
Mid-Year Update on Ontario's Economic and Fiscal Performance

November 17, 2014

The government is committed to balancing the budget by 2017–18 and will do so in a way that is both fiscally responsible and fair. The Province will continue to invest in people's skills and talents; build modern infrastructure and transportation networks; create a supportive and dynamic business climate; and strengthen retirement income security for all Ontarians. This will help grow the economy, protect revenue and create jobs. The government will also continue to responsibly manage spending. From 2013–14 through to balance in 2017–18, program spending is projected to grow at an average annual rate of 0.8 per cent.

Together, these government priorities and actions to make every dollar count will help support eliminating the deficit and improve the Province's fiscal sustainability.

For five years in a row, the government has beaten the deficit targets it established after the 2008–09 global recession. Ontario is one of the only governments in Canada to have achieved this level of success. By beating its fiscal targets, the Province's accumulated deficit is \$25 billion lower than it otherwise would have been.

Although the global economic environment remains challenging, there are signs that Ontario's economic expansion is gaining momentum in 2014, following weak growth in 2013. However, should economic conditions persist that result in the Province's revenue outlook falling further below the 2014 Budget projection, the government will consider other tools, as necessary, to balance the budget by 2017–18. This would be done while continuing to make critical investments in the programs and services that people depend on, such as health and education.

2014–15 Fiscal Performance

The deficit for 2014–15 is currently projected to be \$12.5 billion, unchanged from the 2014 Budget forecast.

The Province's total revenue projection for 2014–15 of \$118,362 million is \$509 million lower than the 2014 Budget forecast, largely reflecting a lower-than-projected level of tax revenue in 2013–14 that carries forward over the medium term, as well as a one-time decline in Corporations Tax revenue related to assessments for prior years.

The Province's total expense projection for 2014–15 of \$130,168 million is \$208 million lower than the projection in the 2014 Budget, due to lower-than-forecast interest on debt expense. Projected program expense is essentially unchanged from the 2014 Budget, reflecting the government's commitment to manage spending and ensure every dollar counts.

The 2014 Budget included a \$1 billion reserve in 2014–15 to protect against adverse changes in the Province’s revenue and expense. Consistent with this, the reserve is being reduced by \$300 million to mitigate the remaining impact of the decline in the revenue outlook. This maintains a reserve of \$700 million in 2014–15.

2014–15 In-Year Fiscal Performance
(\$ Millions)

	Budget Plan	Current Outlook	In-Year Change
Revenue	118,871	118,362	(509)
Expense			
Programs	119,366	119,374	8
Interest on Debt	11,010	10,794	(216)
Total Expense	130,376	130,168	(208)
Reserve	1,000	700	(300)
Surplus/(Deficit)	(12,505)	(12,507)	(1)

Note: Numbers may not add due to rounding.

Ontario’s Recovery Plan

The government projects deficits of \$12.5 billion in 2014–15, \$8.9 billion in 2015–16 and \$5.3 billion in 2016–17, unchanged from the forecast outlined in the 2014 Budget.

The medium-term revenue outlook has declined since the 2014 Budget, reflecting a lower forecast for taxation revenue.

Total expense is now projected to be lower than forecast at the time of the 2014 Budget, as a result of lower projected interest on debt expense.

A \$1.2 billion annual reserve is maintained in each of 2015–16, 2016–17 and 2017–18 to protect the fiscal outlook against adverse changes in the Province’s revenue and expense.

Even in the face of a decline in the revenue outlook, the government is committed to balancing the budget by 2017–18, and will do so in a way that is both fiscally responsible and fair.

Ontario's Recovery Plan

(\$ Billions)

	Current Outlook	Medium-Term Outlook		Extended Outlook
	2014–15	2015–16	2016–17	2017–18
Revenue	118.4	124.2	129.0	134.5
Expense				
Programs	119.4	120.1	120.2	119.4
Interest on Debt	10.8	11.8	12.9	13.9
Total Expense	130.2	131.9	133.2	133.3
Reserve	0.7	1.2	1.2	1.2
Surplus/(Deficit)	(12.5)	(8.9)	(5.3)	-

Note: Numbers may not add due to rounding.

Economic Performance and Outlook

The outlook for Ontario's economy has evolved largely as expected at the time of the 2014 Budget. Growth is shifting away from a reliance on housing activity and household spending towards exports and productivity-enhancing business investment. This transition is expected to gain momentum as an improving global economy supports stronger, more balanced growth.

As part of developing Ontario's fiscal plan, the Ministry of Finance is forecasting real gross domestic product (GDP) growth of 1.9 per cent in 2014 and 2.4 per cent annually over the 2015 to 2017 period. This compares to a projection for real GDP growth in the 2014 Budget of 2.1 per cent in 2014, 2.5 per cent in both 2015 and 2016, and 2.6 per cent in 2017.

Ontario Economic Outlook

(Per Cent)

	2011	2012	2013	2014p	2015p	2016p	2017p
Real GDP Growth	2.6	1.7	1.3	1.9	2.4	2.4	2.4
Nominal GDP Growth	4.6	3.2	2.4	3.5	4.4	4.4	4.4
Employment Growth	1.8	0.8	1.4	0.8	1.3	1.4	1.5
CPI Inflation	3.1	1.4	1.0	2.1	2.0	2.0	2.0

p = Ontario Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

Within Ontario, elevated levels of household debt and the housing market remain key risks for the economy. However, Ontario's economy has shown signs of stronger momentum. Major indicators, including real GDP, exports and household consumption, have posted solid gains since the beginning of 2014. As well, Ontario's unemployment rate has declined to 6.5 per cent in October, down from 7.5 per cent in January 2014 and the lowest rate of unemployment since 2008. The recent decline in the Canadian dollar and oil prices will improve Ontario's competitive position and could result in even stronger growth for the Province.

Gains in exports and business investment will lead economic growth over the forecast period. Household spending will also rise moderately, in line with gains in household income.

Private-Sector Forecasts

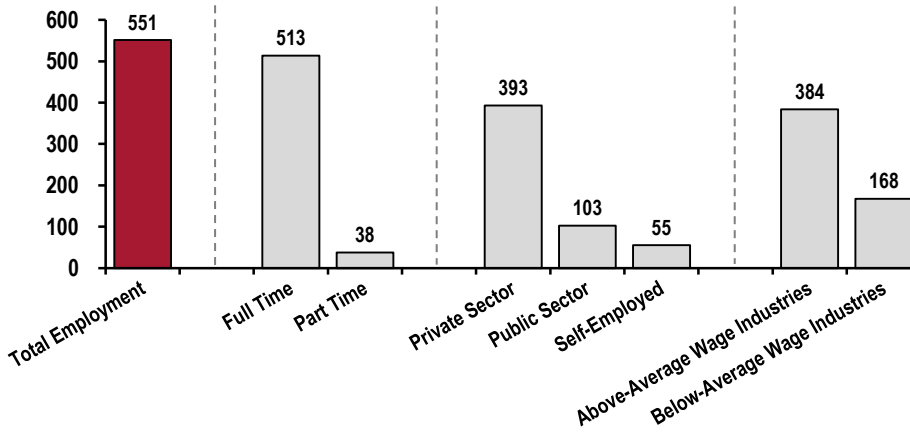
The Ministry of Finance consults with private-sector economists and tracks their forecasts to inform the government's planning assumptions. Additionally, in the process of preparing the 2014 Ontario Economic Outlook and Fiscal Review, the Minister of Finance met with private-sector economists to discuss their views on the economy. All private-sector economists are projecting continued growth for Ontario over the forecast horizon. On average, private-sector economists are projecting growth of 2.0 per cent in 2014 and 2.5 per cent annually in 2015 and 2016. For prudent fiscal planning, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecast.

Jobs

Employment has rebounded strongly from the recessionary low. Since June 2009, Ontario has gained over half a million net new jobs, mostly in full-time positions and in the private sector. In addition, the majority of the increase has been in industries paying above-average wages, including professional, scientific and technical services and construction. As of October 2014, Ontario had 285,500 more jobs than at the pre-recession peak in September 2008. Ontario's unemployment rate has also declined from a recessionary high of 9.4 per cent in June 2009 to 6.5 per cent in October 2014.

Employment Gains Concentrated in Full-Time, Private-Sector, Above-Average Wage Jobs

**Employment Gains since June 2009
(Thousands)**

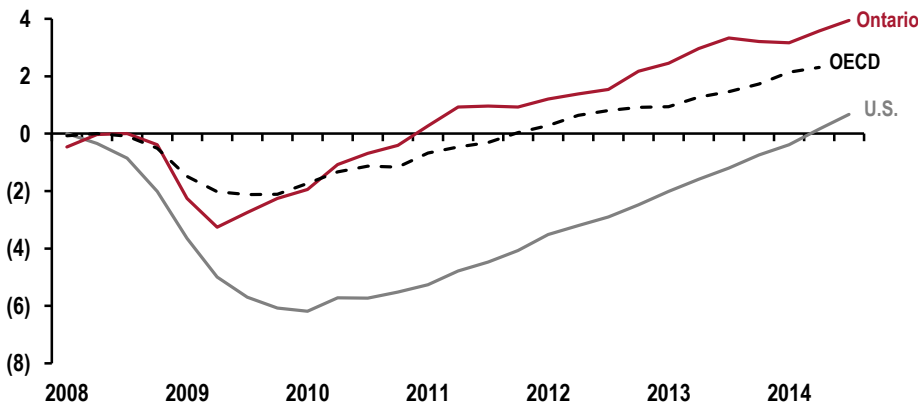


Notes: Above-average wage industries are defined as those with earnings above the average hourly earnings of all industries. Figures may not sum to total due to rounding.
Sources: Statistics Canada and Ontario Ministry of Finance.

The pace of job creation in Ontario since the end of the recession has been stronger than in most developed economies, including the United States and the average for member countries in the Organisation for Economic Co-operation and Development (OECD).

Ontario Job Recovery Ahead of U.S. and OECD Average

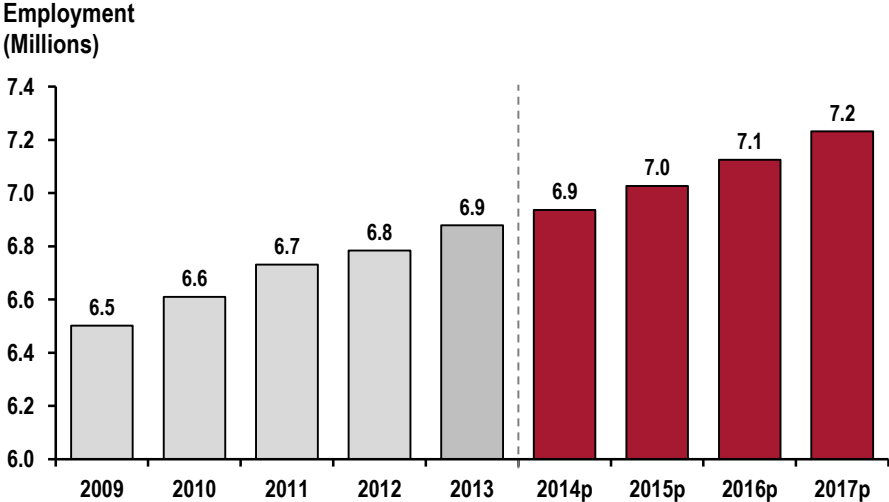
**Employment
(Per Cent Change from Peak)**



Note: Based on quarterly data. Pre-recession peak was 2008Q3 for Ontario, 2008Q2 for the OECD average and 2008Q1 for the U.S.
Sources: Statistics Canada, U.S. Bureau of Labor Statistics and OECD.

Ontario employment is expected to grow by 57,000 jobs in 2014. Employment growth is projected to pick up in 2015 alongside improving output growth and business confidence. Employment is forecast to rise by 90,000 jobs or 1.3 per cent in 2015, and then increase by an average of 103,000 jobs or 1.4 per cent per year over 2016 and 2017. Ontario's unemployment rate is expected to average 7.3 per cent in 2014 and fall steadily to an average annual rate of 6.3 per cent in 2017.

Employment Expected to Rise over the Medium Term



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

Debt

On October 2, 2014, Ontario successfully launched a Green Bond program, with an inaugural global Canadian dollar bond of \$500 million. There was strong demand for Ontario's first Green Bond, with orders approaching \$2.4 billion. Green investors in Canada as well as in the United States, Europe and Asia participated in the deal, bringing new international buyers to the Canadian dollar market.

Total debt, which represents all borrowing without offsetting financial assets, is projected to be \$310.5 billion as at March 31, 2015, compared to \$295.8 billion as at March 31, 2014.

Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be \$287.3 billion as at March 31, 2015, \$2.0 billion lower than forecast in the 2014 Budget. Net debt was \$267.2 billion as at March 31, 2014. Accumulated deficit is projected to be \$189.1 billion as at March 31, 2015, compared to \$189.8 billion forecast in the 2014 Budget. The projected difference of \$98.1 billion between net debt and accumulated deficit is due to net investments in capital assets.

The Province's net debt-to-GDP ratio is expected to peak in 2015–16 at 40.4 per cent, compared to the forecast peak of 40.8 per cent in the 2014 Budget, 40.4 per cent in the 2013 Budget and 41.3 per cent in the 2012 Budget.

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