



BACKGROUND

ONTARIO BUDGET • **2014**

MINISTRY of FINANCE

BUDGET 2014

Ontario's Economic Outlook and Fiscal Plan

May 1, 2014

Overview

Ontario's economy continues to grow at a moderate pace, contributing to new jobs and business opportunities. The global economic environment, however, remains challenging. That is why the government is moving forward with a 10-year plan for the economy focused on strategic investments in people, modern infrastructure, and a dynamic and innovative business climate. These actions will put the province and its people in a position to succeed by helping to spur economic growth and create the new jobs necessary to support eliminating the deficit.

- Since the recessionary low in June 2009, 459,500 net new jobs have been created in Ontario.*
- The pace of job creation in Ontario since June 2009 has been stronger than in most developed economies, including the United States, the average for member countries in the Organisation for Economic Co-operation and Development, and the rest of Canada combined.
- The deficit for 2013–14 is now estimated to be \$11.3 billion — a \$0.4 billion improvement compared with the 2013 Budget forecast.
- This marks the fifth year in a row that the Province is reporting a projected deficit lower than forecast.

Economic Outlook

Ontario's economy continues to grow at a moderate pace in a challenging global economic environment. Stronger U.S. growth and the decline in the value of the Canadian dollar will help boost Ontario exports and encourage stronger business investment. Household spending, which accounts for close to 60 per cent of the economy, is also expected to strengthen.

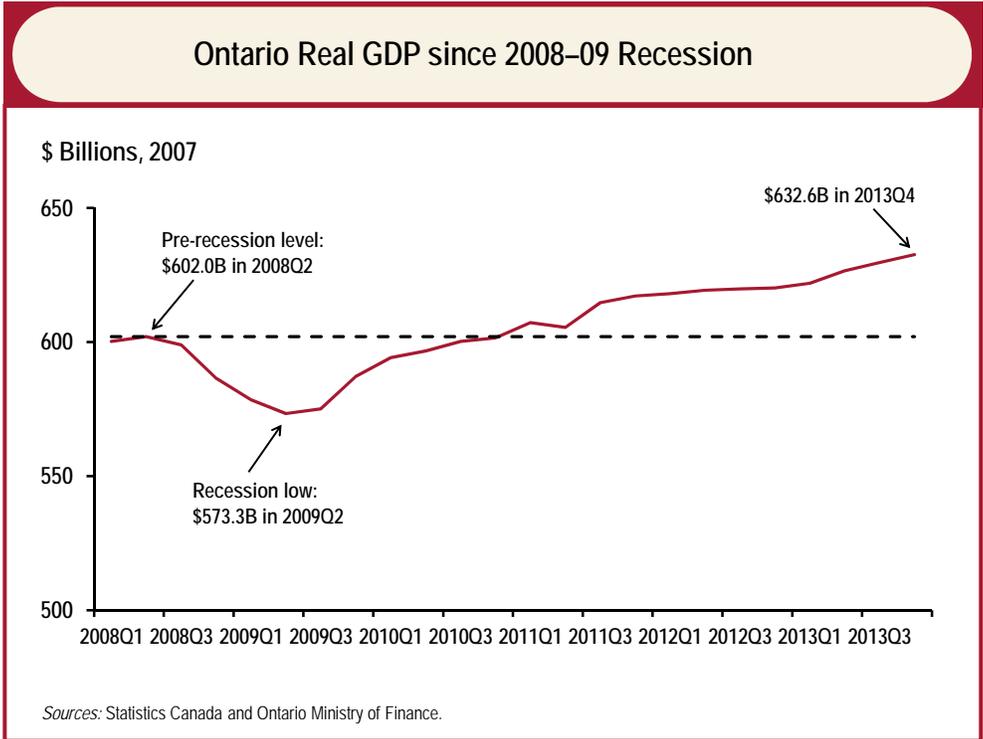
* Refer to "Building Ontario Up Today For A Brighter, Stronger Tomorrow" (July 14, 2014 Budget news release) for update.

The Ministry of Finance is forecasting growth in real gross domestic product (GDP) to double from 1.3 per cent in 2013 to 2.6 per cent by 2017, based on information available to April 8, 2014.

Ontario Economic Outlook							
(Per Cent)							
	2011	2012	2013	2014p	2015p	2016p	2017p
Real GDP Growth	2.2	1.3	1.3	2.1	2.5	2.5	2.6
Nominal GDP Growth	4.0	3.0	2.7	3.5	4.4	4.4	4.6
Employment Growth	1.8	0.8	1.4	1.1	1.5	1.6	1.4
CPI Inflation	3.1	1.4	1.0	1.5	1.9	2.0	2.0

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

The Province continues to take measures to strengthen the economy and support jobs by strategically investing in globally competitive sectors. Ontario’s economic recovery has been supported by household spending and residential construction, as well as by government investment in infrastructure and business investment in plant and equipment. Major indicators, including real GDP and employment, are now well above pre-recession levels. As of the fourth quarter of 2013, Ontario’s real GDP had increased by 10.3 per cent from the recessionary low and was 5.1 per cent above its pre-recession peak.



Global economic growth is set to improve in 2014, led by stronger growth in advanced economies. In particular, stronger economic activity in the U.S. is expected to be a substantial driver of global growth.

The Ministry of Finance is forecasting steady, continued growth in Ontario's economy, with real GDP increasing by 2.1 per cent in 2014, 2.5 per cent in 2015 and 2016, and 2.6 per cent in 2017. This compares to a forecast for real GDP growth at the time of the *2013 Budget* of 2.3 per cent in 2014 and 2.4 per cent in both 2015 and 2016.

Ontario Employment

Although moderate, the sustained growth of Ontario's economy has supported continued gains in employment. In 2013, Ontario employment increased by a solid 95,700 new jobs (+1.4 per cent), improving on a gain of 52,400 jobs in 2012. Last year, 64.7 per cent of jobs gained were full-time positions and 68.2 per cent were in the private sector.

The steady job growth resulted in Ontario's unemployment rate declining to 7.5 per cent in 2013, well below the recessionary high of 9.4 per cent in June 2009.

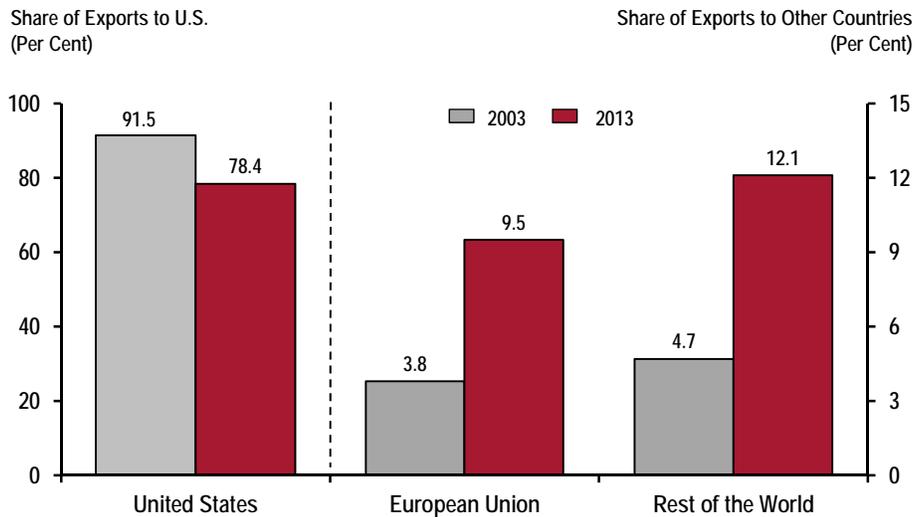
Since the recessionary low, 459,500 net new jobs have been created. A strong recovery of 463,400 full-time jobs accounted for all the employment gains since the end of the recession. The majority of the net new jobs were in the private sector and in industries paying above-average wages. As of March 2014, Ontario had 193,700 more jobs compared to the pre-recession peak in September 2008. Ontario's unemployment rate has declined from a recessionary high of 9.4 per cent in June 2009 to 7.3 per cent in March 2014.

Ontario's labour market will remain resilient, with steady employment gains expected to continue over the forecast period. Employment is forecast to grow by 1.1 per cent or 73,000 net new jobs in 2014, and increase by an average of 1.5 per cent per year over the 2015 to 2017 period. By 2017, Ontario will have created over one million net new jobs compared to 2003. The steady gains in employment will lower Ontario's unemployment rate from 7.5 per cent in 2013 to 6.2 per cent in 2017.

Ontario's Exports

The diversification of exports that is underway is beginning from a base that is dominated by goods exports to the United States. Ontario exports to its largest trading partner, the U.S., have declined by 16 per cent over the last 10 years. As a result, the share of Ontario's goods exports destined for the U.S. has fallen from 91.5 per cent in 2003 to 78.4 per cent in 2013. Over the same period, the share of Ontario exports to the European Union and other countries, including fast-growing emerging economies, has more than doubled.

Ontario Goods Exports Expanding to New Markets



Source: Statistics Canada.

The shift in Ontario's exports is expected to continue, supported by a growing world economy and new trade agreements. For example, the proposed trade agreement with the European Union will make Ontario companies more competitive in European markets — an economy with 500 million consumers and GDP of close to \$17 trillion. A resurgent U.S. economy and, in particular, a rebound in U.S. consumer demand, including motor vehicle sales, will also support stronger growth in Ontario's exports. Exports to fast-growing emerging market economies, such as China and India, are also expected to accelerate. Importantly, an increasing share of Ontario exports is integrated into global supply chains, which will help support export growth over the forecast period.

Fiscal Plan

The deficit for 2013–14 is now estimated to be \$11.3 billion — a \$0.4 billion improvement compared with the 2013 Budget forecast. Despite lower-than-projected revenue, the government continues to beat its fiscal targets as a result of its approach to managing growth in spending. This marks the fifth year in a row that Ontario is reporting both lower-than-projected program expense and a deficit lower than forecast. Ontario also has the lowest program spending per capita among Canadian provinces, and raises the lowest total revenue per capita, including funding from federal transfers, while still providing high-quality public services that support the well-being of Ontarians.

Recognizing that now is the time to be making strategic investments in people, modern infrastructure, and a dynamic and innovative business climate, the government is moving forward with a 10-year plan for the economy that will put the province and its people in a position to succeed by helping to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside an ongoing commitment to make responsible spending choices and make every dollar count, the government is projecting deficits of \$12.5 billion in 2014–15, \$8.9 billion in 2015–16 and \$5.3 billion in 2016–17. The government remains committed to balance the budget by 2017–18 in a way that is both fiscally responsible and fair, while protecting critical investments and public services for all Ontarians.

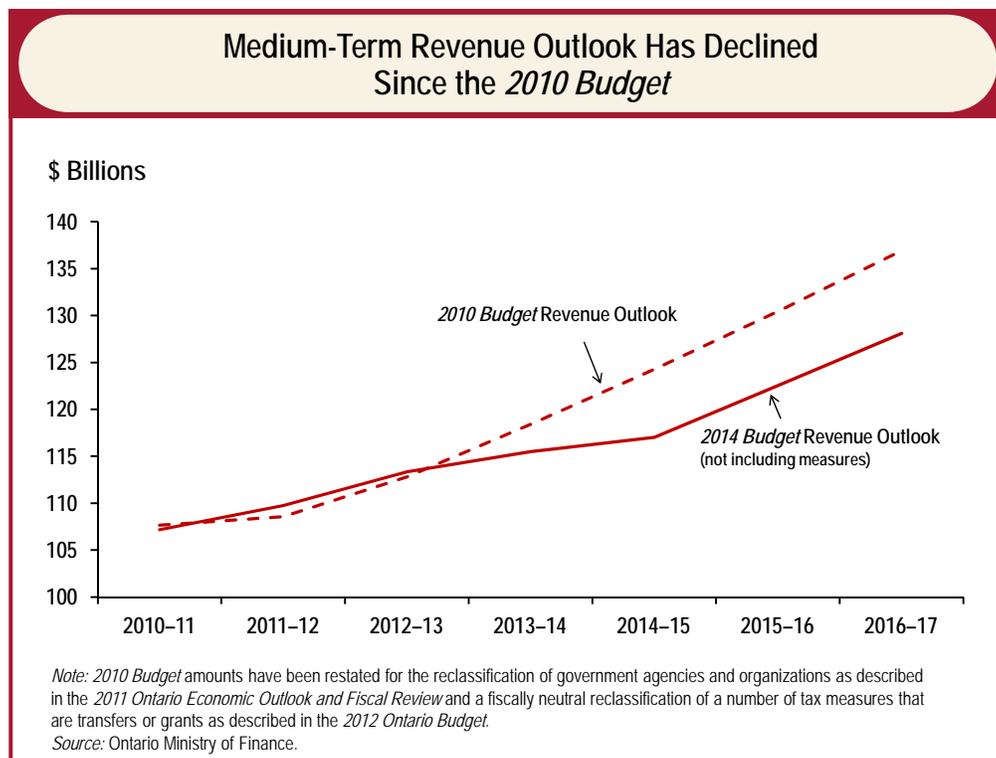
Revenue Outlook

Total revenue in 2013–14 is estimated to be \$115,653 million. This is \$1,192 million below the amount projected in the 2013 Budget. The decrease is largely due to lower taxation revenues.

Total revenue is projected to grow from \$115.7 billion to \$129.4 billion over the 2013–14 to 2016–17 period, resulting in an average annual growth rate of 3.8 per cent.

Since the *2010 Budget*, the medium-term outlook for revenues has declined, reflecting, in part, slower economic growth in a challenging global environment.

Before the impact of new revenue measures, the revenue outlook in the *2014 Budget* is \$2.9 billion below the 2010 Budget projection in 2013–14 and \$8.8 billion below by 2016–17.

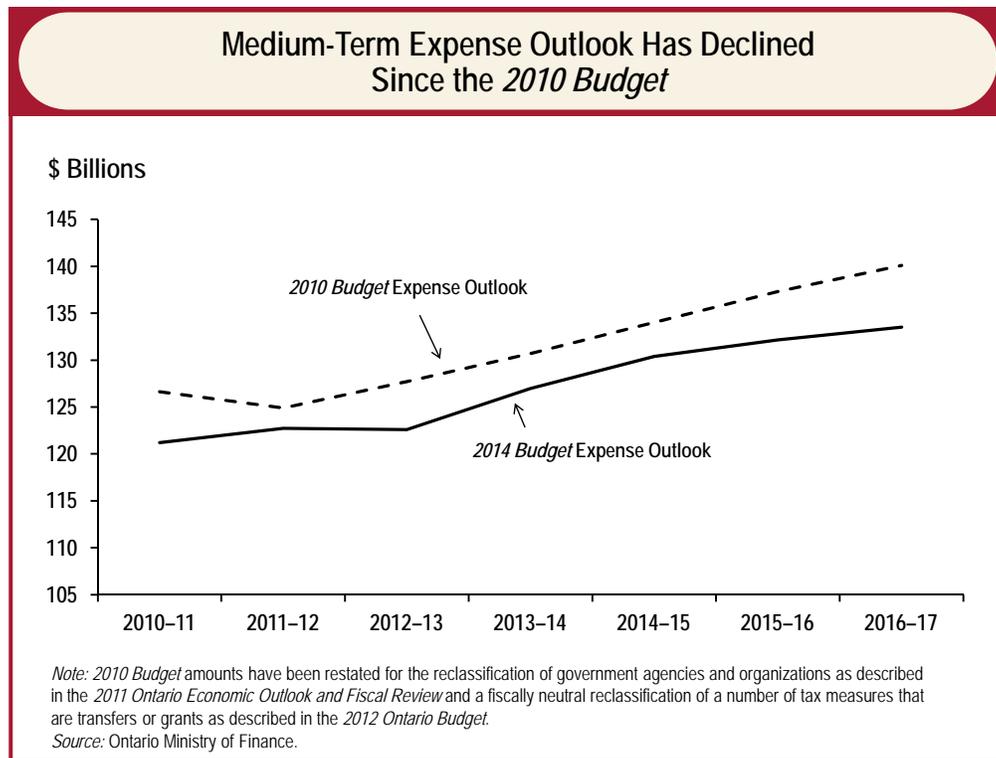


Expense Outlook

Total expense in 2013–14 is currently projected to be \$636 million lower than the 2013 Budget forecast. The revised projection is primarily the result of the government's ongoing efforts to make responsible spending choices and lower-than-projected interest on debt expense.

Program expense in 2013–14 is projected to be \$587 million lower compared with the 2013 Budget forecast due to managing growth in spending and actions related to recommendations by the government's expenditure review. As a result, 16 out of 25 ministries are projected to spend below their total expense allocation. Furthermore, provincial program spending has been lower than forecast every year since the *2009 Ontario Economic Outlook and Fiscal Review*.

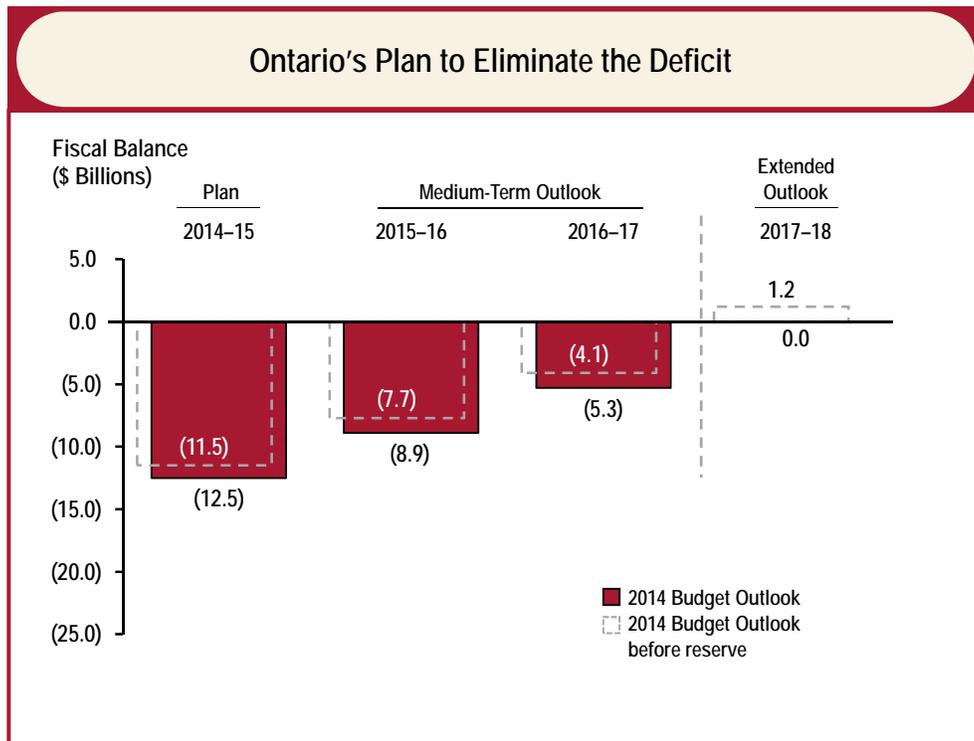
Total expense is projected to increase from \$127.0 billion to \$133.5 billion over the 2013–14 to 2016–17 period, or an average annual growth rate of 1.7 per cent. This increase reflects strategic investments as part of Ontario's 10-year plan for the economy and the government's commitment to foster a more secure future and fair society for all Ontarians. It also reflects a responsible approach to managing program spending growth. In fact, program expense will be held to an average of 1.1 per cent per year between 2013–14 and 2016–17, in line with the 1.4 per cent average annual growth in program spending between 2010–11 and 2013–14.



Eliminating the Deficit

In the *2013 Ontario Economic Outlook and Fiscal Review*, the government made its priority clear — that it will continue to protect investments in jobs, growth and families ahead of short-term targets. As a result, it is now projecting a deficit of \$12.5 billion in 2014–15, \$8.9 billion in 2015–16, and \$5.3 billion in 2016–17, and a return to a *balanced* budget in 2017–18.

Together with the strategic investments the government is making to support Ontario’s 10-year economic plan, it will also be taking deliberate actions to ensure it can continue to manage spending and enhance tax fairness for people and business. These combined measures will help meet or beat the fiscal targets outlined in this Budget, and eliminate the deficit by 2017–18.



These deliberate actions will together help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated:

- Responsible management of program spending
- Maintaining the integrity of provincial revenues
- Enhancing tax fairness for people and businesses
- Unlocking the value of provincial assets.

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