due to its reliance on its manufacturing and forestry sectors. Government revenues declined steeply. In fact, no other Canadian jurisdiction experienced a sharper decline in corporate tax revenues between 2007-08 and 2009-10.

The McGuinty government made a choice to help lessen the impact of the recession on Ontarians, through short-term stimulus investments that created jobs and helped restore growth. The government also made a decision to protect education and health care. As a result, Ontario, like other jurisdictions in Canada and around the world, has a fiscal deficit.

Ontario's 2010 Speech from the Throne set out a new five-year plan to Open Ontario to new jobs and economic growth. The Open Ontario plan lays the foundation for the province to seize new global opportunities and turn them into jobs for Ontarians. It positions Ontario to emerge from the global economic recession and return to a sound financial footing.

As part of the Open Ontario plan, commitments in the Budget include helping 20,000 more students go to college and university, and helping northern Ontario businesses create jobs and communities thrive. The government is also retraining laid-off workers, introducing full-day learning in our schools, and investing heavily in infrastructure to create jobs and stimulate the economy. The plan continues the investments in Ontario's future that are necessary to create jobs, boost economic growth and protect schools and hospitals.

The 2010 Ontario Budget forecasts a deficit of \$21.3 billion for 2009-10, down from the \$24.7 billion projected in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*, due to a better-than-expected economic recovery and lower-than-expected expenditures. The deficit is projected to be \$19.7 billion in 2010-11. The Budget lays out a plan to cut the deficit in half in five years and eliminate it in eight years.



Economic Outlook

There are clear signs the Ontario economy has stabilized and that a recovery is taking shape. All major indicators have improved from lows posted during the recession. Ontario's real GDP has increased for two consecutive quarters, rising 0.5 per cent in the third and 1.6 per cent in the fourth quarters of 2009. Despite the improvement, real GDP is 2.8 per cent below the pre-recession level.

Economic Recovery Post-Recession			
	Pre-Recession Levels	Global Recession	Recovery to Date
Jobs (000s)	6,722.8	(249.7)	+91.7
Real GDP (\$ Billions, 2002)	534.9	(25.1)	+10.3
Merchandise Exports (\$ Billions)	14.3	(4.9)	+1.7
Manufacturing Sales (\$ Billions)	24.4	(7.4)	+2.7
Retail Sales (\$ Billions)	12.8	(1.2)	+1.0

Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's families and businesses are still feeling the effects of the global financial and economic crisis. Despite the rebound of 91,700 jobs since May 2009, Ontario employment is still down more than 158,000 jobs from the pre-recession level. Over the five-year period before the global recession, Ontario's employment had increased by almost 490,000 net new jobs. The global economy remains fragile, which is a threat to Ontario's continuing recovery.

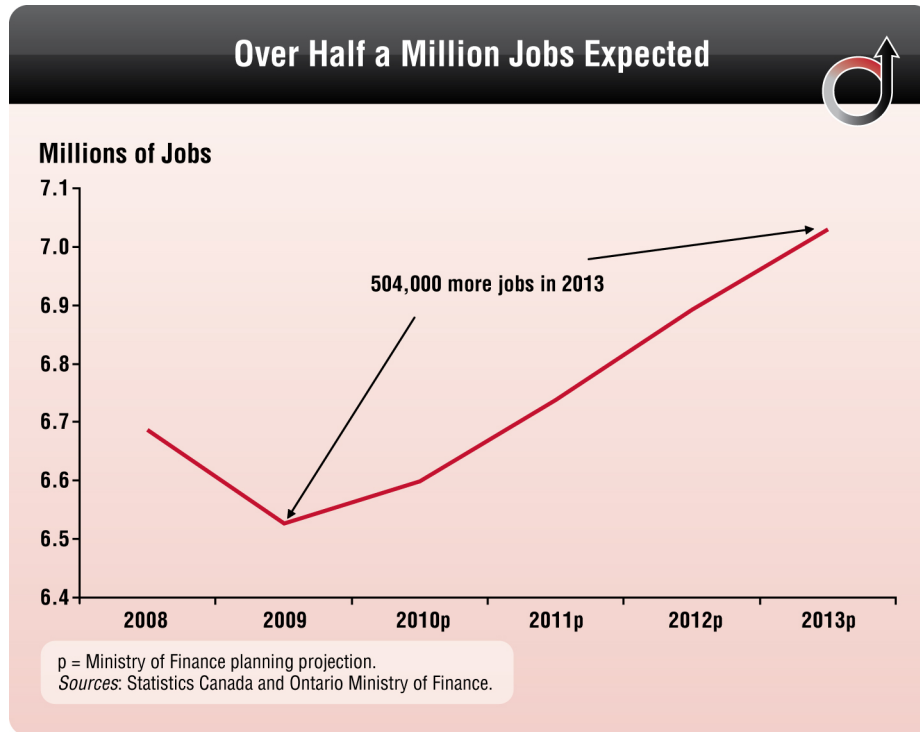
The Ministry of Finance is projecting real GDP growth of 2.7 per cent in 2010, 3.2 per cent in 2011, 3.2 per cent in 2012 and 3.0 per cent in 2013. Growth is expected to strengthen due to improving global demand for Ontario exports, significant government actions to support jobs and the economy, and government policies to promote long-term competitiveness and growth.

Ontario Economic Outlook (Per Cent)							
	2007	2008	2009	2010p	2011p	2012p	2013p
Real GDP Growth	2.3	(0.5)	(3.4e)	2.7	3.2	3.2	3.0
Nominal GDP Growth	4.5	0.4	(3.5e)	4.4	5.0	5.3	5.0
Employment Growth	1.6	1.4	(2.4)	1.1	2.1	2.3	2.0
CPI Inflation	1.8	2.3	0.4	1.9	2.1	2.0	2.0

e = estimate. p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

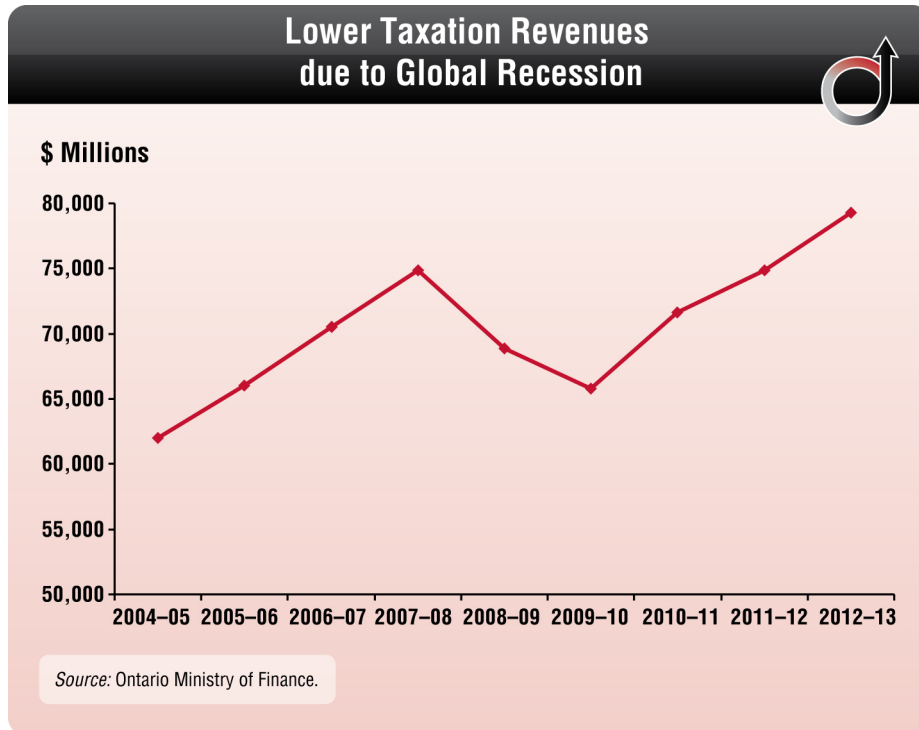
Due to the sharp decline in GDP resulting from the global recession, Ontario real GDP is expected to remain below its pre-recession level until the first quarter of 2011. Since employment growth tends to lag real GDP growth, it is expected to take somewhat longer for the province to see the same level of employment as before the global recession.

Employment is projected to increase by 1.1 per cent in 2010, strengthening to an average of 2.1 per cent annually over 2011 to 2013, resulting in 504,000 more jobs in 2013 than in 2009. The unemployment rate is expected to stabilize at 9.1 per cent in 2010 as job creation keeps pace with the increase in the number of people seeking jobs. Over the medium term, Ontario's unemployment rate is expected to decline to 6.8 per cent in 2013.



Government Revenues

Ontario government revenues have stabilized and are beginning to recover. However, the pace of recovery is moderate and the impact of the global financial crisis was substantial. Taxation revenues in 2009-10 are estimated at \$65.8 billion, 12.2 per cent below their level two years ago. Revenues are projected to increase at an annual average rate of 5.1 per cent between 2009-10 and 2012-13. Taxation revenues are not expected to recover to their 2007-08 level until 2011-12.



Expenses

Total expense is projected to increase by an average annual rate of 2.5 per cent from 2009-10 to 2012-13, which is about half the projected growth in revenue over the same period. This reflects the government's continued commitment to follow through on policies that support jobs and growth while managing down growth in expenses.

Medium-Term Fiscal Plan and Outlook¹				
(\$ Billions)				
	Interim	Plan	Outlook	
	2009-10	2010-11	2011-12	2012-13
Revenue	96.4	106.9	107.7	112.0
Expense				
Programs	108.8	115.9	112.9	114.3
Interest on Debt ²	8.9	10.0	11.1	12.5
Total Expense	117.7	125.9	124.1	126.9
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	(21.3)	(19.7)	(17.3)	(15.9)
Net Debt ³	193.2	220.0	245.0	267.8
Accumulated Deficit ³	134.6	154.3	171.6	187.5

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

² Interest on Debt expense is net of interest capitalized during construction of tangible capital assets of \$0.1 billion in 2009-10, \$0.2 billion in 2010-11, \$0.2 billion in 2011-12, and \$0.2 billion in 2012-13.

³ Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in non-financial assets; and the change in the fair value of the Ontario Nuclear Funds. Accumulated Deficit is calculated as the difference between liabilities and total assets. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus the change in the fair value of the Ontario Nuclear Funds.

Note: Numbers may not add due to rounding.

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