



2006
Ontario

**Economic Outlook
and Fiscal Review**

**The Honourable Greg Sorbara
Minister of Finance**

Statement

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INTRODUCTION

Mr. Speaker, I rise today to present the 2006 Ontario Economic Outlook and Fiscal Review and the Second Quarter Financial Results.

Those results indicate that we are on track to meet the fiscal plan for 2006–07.

At the same time, by next year the Province's treasury will begin to feel the impact of an economy that is growing more modestly than expected even a few months ago.

Since we came to office, Ontario has benefited from sustained economic growth.

That growth is no accident.

Rather it is rooted in our plan designed to enhance Ontario's long-term success.

It's a plan to build a stronger Ontario on the strength of our people — by investing in the health of our people, the education of our people and the competitiveness of our people.

It's a plan to ensure that Ontario succeeds over the long term.

It has been a busy three years.

Cast your mind back to 2003:

- when our public education system was failing our students
- when our public health care system was anything but healthy
- when public transit was an orphan of public policy
- when investment in postsecondary education and training lagged
- when provincial and municipal governments were at loggerheads
- when Ontario woke up to the reality of a \$5.5 billion deficit.

In simple terms, our mandate three years ago was to build a better Ontario.

Today, our school system has more teachers, smaller class sizes, higher test scores and improved school buildings.

Today, better primary care, community care and long-term care are improving the health of Ontarians.

long-term success

build a better
Ontario

comprehensive
energy plan

Today, hundreds of thousands of students are benefiting from our historic \$6.2 billion investment in postsecondary education.

Construction workers are building more than \$30 billion worth of public infrastructure projects through ReNew Ontario.

We are investing \$1.2 billion in new public transit, municipal roads and bridges.

We have a comprehensive energy plan that secures electricity supply and encourages conservation.

And today the finances of the Province are managed with the transparency and prudence required by a thriving democracy.

Ontarians know and appreciate the progress we've made.

The plan is working but there is much more to be done.

ECONOMIC OUTLOOK AND CHALLENGES

Mr. Speaker, there are business cycles in every healthy economy.

modest growth

Today, Ontario is in the midst of a period of somewhat more modest economic growth.

Just months ago, most economists expected Ontario to grow at a higher rate than what we predicted in our Budget.

Since then, several external factors have changed those expectations.

We've seen a slowing in the growth of the U.S. economy — Ontario's largest trading partner.

A slowdown there has an immediate effect here.

U.S. economy
slowing

The Canadian dollar hit a 28-year high in May of this year.

A high dollar challenges the ability of Ontario exporters to compete.

Oil prices reached a record high of more than \$78 US per barrel in July of this year.

That is tough on businesses across Ontario.

It is tough on Ontarians.

These and other factors have led private-sector forecasters to reduce their expectations of growth for Canada and Ontario in the near term.

To be clear, the economy is growing and creating jobs, and it will continue to do so.

But most experts predict slower growth in the short term.

On average, private-sector forecasters expect Ontario's real gross domestic product (GDP) growth to be 1.7 per cent in 2006, 2.1 per cent in 2007 and 3.1 per cent in 2008.

At the same time, the Bank of Canada has recently said that interest rates will remain unchanged for now.

And some economists predict lower interest rates over the next few months.

That would certainly be welcome in Ontario.

Mr. Speaker, our practice is to take into account the risks on the horizon and adjust our fiscal plans accordingly.

So, the Ministry of Finance now projects real GDP growth of 1.6 per cent in 2006.

That is down from 2.3 per cent projected in the 2006 Budget.

But by 2008, we expect a return to growth of 3.0 per cent — just up from the 2.9 per cent projected earlier this year.

In other words, this period of modest growth represents a bridge to a new cycle of expansion within an economy that is fundamentally strong.

Mr. Speaker, let's remember that economic forecasts are more than lines on a graph and percentages on a page.

Slower growth in the economy has a real impact on real people and the communities they live in.

Our responsibility is to take steps that will mitigate that impact.

Our ongoing strategic and long-term investments in people and the economy will continue.

welcome lower
interest rates

ongoing strategic
investments

real progress
on deficit

sustainable
balanced budgets

And in addition, we will focus on four key areas:

- services and programs to help job-threatened or laid-off workers
- fast-tracking a number of infrastructure projects to generate immediate economic activity and job creation
- encouraging interprovincial trade — including matching the industrial needs in Alberta with the industrial capacity in Ontario and exploring the merits of joining the Alberta–British Columbia trade agreement
- a new campaign to encourage Ontarians to vacation in Ontario.

This year, we have also accelerated a capital tax rate cut, agreed to a single corporate tax administration and proposed a new enhanced dividend tax credit — all to help create jobs and investment in Ontario.

FISCAL UPDATE

Mr. Speaker, the current period of more moderate economic growth will have an impact on our fiscal plan.

To be sure, we have made real progress on eliminating the \$5.5 billion structural deficit we inherited.

The Public Accounts for 2005–06 showed a modest surplus of about \$300 million last year.

In 2006–07, we continue to project a deficit of \$1.9 billion.

If the reserve is not required, the deficit would be about \$900 million.

However, for the time being, we are adjusting our medium-term forecasts set out in the March Budget.

If current economic trends stay the same, our 2007–08 deficit is projected to be \$2.2 billion — up from \$1.5 billion. If the reserve is not required, the deficit would be about \$700 million.

But by 2008–09, we expect a \$1.0 billion deficit — or about a \$500 million surplus if the reserve is not required.

The reserve protects the fiscal plan against unforeseen and adverse changes in the economy.

Let me be very clear, Mr. Speaker: we are determined to reach the firmer fiscal ground of sustainable balanced budgets.

Ontarians expect no less.

But slower economic growth means reduced revenues and greater spending pressures in the near term.

Achieving our goals will require even more prudence and greater discipline to manage expenditures and expectations.

FEDERAL PARTNERSHIP

Mr. Speaker, one of the greatest risks comes from the possibility that the federal government will not live up to its obligations to the people of Ontario and to our government.

According to a recent article by TD Bank Chief Economist Don Drummond, “The net federal take from Ontario represents a huge fiscal drag, and that makes it difficult for the Ontario economy to compete”¹

Premier McGuinty fought this battle on behalf of Ontarians when he negotiated the \$6.9 billion Canada–Ontario Agreement.

The Agreement was intended to help address the unfair gap between what Ontarians send to Ottawa and what they receive back.

Prime Minister Harper endorsed the Agreement, but so far, his government has not honoured it.

We expect the federal government to keep its word.

Let me be specific. We look forward to:

- full funding of the Canada–Ontario Agreement
- partnership in major Ontario infrastructure projects including public transit and the North America Gateway
- addressing the inequities in the distribution of the Canada Health Transfer (CHT) and Canada Social Transfer (CST)
- implementation of the Labour Market Partnership Agreement to provide training and employment assistance

¹ Don Drummond, “What a Tangled Web We Weave,” *Policy Options* 27 (September 2006), No. 7: 78–83.

Canada–Ontario
Agreement

addressing
inequities

our investments
made a difference

- employment insurance rules that treat Ontarians as fairly as workers in other parts of Canada; on average, unemployed Ontarians receive \$3,600 less in Employment Insurance regular benefits than unemployed people in the rest of Canada.

We invite the people of Ontario to join us as we continue to press the federal government to honour its commitments to our government and fulfil its responsibilities to Ontarians.

Anything less is just not good enough.

CONCLUSION

Mr. Speaker, the Ontario economy has performed well.

It has created more than 250,000 new jobs in the last three years.

Our investments in health care, in postsecondary education and in infrastructure have made a real difference to Ontarians.

But we are facing an economy that is growing at a slower rate.

That's why we've taken action and why we will continue our prudent and disciplined fiscal approach.

That's why we will continue to insist that the federal government treat Ontarians fairly.

As we prepare our plan for next year's Budget and as we shape our strategy for the years to come, I want to hear from Ontarians from every walk of life and from every part of the province.

I want to hear from you because we have more to do and we can do it more effectively if we do it together.

Together we can unlock the full potential of this province — and of the 12.5 million people for whom this province is home.

Thank you, Mr. Speaker.