ANNEX I

ONTARIO'S ECONOMIC AND REVENUE OUTLOOK

SECTION I: STRENGTHENING ONTARIO'S ECONOMIC ADVANTAGE

Ontario's economy is fundamentally strong and has been resilient in the face of adverse external economic forces. In the first half of 2006, economic growth was supported by domestic demand, with consumer spending and business investment growing solidly. Ontario has created 254,100 net new jobs since October 2003, and the unemployment rate has fallen to an average of 6.4 per cent so far this year — the lowest in five years.

However, record-high oil prices, the stronger Canadian dollar and a weaker outlook for economic growth in the United States — Ontario's largest trading partner — have led to slower projected economic growth than anticipated in the March 2006 Budget. Still, growth is expected to strengthen over the medium term and private-sector forecasters expect Ontario to grow faster than most G7 economies over the 2006 to 2009 period.

Over the past three years, the government has managed the Province's finances prudently, while making key investments in health care, education and infrastructure. This economic strategy has prepared the Province well to weather this temporary period of slower economic growth.

ONTARIO'S ECONOMIC PLAN — BUILDING PROSPERITY

Today's increased globalization means that Ontario faces a more challenging and competitive environment than ever before. Ontario's future prosperity depends largely on its ability to continue to adapt, innovate and strengthen its competitive advantage.

Ontario's strength is due, in large part, to the diversity of its economy and of its people. The government's economic plan is to strengthen the province's economic advantage and build opportunity through investments in infrastructure, electricity, education, research and innovation, and key economic sectors, while maintaining a competitive tax and business environment.

Sound fiscal management is a vital part of the government's plan for sustainable prosperity. A strong fiscal position increases private-sector confidence, which in turn stimulates private-sector investment in Ontario, leading to stronger economic growth.

The government's economic plan focuses on several important components:

- renewing Ontario's infrastructure
- investing in reliable electricity supply
- supporting research and innovation
- building a highly educated and skilled workforce
- ensuring a competitive economic environment
- strengthening key sectors and regions.

RENEWING ONTARIO'S INFRASTRUCTURE

A crucial component of Ontario's economic plan is renewing the province's infrastructure. The 2005 Budget announced that, over the following five years, the government and its partners will invest more than $30 billion in public infrastructure under the ReNew Ontario plan. As well, in the 2006 Budget, the government announced Move Ontario, an additional $1.2 billion one-time investment in public transit, municipal roads and bridges.

The government's infrastructure projects, particularly in transit, health and education, will improve the productivity and long-term growth prospects of Ontario's economy, and during the construction period they will support close to half a million jobs over the next several years.

Infrastructure Investment for Economic Prosperity

Public infrastructure is vital to Ontario job creation and economic prosperity, quality of life and delivery of public services. The government is investing to renew and expand Ontario's infrastructure to provide a solid foundation for growth with:

- a five-year ReNew Ontario plan to invest more than $30 billion in infrastructure
- a $1.2 billion investment in transportation infrastructure, including $838 million in new funding for public transit in the Greater Toronto Area (GTA) and $400 million in new funding for Ontario's roads and bridges in municipalities primarily outside the GTA, with special emphasis on rural and northern communities
- more than 100 major hospital improvement and modernization projects across Ontario; 36 long-term care (LTC) expansion and redevelopment projects completed; and, as announced in June 2006, more than $1 billion in additional support for hospital construction
- more than 3,000 urgent education repair and construction projects; creating 14,000 new graduate school spaces across the province by 2009–10; and increasing first-year enrolment at Ontario medical schools by 23 per cent by opening new campuses and creating new spaces
- a new five-year, $3.4 billion Southern Ontario Highways Program to support key transportation and trade corridors in southern Ontario, adding 130 kilometres of highway and 64 bridges, and repairing 1,600 kilometres of highway and 200 bridges
- a $1.8 billion Northern Ontario Highways Strategy, expanding the northern highway system by more than 60 kilometres and over 50 bridges, and repairing 2,000 kilometres of highway and 200 bridges over five years
- more than $1.6 billion of provincial gas tax revenues in municipal transit systems by 2010 to strengthen public transit and increase ridership in Ontario
- up to $900 million, together with the federal government and municipal partners, through the Canada–Ontario Municipal Rural Infrastructure Fund (COMRIF) to upgrade critical local infrastructure such as roads and bridges and water and wastewater systems
- the federal government and other partners, more than $800 million for Canada–U.S. border infrastructure improvements in Windsor, Niagara, Sarnia and Sault Ste. Marie to enhance the flow of trade with Ontario's largest trading partner
- fast-tracking of a number of infrastructure projects, generating immediate economic activity and boosting job creation.

Reliable Electricity Supply and Price Stability

Reliable electricity supply and price stability, which keep Ontario's economy competitive and benefit all consumers, are central to the government's plan. The government has taken action to establish a 20-year plan for sustainable, reliable clean energy in the future.

Investing in Ontario's Electricity Infrastructure and Improving Price Stability

Investments in Ontario's electricity infrastructure are essential to supporting and enhancing Ontario's economic competitiveness and promoting a more prosperous Ontario. Predictable and stable pricing benefits all consumers.

- Since October 2003, more than 3,000 megawatts of power have come online — enough power for about 1.8 million homes.
- About 8,500 megawatts of electricity supply projects are underway for new and refurbished generation, and conservation and demand management, adding enough power for about 3.7 million homes over the next five years.
- About $11 billion in investments are being made in the projects for new and refurbished generation. At the peak of construction activity, over 5,000 workers will be directly employed at these projects, plus many thousands more working in factories to supply new materials and equipment to them.
- The government has a target to double by 2025 the province's renewable energy sources, including wind, solar and water, to 15,700 megawatts, making Ontario a leader in clean energy.
- The government has initiated up to $2 billion of spending on conservation programs over the next several years. To promote conservation, the government is also moving forward on the installation of 800,000 smart meters in Ontario homes and businesses by 2007, and all homes and businesses by 2010.
- To promote reliable delivery of electricity, Hydro One is planning to invest $755 million in 2006, and more than $1.2 billion in each of 2007 and 2008, to sustain, expand and reinforce its transmission and distribution systems.
- The government is also promoting consolidation efficiencies in the electricity distribution sector through a two-year exemption from the electricity transfer tax for sales of electricity assets between publicly owned utilities, as announced on October 17, 2006. Previous transfer tax exemptions have led to efficiency savings of 10 to 30 per cent in operations, maintenance and administration costs.
- Effective April 1, 2005, the government set an average price of 4.5 cents per kilowatt hour (¢/kWh) on the output of Ontario Power Generation's (OPG) regulated assets, which produce about 40 per cent of Ontario's electricity generation.
- The government extended and adjusted the transitional revenue limit on most of the output from the rest of OPG's assets:
  - 4.6¢/kWh from May 1, 2006 to April 30, 2007
  - 4.7¢/kWh from May 1, 2007 to April 30, 2008
  - 4.8¢/kWh from May 1, 2008 to April 30, 2009.
- The government has also established a regulated price plan (RPP) for residential and small business consumers, with prices set periodically by the Ontario Energy Board (OEB). On October 11, 2006, the OEB announced that RPP prices would be reduced by 0.3¢/kWh, effective November 1, 2006.

Research and Innovation

Ontario's highly skilled and diverse workforce, competitive taxes, research and development incentives, and excellent infrastructure all contribute to the province's positive environment for innovation. In fact, half of Canada's industrial research and development is carried out in this province.

Investing in Research and Innovation

Together with researchers, universities and entrepreneurs, the government is expanding research, commercialization and outreach programs. The government's $1.7 billion investment over the five years to 2009–10 includes:

- $550 million for the Ontario Research Fund to support research excellence and infrastructure
- $160 million for the Ideas to Market Strategy to move discoveries rapidly from lab to marketplace
- $286 million for the Ontario Cancer Research Network and Ontario Institute for Cancer Research
- $100 million for the Perimeter Institute for Theoretical Physics and Institute for Quantum Computing in Waterloo to help position Ontario for the next revolution in high-speed computing
- $42 million for new awards to recognize and support the achievements of Ontario's researchers and innovators
- $26 million for the development and expansion of commercialization centres in Hamilton and Toronto
- nearly $4 million for youth science and technology outreach.

A Highly Educated and Skilled Workforce

One of Ontario's most important competitive advantages is its highly skilled and well-educated workforce. The Province is investing in the skills and knowledge of its people through Reaching Higher, its historic $6.2 billion investment in postsecondary education, which will provide higher quality and more accountability and opportunity, including initiatives for those now underrepresented in higher education. As well, the creation of a $2.1 billion Jobs and Skills Renewal Strategy supports thousands of new apprenticeships and programs to fully utilize the skills of Ontarians. The Province continues to call on the federal government to honour the Labour Market Partnership Agreement, which funds a portion of this strategy.

Investing in People

A key driver of a strong economy and job opportunity is a well-educated and highly skilled workforce. The Ontario Government has invested to strengthen the competitive advantage found in its people by:

Creating prosperity through postsecondary education:

- increasing full-time enrolment by 86,000 students
- doubling student assistance to make education affordable, benefiting 145,000 students this year
- limiting student debt to $7,000 per completed year of study; bringing back upfront grants; and limiting average tuition increases
- committing $55 million by 2009–10 to create more opportunities for Aboriginal peoples, persons with disabilities, francophones and students first in their families to pursue higher education
- increasing operating funding by 35 per cent by 2009–10 to hire new faculty, improve student services and enhance libraries, laboratories and equipment.

Modernizing the training and employment system:

- $1.2 billion in new funding annually by 2009–10 provided through three labour market and immigration agreements with the federal government
- building on these new resources, a $2.1 billion Jobs and Skills Renewal Strategy to help students pursue skilled trades, create training incentives for employers and help workers upgrade their skills
- over $100 million annually for apprenticeship; on track to meet the annual goal of 26,000 new registered apprentices by 2007–08
- an Apprenticeship Training Tax Credit (ATTC) to encourage businesses to create apprenticeship opportunities
- $15 million by 2007–08 to expand Academic Upgrading for early school leavers
- $52 million this year to help 56,000 young people get summer jobs
- up to $45 million in a Youth Challenge Fund and a $28 million Youth Opportunities Strategy to help at-risk youth succeed
- providing new funding for services and programs to help job-threatened or laid-off workers find new jobs.

Creating better opportunity for new Canadians:

- introduced on June 8, 2006, Bill 124, the Fair Access to Regulated Professions Act, to ensure internationally trained individuals are given fair and transparent access to Ontario's regulated professions
- over $130 million in 2006–07 to help newcomers settle, improve their language skills and find employment
- $34 million for 60 bridge-training programs, helping more than 6,000 newcomers
- positions for internationally trained medical graduates doubled to 200.

A COMPETITIVE ECONOMIC ENVIRONMENT

Ontario's economic plan focuses on ensuring taxes are competitive. Strong capital investment by the business sector is a major source of long-term productivity growth, which leads to higher living standards.

Creating a More Competitive Tax Climate for Business

The government has announced several measures to further support job creation and enhance Ontario's competitiveness including:

- A five per cent capital tax rate cut beginning in 2007 and a legislated plan to eliminate Ontario capital tax entirely by 2012.
- A proposed enhanced dividend tax credit that would provide $40 million this year and up to $120 million on full implementation to encourage investment in Ontario corporations and to provide better integration of the corporate and personal income tax systems.
- A single corporate tax administration that would allow businesses to spend less time on paperwork, and more time creating jobs and fostering a strong, prosperous economy. The benefits, when fully implemented, will include:
    - up to $100 million annually in compliance cost savings from one tax form, one tax administration and one set of tax rules
    - a $90 million annual income tax cut for Ontario businesses, due to corporate income tax harmonization, that will primarily benefit the manufacturing, wholesale and retail trade, and film production sectors
    - continued Ontario support for research and development (R&D) and innovation with a 4.5 per cent non-refundable tax credit to replace the current R&D tax deduction
    - continued Ontario income tax support for the mining sector.

(See Annex IV, *Corporate Tax Harmonization,* for details.)

As part of its plan, Ontario is modernizing its business and financial regulation to maintain an attractive business climate, stay ahead of global markets and build on Ontario's economic advantage. A competitive regulatory framework protects consumers and investors and is also key to a positive business climate and a growing economy.

Providing excellent, publicly funded health care is another important part of Ontario's economic advantage because it lowers costs to business and supports the productivity of Ontario's workforce.

Modern Business and Financial Services Regulation

To help support a growth-oriented business environment, the Ontario Government:

- is working with its partners to offer a wide range of government information relevant to business through ServiceOntario. It has made it easier to access important information, government forms and services, including searching, registering and changing information. There are also links to industry-specific information and other support services for Ontario businesses.
- is modernizing its corporate and commercial law framework to help businesses compete in the global economy.
- is updating Ontario's laws on the transfer of securities that are held in electronic form. The Canadian Capital Markets Association reports that the benefit of improved trade processing, which it estimated at $140 million per year across Canada, could be at risk without these changes.
- is streamlining securities regulation by working to expand harmonized approaches across jurisdictions and is engaging other jurisdictions to move to a common securities regulator.
- is protecting investors through civil liability for secondary-market disclosure, more robust corporate and investment fund governance and enhanced financial reporting.
- is proposing amendments to the *Credit Union and Caisses Populaires Act, 1994*, and has introduced a bill to replace the *Mortgage Brokers Act*.
- has introduced legislation to allow Ontario's farm mutual insurance companies, and other provincially incorporated insurers, to operate under investment and corporate governance rules similar to those at the federal level.
- is harmonizing the Province's air emissions reporting standards with federal regulations to save time and money for businesses.

Key Sectors and Regions

The Ontario economy is continually adapting to both transitory and longer-lasting changes in the external environment. In addition, various industries and regions face unique issues.

Ontario's regions can achieve the best possible outcomes and the highest standard of living by being adaptable and by building on the strength of Ontario's highly educated and skilled workforce. Government, working with industry and community groups, can help ensure that the best possible long-term outcomes are achieved.

STRONG, SUSTAINABLE COMMUNITIES

A strong economy and strong communities reinforce each other in generating wealth and opportunities. Together, they are key to a sustainable and responsive economy that is innovative and competitive and supports a high quality of life.

The government has demonstrated its commitment to building strong, sustainable communities through such initiatives as the *Places to Grow Act*, the Green Belt Plan and *Planning Act* reform. These advances in planning complement substantial investments in infrastructure and Ontario's ongoing efforts to enhance effective partnerships with other levels of government.

Building Effective Partnerships

Municipal Act, *2001* Reform

- Introducing amendments to the *Municipal Act, 2001*, that, if passed, will strike a balance of appropriate powers and accountability for all municipalities, while recognizing their unique needs.

Stronger City of Toronto for a Stronger Ontario Act

- Realizing a new vision for Toronto — an economically strong, socially and culturally vibrant, and environmentally sustainable city — through the *Stronger City of Toronto for a Stronger Ontario Act*. The government is the first to recognize Toronto in legislation as a responsible, accountable government with broad permissive powers.

Provincial–Municipal Fiscal and Service-Delivery Review

- Embarking with the municipal sector on a review of the provincial–municipal relationship. The review will be broad in scope, and include funding, service delivery and service governance. Its aim is to develop long-term, sustainable options for both levels of government.

AGRICULTURE AND RURAL ONTARIO

Ontario has the largest agriculture sector of any province, with sales of $8.2 billion in 2005. The government recognizes that Ontario farmers face challenges from a variety of external factors — low international commodity prices, the stronger Canada–U.S. exchange rate and changing consumer preferences. The Province is working to maintain a strong, sustainable farm sector and to promote innovation for success in the future. Ontario provides significant support to the province's farmers through a number of important measures.

Building Opportunity for Farmers and Rural Ontarians

On September 19, 2006, the Premier announced $185 million for farmers and rural Ontario:

- $110 million directly to farmers for transitional funding while moving to a better method of valuing inventory under the Canadian Agricultural Income Stabilization (CAIS) program and to continue the Self-Directed Risk Management program
- $75 million for investments in rural infrastructure and economic development.

Other important Ontario initiatives to support farmers include:

- the new Premier's Award for Agri-Food Innovation Excellence — a range of awards will be given, with the Premier's Award and the Minister's Award to be presented at the Premier's 2007 Agri-Food Summit
- $25 million in 2005–06 for the University of Guelph's animal health laboratory, $10 million in 2005–06 for an Ontario livestock and poultry traceability system, and $1 million in 2005–06 for advanced research into hardier grape varietals
- $265 million in 2005 from the retail sales tax exemption for farm products and goods used in agriculture
- $300 million in 2006 from the farm property class tax-rate reduction
- over $800 million from 2003–04 to 2005–06 for farm income stabilization and support
- over $40 million in tax relief from the fuel tax exemption for coloured fuel used in farm equipment
- making an initial $7 million available immediately to help farmers and small rural businesses take early action to protect drinking water.

NORTHERN ONTARIO

The coming years hold unique opportunities and challenges for the economy of northern Ontario. The government is working with the people of this region to prepare for these challenges and build a prosperous future. It is also supporting industries, such as mining and forest products, investing in critical infrastructure and fostering the growth of new companies.

Supporting New Opportunities and New Ideas in Northern Ontario

The government is investing in emerging sectors and infrastructure projects in transportation, health care and education by:

- establishing a Bio-Energy Research Centre in Atikokan
- investing $1.8 billion over five years under the Northern Ontario Highway Strategy and $56 million in immediate investments in roads and bridges under Move Ontario
- opening a new Northern Ontario School of Medicine in 2005, with campuses in Thunder Bay and Sudbury.

The government is implementing the Northern Prosperity Plan through:

- the Go North Investor Program to help raise the international profile of northern Ontario and its communities as a competitive investment location
- a $60 million annual contribution to the Northern Ontario Heritage Fund Corporation (NOHFC) whose refocused mandate promotes private-sector job creation, while continuing to invest in public infrastructure projects that support economic development. Young northerners are taking advantage of NOHFC programs for internships, co-op placements and support for entrepreneurs
- four Northern Development Councils to engage northerners on issues of importance to them.

Forest Products Sector Investments

Since June 2005, Ontario has announced $900 million in assistance available over five years for the forest sector to encourage greater efficiency, higher-value production and reduced delivered wood costs:

- $350 million over five years in loan guarantees to stimulate new investments in value-added manufacturing, energy conservation and energy co-generation
- $150 million over three years in Forest Sector Prosperity Fund grants to leverage new capital investments — support was recently announced for investments in forest product facilities in the communities of Earlton, Sault Ste. Marie and Thunder Bay
- $75 million annually for the construction and maintenance costs of primary and secondary forest access roads
- $70 million in a one-time stumpage fee refund for 2005–06
- $10 million annually by 2007–08 to enhance the Forest Resource Inventory
- $3 million annually for three years to reduce timber fees for poplar veneer and white birch
- $1 million annually starting in 2006–07 for an Ontario Wood Promotion program to enhance value-added manufacturing.

The government has so far received 35 applications for funding from the prosperity fund and loan guarantee program that, if approved, would result in more than $1.2 billion in new investment in Ontario's forest products sector.

The recent agreement to streamline administration of Ontario's corporate tax system will also foster a stronger forestry sector through reduced compliance costs and continued support of R&D and innovation.

Strong Growth Continues in Ontario's Mining Sector

Ontario has a well-established and dynamic mining industry that is recognized throughout the world. Supported by high commodities prices, the industry's mineral production value exceeded $7 billion in 2005. The mining sector employed over 23,000 people in Ontario in 2005.

Ontario's mining sector continues to prosper and attract foreign investment. For example, De Beers Canada has started construction towards opening Ontario's first diamond mine close to Attawapiskat in 2008.

Through new initiatives like Ontario's Mineral Development Strategy, the Ontario Government is working with the mining sector, stakeholders and Aboriginal partners on a strategy to promote long-term sustainability and enhance the mineral sector's global competitiveness. The strength of Ontario's mining sector has helped the Toronto Stock Exchange (TSX) grow into a world leader in mining finance.

In the 2006 Budget, the government announced $10 million to support the launch of the new Centre for Excellence in Mining Innovation at Sudbury's Laurentian University, and the 2005 Budget announced $15 million for geological mapping in the Far North.

Tax support for the mining sector will continue under the recent agreement to streamline administration of Ontario's corporate tax system, which will also foster a stronger mining sector by reducing compliance costs.

TOURISM

Ontario's tourism industry employed more than 257,000 people in September 2006, accounting for four per cent of Ontario's total employment. In 2005, the tourism industry contributed $11 billion (or 2.5 per cent) to Ontario's GDP. From 1995 to 2005, tourism employment grew by 24 per cent in Ontario, compared with 23 per cent in the rest of Canada and 16 per cent in the United States.

Support to the Tourism Industry

In the 2005 Budget, the government announced $5 million in marketing efforts to promote Ontario's cultural facilities. In the 2006 Budget, the Province announced a number of new initiatives to benefit the tourism industry:

- $49 million to support capital construction projects for Ontario's major cultural agencies and attractions: the Royal Ontario Museum, Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art
- $10 million to the Ontario Heritage Trust
- $1 million for the development and production of plans for the 2007 Toronto International Arts Festival.

The completion of Toronto's cultural renaissance by 2008 will also boost tourism in Ontario.

The government will introduce a new campaign to encourage Ontarians to travel and vacation in Ontario, boosting economic activity and tourism-related jobs.

MANUFACTURING

A number of policies and investments aim to strengthen Ontario's manufacturing capacity and enhance opportunities for other sectors in an evolving economy. They help Ontario's diversified economy meet the challenges and opportunities that arise in world markets.

Investing to Attract High-value Jobs

Ontario's future prosperity is closely linked to the growth of high-value jobs in all sectors of its economy. To attract these jobs to the province, the government:

- introduced the $500 million Advanced Manufacturing Investment Strategy to encourage companies to invest in leading-edge technologies and processes.

Maintaining Ontario's Position as North America's Auto Leader

Ontario's strategic investments, including the $500 million Ontario Automotive Investment Strategy, have attracted about $7 billion in investments supporting highly skilled, high-paying jobs:

- General Motors: Oshawa, St. Catharines, Ingersoll — $2.5 billion
- Linamar: Guelph — $1.1 billion
- Toyota: Woodstock — $1.1 billion (first Ontario greenfield auto plant in almost 20 years)
- Ford: Oakville — $1 billion
- DaimlerChrysler: Windsor, Brampton — $768 million
- Navistar: Chatham, Windsor —$270 million
- Honda: Alliston — $154 million
- Nemak: Windsor — $100 million
- Valiant: Windsor — $93 million.

The auto sector continues to evolve and restructure. Ontario's positive investment climate is helping attract automakers to produce new models such as the redesigned Camaro in Oshawa.

Key Tax Measures That Benefit Ontario's Manufacturing Sector

- a corporate income tax (CIT) rate that is two percentage points below the general CIT rate
- a five per cent rate cut in Ontario's capital tax beginning in 2007 and a legislated plan to eliminate the capital tax entirely by 2012
- doubling of the non-capital loss carry-forward period from 10 to 20 years
- a proposed enhanced dividend tax credit to encourage Ontarians to invest in Canadian corporations, including manufacturers
- a 25 to 30 per cent refundable tax credit for businesses hiring apprentices in industrial, construction, motive power and certain service trades
- corporate tax incentives for research and development
- a retail sales tax (RST) exemption for production machinery and equipment
- an RST exemption for reinforced concrete used to make production machinery and equipment
- an RST exemption for materials incorporated into goods for sale
- an Employer Health Tax (EHT) exemption for small businesses, including manufacturers.

INVESTING IN JOBS AND ECONOMIC GROWTH

Over the past three years, the government has managed the Province's finances prudently, while making key investments in health care, education and infrastructure. This economic strategy has laid the foundations for long-term competitiveness.

Building on this strategy, and to assist the workers and communities most affected by slower growth in the economy, the government is allocating a portion of the proceeds of the Teranet initial public offering (IPO) to promote additional job creation while strengthening the social and economic foundations for long-term prosperity.

A Strategy to Further Boost Jobs and Economic Renewal

The government will boost jobs and economic growth through a renewed focus on four key areas:

Focused Training and Job Services

The government will provide new funding for services and programs to help job-threatened and laid-off workers find new jobs, including:

- sending special teams into communities where plants have closed to help develop re-employment action plans for affected workers
- customized training, skills upgrading, job placement and job relocation services
- workplace literacy programs to help workers learn new processes and technologies
- helping laid-off apprentices find new placements and accelerating their in-school learning.

Fast-Tracking Infrastructure Projects

The government will fast-track a number of infrastructure projects, generating immediate economic activity and boosting job creation.

Encouraging Ontario Tourism

The government will introduce a new campaign to encourage Ontarians to travel and vacation in Ontario, boosting economic activity and tourism-related jobs.

Strengthening Interprovincial Trade

The government will strengthen interprovincial trade links to match industrial needs in Alberta with the industrial capacity in Ontario and will explore the merits of joining the Alberta–British Columbia trade agreement.

SECTION II: ONTARIO'S ECONOMIC OUTLOOK

This section addresses Ontario's economic outlook for 2006 to 2009.[1] The economic forecast underlying the fiscal plan is prudent, taking into account external developments and continuing risks. The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.6 per cent for 2006, 2.0 per cent in 2007, 3.0 per cent in 2008 and 3.1 per cent in 2009. These projections are below the average private-sector forecast in every year. The economic outlook supports the forecast for taxation revenue growth in 2006–07 and the following two years outlined later in this Annex.

Over the medium term, Ontario's economic growth could be better than current private-sector forecasters anticipate. The factors that will help bring about stronger growth are taking shape. Recently, energy prices have fallen faster than had been expected, boosting consumer and business confidence. If prices continue to decline, this will increase discretionary consumer spending while lowering business costs. Interest rates are low by historical standards and central banks, including the Bank of Canada and U.S. Federal Reserve, could cut interest rates to stimulate growth. The Canadian dollar has weakened recently and could fall below current projections, improving Ontario's competitive position and providing much-needed relief to Ontario's export-oriented manufacturing sector.

ONTARIO ECONOMIC OUTLOOK (PER CENT)

	2004	2005	2006p	2007p	2008p	2009p
Real GDP Growth	3.1	2.8	1.6	2.0	3.0	3.1
Nominal GDP Growth	5.2	4.1	3.0	3.7	4.7	4.8
Unemployment Rate	6.8	6.6	6.3	6.3	6.2	6.1
CPI Inflation	1.9	2.2	1.9	1.6	1.8	1.8

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

[1] This document is based on information available as of October 20, 2006.

In order to establish its fiscal plans, the government consults with private-sector forecasters in developing its economic projections. As part of the *Fiscal Transparency and Accountability Act 2004*, the Minister of Finance has established the Ontario Economic Forecast Council to provide advice on economic projections and assumptions. The council members are Peter Dungan from the University of Toronto, Ernie Stokes from the Centre for Spatial Economics, and Glen Hodgson of the Conference Board of Canada.

At the time of the 2006 Ontario Budget, private-sector forecasters were, on average, calling for real GDP growth of 2.6 per cent in both 2006 and 2007, 3.1 per cent in 2008 and 3.4 per cent in 2009. Since that time, projections have been revised down, largely reflecting the negative impact of higher oil prices, the stronger Canadian dollar and weaker U.S. growth projections. Currently, the average private-sector forecast for Ontario is 1.7 per cent in 2006, 2.1 per cent in 2007, 3.1 per cent in 2008 and 3.2 per cent in 2009.

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)

	2006	2007	2008	2009
Conference Board of Canada (October)	1.6	2.4	3.3	3.3
Global Insight (October)	2.0	2.3	2.6	3.0
Centre for Spatial Economics (June)	2.7	2.2	2.8	3.1
University of Toronto (October)	1.0	1.7	3.0	3.4
BMO Financial Group (October)	1.8	2.3	–	–
RBC Financial Group (October)	1.5	2.0	–	–
Scotiabank Group (October)	1.9	2.0	–	–
TD Bank Financial Group (September)	1.8	2.0	3.6	–
BMO Capital Markets (October)	1.4	2.0	–	–
CIBC World Markets (October)	1.4	1.8	–	–
Private-Sector Survey Average	1.7	2.1	3.1	3.2
Ontario's Planning Assumption	1.6	2.0	3.0	3.1

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Changes in the Global Economic Environment

Ontario continues to face challenges due to external forces that have affected its growth outlook since the 2006 Ontario Budget in March. Oil prices are higher than expected. The Canadian dollar surged to a 28-year high of over 91 cents US in May 2006, and forecasters have increased medium-term projections for its value. As well, the U.S. economic growth outlook has weakened.

One of the biggest changes in the assumptions underlying the economic forecast is the outlook for oil prices. After the 2006 Ontario Budget, oil prices continued to rise, setting a new record for four consecutive months from April to July. Since then, prices have fallen to around $60 US a barrel. Oil price forecasts are, on average, about $10 US per barrel higher than they were at the time of the 2006 Ontario Budget. Higher oil prices reduce the amount of money available for households to spend on other goods and services and increase costs for businesses.

Private-sector forecasts for the Canadian dollar are, on average, over two cents higher than projected at the time of the March Budget. The high value of the Canadian dollar, as well as increased competition from emerging industrialized economies (such as India and China), are leading to restructuring in Ontario's export-oriented manufacturing sector. While some plants have eliminated jobs or shut down, others have become more innovative, investing in new technologies and increasing equipment investment. In many cases, this has led to higher productivity — securing existing jobs and creating new ones.

While U.S. economic growth is expected to slow from 3.4 per cent in 2006 to 2.6 per cent in 2007, the *Blue Chip Economic Indicators* survey projects it will rebound to 3.1 per cent in both 2008 and 2009. Much of the weakness in U.S. growth is due to the slowdown in the U.S. housing market.

Although there is a wide range of views regarding the future direction of monetary policy, forecasters are, on average, calling for interest rates to remain near current levels through 2007 and to edge higher in 2008.

The following table highlights the changes since the Budget in the average private-sector forecast of the key external factors that affect Ontario's economic growth.

KEY EXTERNAL FACTORS AFFECTING ONTARIO'S ECONOMY
AVERAGE PRIVATE-SECTOR FORECAST

	2006		2007		2008		2009
	2006 Budget	2006 Fall Update	2006 Budget	2006 Fall Update	2006 Budget	2006 Fall Update	2006 Fall Update
Canadian Dollar (Cents US)	86.6	88.5	86.9	88.8	85.9	89.1	88.5
Crude Oil ($ US per Barrel)	60.5	67.2	56.6	64.3	49.9	63.0	59.4
U.S. Real GDP Growth (Per Cent)	3.4	3.4	3.0	2.6	3.1	3.1	3.1
Three-month Treasury Bill Rate (Per Cent)	3.9	4.0	4.1	4.0	4.3	4.2	4.4
10-year Government Bond Rate (Per Cent)	4.3	4.3	4.6	4.2	5.2	4.8	5.1

Sources: Blue Chip Economic Indicators (October 2006) and Ontario Ministry of Finance Survey of Forecasts (October 2006).

The next table shows the typical range for the first- and second-year impact of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of other circumstances can also have a substantial bearing on the actual outcome. The range of possible impacts reflects a variety of factors. For example:

- A percentage point decrease in U.S. real growth would reduce Ontario real GDP growth by 0.3 to 0.7 percentage points in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar would reduce Ontario real growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as to what extent firms pass lower import costs through to domestic prices for goods and services in Canada.
- A sustained $10 US per barrel increase in the price of world crude oil would lower U.S. growth and trim Ontario's real growth by 0.3 to 0.7 percentage points in the first year. The range is due in part to uncertainty regarding the degree to which higher energy costs affect consumer and business expectations and behaviour. This impact assumes a matching rise in the price of natural gas — a substitute energy source.
- A one percentage point rise in nominal interest rates would reduce Ontario real GDP growth by 0.1 to 0.5 percentage points in the first year. Real growth would be reduced further in the second year, owing to the time it takes for monetary policy changes to affect spending. Higher interest rates discourage interest-sensitive spending, such as housing and durable-goods purchases. The range reflects, in part, the extent to which higher interest income would offset the negative impact.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth[1] (Percentage Point Change)

	First Year	Second Year
Canadian Dollar Appreciates by Five Cents US	(0.2) to (0.9)	(0.7) to (1.4)
World Crude Oil Prices Increase by $10 US per Barrel	(0.3) to (0.7)	(0.1) to (0.5)
U.S. Real GDP Growth Decreases by One Percentage Point	(0.3) to (0.7)	(0.4) to (0.8)
Canadian Interest Rates Increase by One Percentage Point	(0.1) to (0.5)	(0.2) to (0.6)

[1] Impacts based on changes being sustained.
Parentheses denote declines.
Source: Ontario Ministry of Finance.

CHANGES IN THE ECONOMIC OUTLOOK FOR 2006

The Ministry of Finance has revised its real GDP growth assumption for 2006 to 1.6 per cent, down from 2.3 per cent in the 2006 Ontario Budget and below the current private-sector average.

The domestic side of the economy has performed well, leading to stronger-than-expected job creation. Despite softer real GDP growth, Ontario employment in 2006 is now expected to grow by 1.4 per cent — above the Budget projection of 1.3 per cent.

The outlook for retail sales continues to be buoyant. Housing activity has been stronger than expected, with housing starts projected to reach 75,000 units this year, up from the Budget projection of 73,500. Business investment in machinery and equipment is projected to be stronger than expected at the time of the Budget, but non-residential construction investment spending is projected to be somewhat slower.

Exports have been softer than expected while imports have risen faster. The outlook for corporate profits has declined significantly since the Budget, reflecting ongoing high oil prices, a higher Canadian dollar and softening U.S. demand.

The next table shows changes in key forecast components compared with the 2006 Ontario Budget projection.

THE ONTARIO ECONOMY IN 2006
(PER CENT CHANGE)

	2006 Budget	2006 Fall Update
Real Gross Domestic Product	2.3	1.6
Personal consumption	2.8	3.1
Residential construction	(2.1)	(1.2)
Non-residential construction	5.9	4.5
Machinery and equipment	7.9	8.7
Exports	2.5	(0.5)
Imports	3.4	3.5
Nominal Gross Domestic Product	4.5	3.0
Other Economic Indicators		
Retail sales	4.2	4.2
Housing starts (000s)	73.5	75.0
Personal income	4.7	4.6
Wages and salaries[1]	4.7	4.3
Corporate profits	3.8	(1.0)
Consumer Price Index	2.1	1.9
Labour Market		
Employment	1.3	1.4
Job creation (000s)	85	92
Unemployment rate (per cent)	6.3	6.3

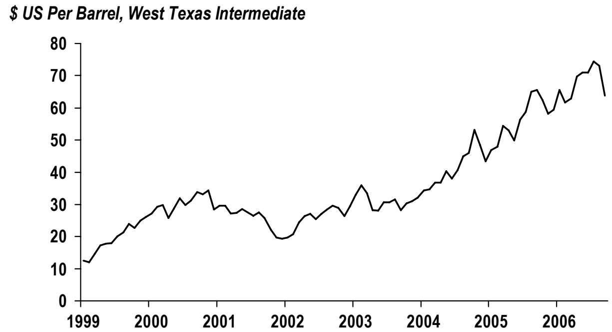
[1] Includes supplementary labour income.
Source: Ontario Ministry of Finance.

The short-term economic outlook is strongly influenced by external factors, such as oil prices, U.S. economic growth, the Canadian dollar and interest rates. The next section discusses the outlook for the external factors in more detail and the forecast for Ontario's exports. This is followed by a discussion of the outlook for jobs, household spending and investment.

OIL AND GAS PRICES

Crude oil prices have more than tripled since early 2002, averaging about $68 US per barrel so far in 2006, and are on pace to break last year's record of $56.50 US per barrel. The main factors affecting energy markets in recent years — strong global demand, heightened geopolitical risks, supply concerns and slow growth in oil production and refinery capacity — continue to play a major role in 2006.

Crude Oil Prices



Source: New York Mercantile Exchange.

After surging to a record high of more than $78 US per barrel in mid-July 2006, oil prices have now dropped to around $60 US per barrel, reflecting a decline in speculative pressures. For one thing, the 2006 Atlantic hurricane season has been less severe than expected, limiting storm damage to the Gulf Coast oil-producing region. In addition, U.S. crude inventories were well supplied at the end of the summer's busy driving season.

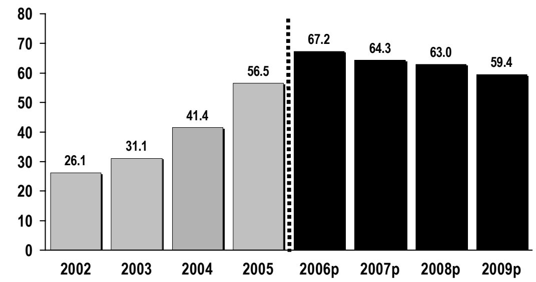
Natural gas prices plunged 25 per cent in September to average $5.20 US per million British Thermal Units (MMBtu) — the lowest monthly average in two years. They have averaged about $6.90 US per MMBtu so far in 2006, down from a record annual average of $9.00 US per MMBtu in 2005, but significantly higher than in 2002, when prices averaged $3.40 US per MMBtu. Mild weather last winter left natural gas inventories at high levels at the start of the summer. The less severe 2006 Atlantic hurricane season and slowing U.S. economy, coupled with robust natural gas inventories, were the key factors that pulled prices down recently. Barring any extreme weather or major geopolitical event, forecasters generally expect natural gas prices will average about $8.25 US per MMBtu each year over the forecast horizon.

The cooling U.S. economy, which accounts for about one-quarter of global crude oil demand, could lead to softer global demand growth. However, strong growth in China, which has constituted 40 per cent of the increase in world oil demand over the past four years, will limit the slowdown in demand growth. The U.S. Energy Department estimates world oil demand will increase by 1.5 million barrels a day — or 1.8 per cent — in 2007, with over half the demand growth to come from the United States and China. U.S. oil demand is forecast to rise by 350,000 barrels a day — or 1.7 per cent — and Chinese consumption is projected to increase by 500,000 barrels a day — or 6.8 per cent — in 2007.

Forecasters predict that crude oil markets will remain tight over the next few years and are calling for prices to average $67.20 US per barrel in 2006 and $64.30 US per barrel in 2007. Oil price volatility will likely persist, reflecting limited expected increases to surplus capacity in 2007, coupled with concerns about the market's ability to respond to a major supply disruption. Projections for oil prices range from $57.80 US per barrel to $71.80 US per barrel in 2007. Oil producers are pouring significant amounts into the exploration and development of both conventional and non-conventional sources of oil. As new capacity comes online over the medium term, the fundamentals will be in place to support a drop in crude oil prices.

Crude Oil Price Forecast

$ US Per Barrel, West Texas Intermediate



p = private-sector survey average.
Sources: New York Mercantile Exchange and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Higher oil and gas prices have a negative impact on the provincial economy and government revenues. Because the Ontario economy imports virtually all of its oil, it is vulnerable to sustained elevated oil prices. Higher oil and gas prices increase household expenses, reducing discretionary spending on other goods and services. For many businesses, higher gasoline and oil prices increase operating costs, reducing profits and their ability to fund new investments.

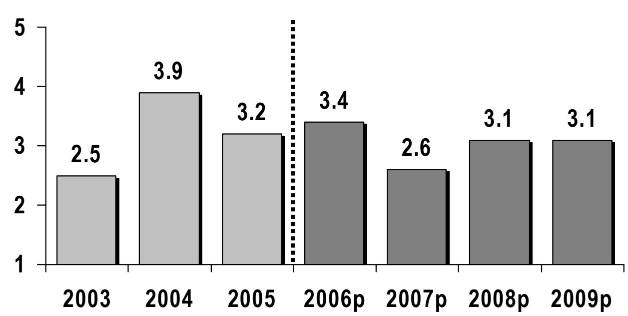
For planning purposes, the Ministry of Finance forecasts oil prices to average $67.50 US per barrel in 2006, $65.00 US per barrel in 2007, $64.00 US per barrel in 2008 and $60.00 US per barrel in 2009.

U.S. Economy

The U.S. economy is expected to grow by 3.4 per cent in 2006. The pace of activity has slowed from 5.6 per cent at an annual rate in the first quarter to 2.6 per cent in the second quarter. Economists expect growth to moderate in the second half of this year and into 2007. The *Blue Chip Economic Indicators* survey calls for real GDP growth to slow to 2.6 per cent in 2007 and then rebound to 3.1 per cent in both 2008 and 2009.

U.S. Real GDP Growth

Per Cent



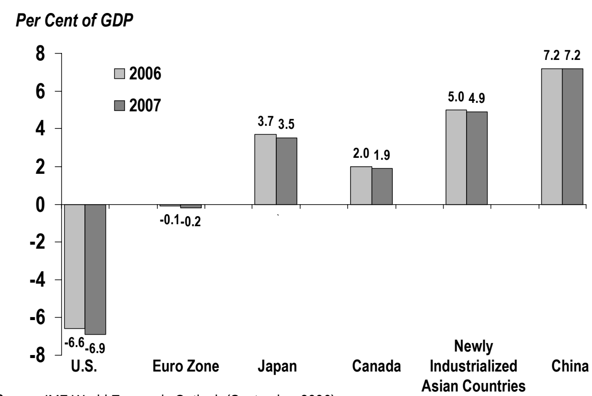
p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2006).

After increasing interest rates by 4.25 percentage points since June 2004, it appears the U.S. Federal Reserve may have ended its tightening cycle. Private-sector forecasters, on average, predict the Federal Reserve will remain on hold for the rest of the year and will cut rates by 0.50 percentage points next year as inflation eases and growth remains moderate.

While most forecasters expect the U.S. economy to keep growing, there are significant risks to the outlook. Higher mortgage rates and lower housing affordability have caused residential construction to decline and home prices to soften. That reduces funds available through mortgage equity withdrawal to support consumer spending.

The negative impact of the housing slowdown is likely to be cushioned by solid growth in labour income and lower projected gasoline prices and interest rates, which will support healthy consumer spending. In addition, profit margins remain high and business investment remains robust. Nonetheless, slower growth in the U.S. economy — Ontario's largest export market — will have an impact on Ontario's economic growth.

Current Account Deficits and Surpluses



Source: IMF World Economic Outlook (September 2006).

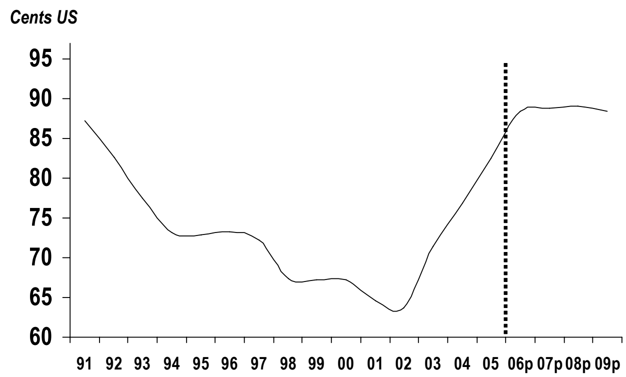
There is also concern that record current account deficits and a high budget deficit could expose the U.S. economy to a potential cutback in foreign capital inflows. The U.S. federal budget deficit is projected to improve to $260 billion US in the 2006 fiscal year, or 2.0 per cent of GDP, compared with $318 billion US, or 2.6 per cent of GDP, in 2005. However, the U.S. current account deficit has continued to deteriorate, equivalent to 6.6 per cent of GDP in the second quarter, up from 6.4 per cent of GDP in 2005. At the same time, current account surpluses in China and newly industrialized Asian countries have remained large. With active currency management in Asia, global savings have risen, holding global interest rates down and making it easier for U.S. consumers to borrow.

Private-sector forecasters expect the U.S. current account deficit to show little improvement in 2007. The longer global imbalances last, the more vulnerable the United States may be to a sharper correction, affecting the value of the U.S. dollar. A steep decline in the U.S. dollar would likely result in considerably higher interest rates, which would be required to compensate foreign investors for the increased risk of holding U.S.-denominated debt. These factors would contribute to further weakening in consumer and business demand. If that were to happen, Ontario's exports would be hit by both a weak U.S. dollar and declining U.S. demand.

THE CANADA–U.S. EXCHANGE RATE

The Canadian dollar has appreciated dramatically against the U.S. currency over the past four years. On a trade-weighted basis, the Canadian dollar has appreciated more than any other major currency since the beginning of 2002, reflecting high commodity prices and solid economic growth in Canada.

Canadian Dollar



Sources: Bank of Canada and Ontario Ministry of Finance Survey of Forecasts (October 2006).

The unprecedented rise of the dollar, along with growing competition from low-cost producers in newly industrializing countries, has created challenges for Ontario exporters. U.S. travel to Ontario has also been adversely affected by the strength of the dollar and other factors.

Despite the high value of the Canadian dollar, Ontario industry remains competitive in the global marketplace. The higher dollar lowers the cost of imported machinery and equipment — about 60 per cent of the Province's machinery and equipment is imported. This makes it easier for Ontario manufacturers to shift to producing higher-value products. The appreciation of the Canadian dollar has also benefited Ontario consumers by lowering prices of imported goods and helping to offset some of the impact of higher oil prices.

Forecasters predict an easing in oil and other commodity prices. This should limit further appreciation of the Canadian dollar, removing some of the competitive pressures on the Ontario economy. The private sector expects the Canadian dollar to average 88.5 cents US in 2006, 88.8 cents US in 2007, 89.1 cents US in 2008 and 88.5 cents US in 2009.

For planning purposes, it is assumed the Canadian dollar will average 88.5 cents US in 2006 and 89.0 cents US in 2007 through 2009.

THE CANADIAN DOLLAR OUTLOOK (CENTS US)

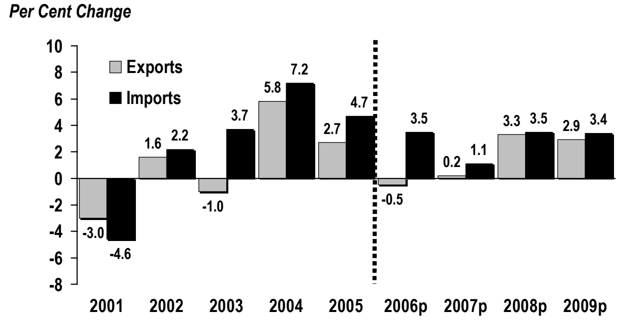
	2006p	2007p	2008p	2009p
Private-sector Average	88.5	88.8	89.1	88.5
High	88.9	94.0	90.9	91.0
Low	88.0	82.6	86.9	85.6
Ministry of Finance	88.5	89.0	89.0	89.0

p = projection.
Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Exports and Imports

Ontario's exports are expected to decline modestly in 2006. The Province's real net trade surplus narrowed to $25.1 billion in the second quarter of 2006. This is due to a higher dollar, weaker demand in the United States and restructuring in the auto industry. The trend is expected to continue in 2007, with exports projected to increase by only 0.2 per cent. Ontario's exports are projected to rebound in 2008 and 2009, as U.S. growth picks up momentum and new auto product lines come on-stream.

Ontario Real International and Interprovincial Trade



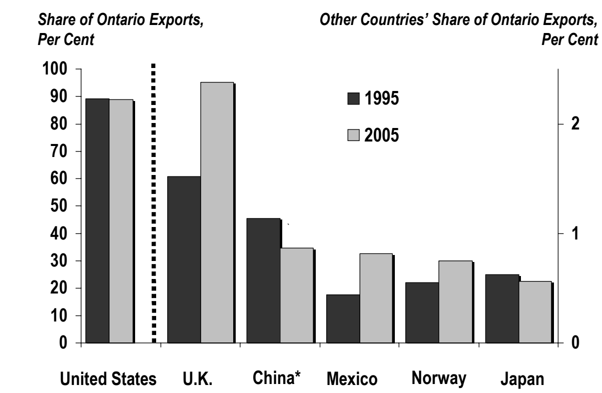
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The auto sector accounted for 44 per cent of Ontario's merchandise exports in 2005, with 98 per cent of these exports destined for the United States. Ontario continues to be the largest motor-vehicle assembler in North America, surpassing Michigan in each of the past two years. With U.S. auto sales expected to decline to 16.6 million in 2006 from last year's pace of 16.9 million, Ontario exporters are experiencing a decline in demand for auto parts and assembled vehicles. Private-sector forecasters predict U.S. auto sales will ease further to 16.4 million in 2007. In the medium term, Ontario auto exports will benefit from new production lines, including a Toyota plant in Woodstock scheduled to begin production in 2008 and the introduction of the newly designed Camaro in Oshawa in 2009.

Industrial goods and materials exports (such as iron, steel, other metals, rubber and plastic), which account for 19.2 per cent of Ontario's exports, comprise one of the strongest-growing export categories, up 6.4 per cent on a year-to-date basis. Declining commodity prices would likely restrain the value of exports over the forecast period.

Machinery and equipment, which make up 20.5 per cent of the province's exports, are up 2.9 per cent so far this year. These exports are expected to continue strengthening, due to strong global demand. For example, real business investment in machinery and equipment in the United States is projected to increase by 7.3 per cent in 2006 and by an average of 6.4 per cent in 2007 to 2009.

Ontario's Top Six Merchandise Export Partners



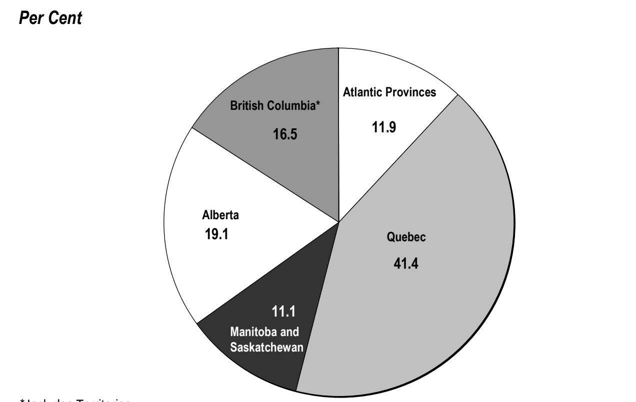
* Includes China, Hong Kong and Mongolia.
Source: Statistics Canada.

The United States is Ontario's largest trading partner, accounting for almost 90 per cent of Ontario's international merchandise exports. Over the past three years, Ontario's nominal merchandise exports to the United States have fallen by five per cent. So far this year, Ontario's exports to the United States are down a further 2.1 per cent.

Exports to countries other than the United States, however, have increased by 64 per cent over the past three years. Increasing diversification means Ontario's exporters can benefit from strong global growth. The European Union (EU) is Ontario's second-largest trading partner, accounting for almost five per cent of Ontario's international exports. Exports to the EU rose 67 per cent over the past three years and are up a further 24 per cent so far this year. Ontario exports to Mexico have risen 43 per cent over the past three years and are up over 52 per cent so far this year. China accounts for about one per cent of Ontario's international exports, but Ontario exports to China have risen 57 per cent over the past three years. Exports to India have more than doubled over the past three years, but India accounts for just 0.1 per cent of total international exports.

Exports of goods and services to Canada's other provinces and territories are also important to Ontario. Exports to the rest of Canada totalled $100.3 billion in 2005, while Ontario's international exports totalled $232.7 billion. Between 2002 and 2005, exports to other provinces grew over 12 per cent — while international exports were down 0.5 per cent. The trend of interprovincial exports outpacing international exports is continuing. Exports to other provinces are up 1.3 per cent so far this year, well ahead of growth in international exports, which are up only 0.5 per cent. Continuing strength in Western Canada should provide a lift to Ontario exports over the forecast horizon.

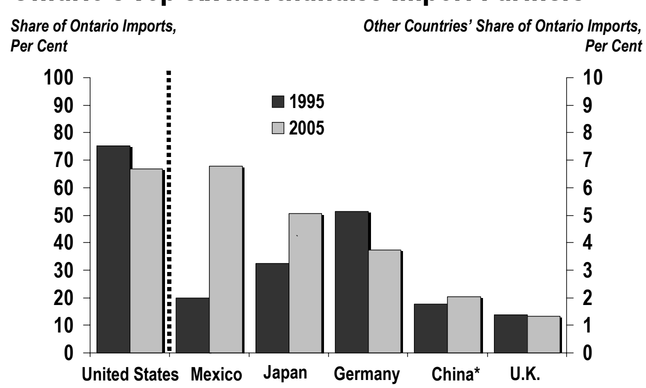
Share of Ontario Interprovincial Exports, 2002



* Includes Territories
Source: Statistics Canada.

Ontario's imports continue to grow at a rapid pace, as a result of solid growth in domestic demand and a strong dollar. While the vast majority of Ontario's imports come from the United States, other regions are becoming more prominent. Imports from China have risen by almost 90 per cent over the last three years and are up over 17 per cent so far this year. Imports from the EU are up 6.4 per cent.

Ontario's Top Six Merchandise Import Partners

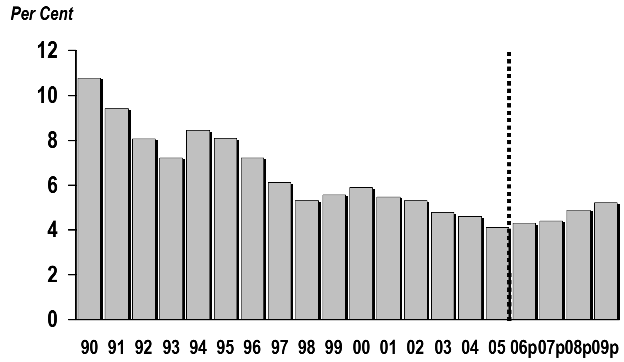


* Includes China, Hong Kong and Mongolia.
Source: Statistics Canada.

INTEREST RATES AND INFLATION

Since May 2006, the Bank of Canada has left its benchmark rate unchanged at 4.25 per cent, after increasing interest rates 2.25 percentage points since September 2004. Inflationary pressures appear to be regional, centred in Alberta's labour and housing markets. Forecasters generally believe that the Bank of Canada will leave rates unchanged for the remainder of 2006 as they view the risks to the Canadian economy as being balanced.

10-Year Government of Canada Bond Rate



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

Private-sector economists expect Canadian three-month treasury bill rates to average 4.0 per cent in both 2006 and 2007, 4.2 per cent in 2008 and 4.4 per cent in 2009. Ten-year Government of Canada bond yields are forecast to average 4.3 per cent in 2006, 4.2 per cent in 2007, 4.8 per cent in 2008 and 5.1 per cent in 2009.

The U.S. Federal Reserve Board has held its target for the federal funds rate steady at 5.25 per cent since June 2006, after 17 consecutive one-quarter percentage point increases since June 2004. Forecasters expect that the Federal Reserve, like the Bank of Canada, will remain on hold through the end of 2006.

Oil price movements over the past several years have been a key force affecting inflation. Ontario's CPI inflation rate was 0.2 per cent in September, down from a peak of 3.3 per cent in September 2005, when gasoline prices averaged $1.11 per litre. Plus, the one percentage point cut in the federal goods and services tax (GST) in July 2006 further reduced the CPI inflation rate by an estimated 0.6 per cent. Ontario's CPI inflation rate is expected to average 1.9 per cent in 2006.

The rising Canadian dollar has helped to offset some of the impact of higher energy prices on Ontario CPI inflation. Looking forward, analysts generally expect the exchange rate will remain around 89 cents US, removing the impact on inflation of a steadily rising dollar.

Overall, inflationary pressures are well contained over the forecast horizon. Ontario's CPI inflation rate is expected to fall to 1.6 per cent in 2007, reflecting lower energy prices, the impact of the 1.0 percentage point GST reduction and a gradual slowing in home-replacement costs. Once the impact of the GST cut no longer affects year-to-year price changes and energy prices stabilize, CPI inflation is projected to rise to an average of 1.8 per cent in both 2008 and 2009. This forecast excludes the impact of the federal government's proposed additional one percentage point reduction in the GST.

Canadian Interest Rate and Inflation Outlook (Annual Per Cent)

	2005	2006p	2007p	2008p	2009p
Three-month Treasury Bill Rate	2.7	4.0	4.2	4.5	4.6
10-year Government Bond Rate	4.1	4.3	4.4	4.9	5.2
Ontario CPI Inflation Rate	2.2	1.9	1.6	1.8	1.8

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

Supporting Ontario's Small Business Sector

Small businesses are an important part of the Ontario economy. Businesses with fewer than 50 employees account for 39 per cent of employment in the province.

The government is committed to encouraging growth in the small business sector. Tax measures to help small business include:

- the small business deduction, which reduces Ontario's general corporate income tax rate for small Canadian-controlled private corporations, providing an estimated benefit of about $900 million annually
- an exemption from Ontario's capital tax for small businesses, credit unions, caisses populaires, family farm corporations and family fishing corporations that saves them over $300 million annually
- the Employer Health Tax exemption, which will provide small private-sector employers with a benefit of approximately $590 million for the 2006 tax year
- a 10 per cent refundable tax credit for small corporations performing research and development (R&D) in Ontario
- enhanced refundable tax credit rates for small business for hiring apprentices or co-op students.

Ontario and the federal government have signed an agreement that would transfer administration of Ontario's corporate income tax and capital tax to the Canada Revenue Agency, starting with taxation years ending after December 31, 2008. A single corporate tax administration, one tax return and one common set of administrative rules would cut the paper burden and other tax compliance costs faced by small business (see Annex IV, *Corporate Tax Harmonization*).

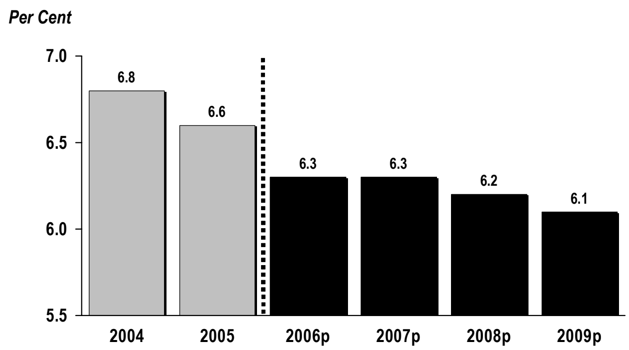
Ontario is working with the small business sector to simplify Ontario tax administration. It is also working with the Small Business Agency of Ontario to help small businesses grow and succeed, and reducing paper burden to save owners and entrepreneurs time and money.

As well, the Province has an array of apprenticeship and skills training programs to address potential skills shortages, and is taking further measures to expand Ontario's skilled labour supply. The new Ministry of Small Business and Entrepreneurship, created in May 2006, will help to promote the success of small businesses in Ontario.

JOB GROWTH

The Ontario economy has created 103,600 net jobs so far in 2006, bringing the total net new positions added since October 2003 to 254,100. Full-time employment accounted for all of the job gains this year, with full-time positions replacing part-time ones. Most of these new jobs were in the service sector, which is gaining a greater share of Ontario's economy — a trend paralleled in most industrialized countries. Domestic-oriented sectors of the economy have been thriving. The largest job gains so far this year have come from finance, insurance and real estate (25,200); education (25,100); information, culture and recreation (23,800); business, building and other support services (16,800); professional, scientific and technical services (16,800); wholesale and retail trade (13,800); and construction (13,600).

Ontario Unemployment Rate



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

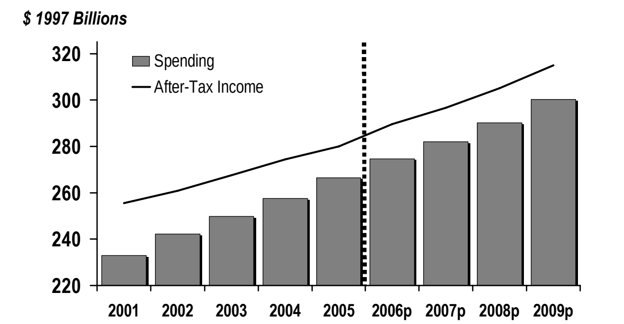
Record-high oil prices and the high Canadian dollar, along with competition from low-cost global producers, have exerted increased pressure on the goods-producing industries, particularly the export-oriented manufacturing sector. Yet, while economic conditions have adversely affected many manufacturers, the sector is investing for future success. Ontario has supported numerous new developments with funding from its Advanced Manufacturing Investment Strategy and Ontario Automotive Investment Strategy. In the last six months, there have been encouraging signs for this sector, as companies assisted by these two programs, including Linamar, General Motors, Diamond Aircraft Industries, Messier-Dowty Inc. and Procter and Gamble Inc., have created or secured thousands of manufacturing positions.

For 2006 as a whole, employment is expected to grow by 1.4 per cent and the unemployment rate is projected to fall from 6.6 per cent in 2005 to 6.3 per cent — the lowest annual rate since 2001. Looking ahead to 2007, employment is forecast to continue growing at a healthy rate of 1.2 per cent or 76,000 jobs. As the economy gathers momentum in 2008 and 2009, employment growth is expected to accelerate to 1.6 per cent per year. Strong job gains should lower Ontario's unemployment rate to 6.1 per cent in 2009.

HOUSEHOLD SPENDING

Healthy employment and wage gains in Ontario are contributing to strong growth in personal income, with an expected rise of 4.6 per cent in 2006. Personal disposable income is forecast to increase by 4.7 per cent, partly reflecting energy rebates for low-income households and federal tax cuts. As previously announced, the Government of Ontario will provide $100 million in assistance to low-income Ontarians this fall — up to $120 per family — to help them with higher electricity costs over the past year. Personal income is projected to grow by 4.1 per cent in 2007 and by an average of 4.9 per cent per year in 2008 and 2009. The growth forecast in employment, wages and incomes supports the outlook for increasing Personal Income Tax and Employer Health Tax revenues.

Ontario Real Consumer Spending and Real After-Tax Income

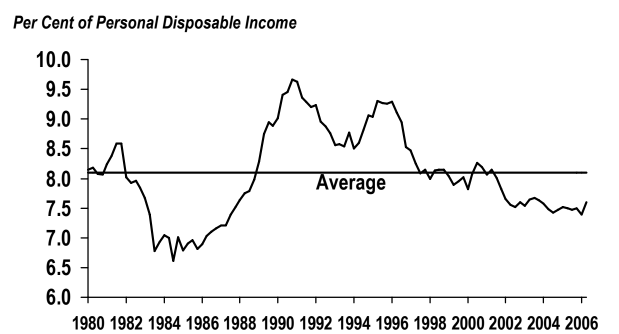


p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Not surprisingly, these strong income gains are leading to robust consumer spending. Real consumer spending is expected to grow by 3.1 per cent in 2006, following a 3.5 per cent gain in 2005. Consumer spending is projected to increase by an average of 3.0 per cent over the 2007 to 2009 period, in line with growth in personal disposable income. Purchases of durables are expected to slow, reflecting the softening housing market and reduced auto sales, while spending on services is expected to strengthen. The growth in consumer spending can be expected to boost Retail Sales Tax revenues over the forecast period.

The ratio of Canadian household debt costs to personal disposable income was 7.6 per cent in the second quarter of 2006, down from a recent high of 8.3 per cent in the third quarter of 2000.

Canadian Household Debt Interest Costs



Sources: Finance Canada and Statistics Canada.

Over the first seven months of 2006, Ontario's retail sales rose by 4.3 per cent over the same period last year. Home and hardware centres and home-furnishing retailers saw strong growth, supported by a healthy housing market as home purchases translated into renovation, landscaping and decoration activity. However, new car sales, the biggest-ticket item, are down 2.2 per cent compared with the same period last year, when substantial discounts were offered on vehicles. As new car dealers are the largest retailer category, accounting for about 20 per cent of sales in Ontario, the weakness in sales limited overall retail sales growth. In contrast, sales at gas stations continued to account for a larger share of retail sales as gas prices averaged 7.6 per cent higher so far this year. Excluding sales at gas stations, Ontario retail sales are up 2.9 per cent over the first seven months of the year, compared with an increase of 3.7 per cent in 2005.

After years of robust activity, helped by low mortgage rates, the housing market is moderating. However, it is stronger than expected. The sales-to-new-listings ratio dropped from the recent high of 73.9 in the first quarter of 2002 to 55.9 in the second quarter of 2006. The larger supply of existing homes should translate into slower house-price appreciation in the near future.

Home resales in the province declined 0.2 per cent in 2005 and are expected to dip by 2.0 per cent this year and a further 4.4 per cent in 2007. Although mortgage rates have edged up slightly over the past year, mortgage payments as a share of after-tax income continue to be low by historical standards as income growth remains solid. Softer demand has contributed to more moderate house price gains. The average resale price of a house in Ontario rose 6.8 per cent in the first half of 2006, compared with an average increase of 7.7 per cent in the past two years. In the medium term, moderate house price increases and rising incomes, along with relatively steady mortgage rates, will keep housing affordable.

Ontario Housing Affordability

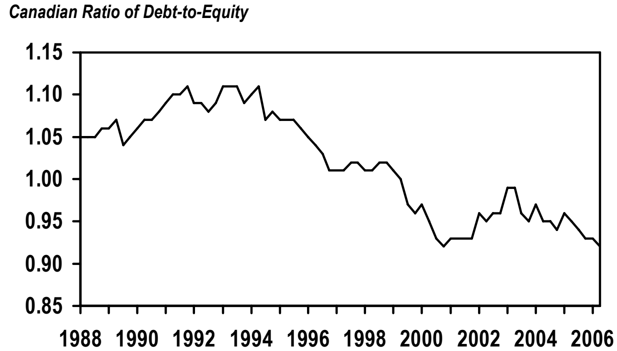
p = projection.
Note: The average monthly carrying costs for an average-priced home as a share of after-tax household income, based on payments amortized over 25 years and a 25 per cent down payment.
Sources: Bank of Canada, Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

Ontario's new housing market remains resilient. Housing starts for 2006 are projected to reach 75,000 units, down from 78,800 in 2005, with starts of single housing units falling more than multiples — townhomes, apartment buildings and condominiums. The number of housing starts is expected to decline to 70,000 units in 2007 and then improve to 71,000 units in 2008 and 72,000 units in 2009.

INVESTMENT TO LEAD GROWTH

The outlook for 2006 investment remains positive. The Canadian debt-to-equity ratio has continued to decline in the last couple of years. Although Ontario corporate profits as a share of GDP have declined to around 11 per cent, they remain well above the historical average. Healthy balance sheets and low interest rates are a positive for investment.

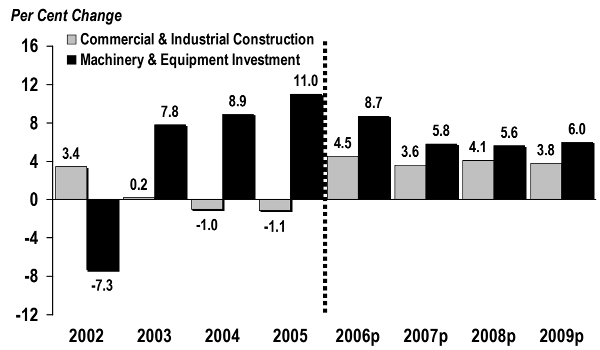
Business Balance Sheets Are Strong



Source: Statistics Canada.

While the high dollar and high energy prices are likely to dampen corporate profits in 2006, the exchange rate makes it considerably cheaper to import new machinery and equipment. The value of Ontario imports of machinery and equipment is up 1.9 per cent so far this year while prices are down 5.4 per cent.

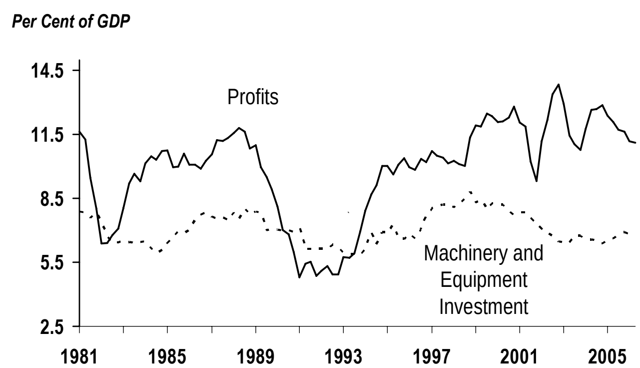
Real Business Investment



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

According to Statistics Canada's *Private and Public Investment Intentions Survey*, growth in machinery and equipment investment is expected to be buoyant, led by finance, insurance and real estate (9.8 per cent or $11.7 billion); information and culture (9.0 per cent or $3.3 billion); utilities (68.6 per cent or $2.5 billion); construction (11.2 per cent or $2.0 billion); and wholesale trade (11.2 per cent or $1.7 billion). Investment in machinery and equipment is an important source of productivity growth, as it often embodies technological advances. While investment spending in current dollars has not grown as fast as profits, this represents a substantial increase in real terms, as the cost of purchasing machinery and equipment has fallen. In 2005, real machinery and equipment investment grew at an 11.0 per cent rate — its fastest pace since the technology boom in the late 1990s. Real investment in machinery and equipment is projected to rise by 8.7 per cent in 2006 and by an average of 5.8 per cent from 2007 through 2009.

Ontario Profits and Investment



Source: Statistics Canada.

Commercial and industrial construction has strengthened in 2006. Outlays are projected to advance 4.5 per cent in 2006 and an average of 3.8 per cent annually over the 2007 to 2009 period. According to the *Private and Public Investment Intentions Survey*, the biggest increase in outlays in 2006 will come from utilities (up 47.7 per cent or $3.6 billion); finance, insurance and real estate (up 7.2 per cent or $2.2 billion); transportation and warehousing (up 56.9 per cent or $1.8 billion); and retail trade (up 25.7 per cent or $1.6 billion).

Promoting Investment in the Entertainment and Creative Cluster

In 2005, the entertainment and creative cluster contributed nearly $9.9 billion to Ontario's economy (2.2 per cent of GDP) and employed approximately 185,000 people, accounting for 42 per cent of Canada's total workforce in this cluster.

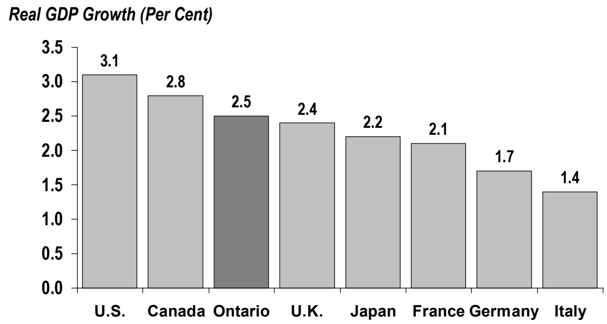
The government is moving forward in implementing a number of initiatives announced in the 2006 Budget to support the entertainment and creative cluster in Ontario. It has:

- approved the extension of the Ontario Production Services Tax Credit until March 31, 2007
- proposed the enhancement of the Ontario Interactive Digital Media Tax Credit
- provided $49 million to support Ontario's major cultural agencies and attractions: the Royal Ontario Museum, Art Gallery of Ontario, Canadian Opera Company, National Ballet School, Royal Conservatory of Music and Gardiner Museum of Ceramic Art
- provided $10 million to the Ontario Heritage Trust
- launched the Entertainment and Creative Cluster Partnerships Fund in September 2006
- provided $1 million in support for the 2007 Toronto International Arts Festival.

ECONOMIC OUTLOOK COMPARISON WITH G7 COUNTRIES

Ontario is expected to remain among the fastest-growing industrial jurisdictions over the medium term despite the challenges facing it. Private-sector forecasters project that over the 2006 to 2009 period, real GDP growth in Ontario will average 2.5 per cent a year — ahead of all G7 countries, except Canada as a whole and the United States.

Ontario vs. the G7
2006 to 2009 (Average)



Sources: *Consensus Forecasts* (October 2006) and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Government policy plays a vital role in helping to maintain and enhance Ontario's competitive advantages and in attracting high-value jobs to ensure the economy can weather the challenges it faces. Investments in infrastructure, education and skills training, and partnerships to promote business investment and innovation, support the fundamental strengths of the province and underpin near-term economic activity. All of these factors will foster economic growth in a highly competitive global market.

ONTARIO AND G7 ECONOMIC OUTLOOK, 2006 TO 2009
REAL GDP GROWTH (PER CENT)

	2006	2007	2008	2009
Ontario	1.7	2.1	3.1	3.2
Canada	2.8	2.6	2.9	3.0
United States	3.4	2.6	3.1	3.2
France	2.3	2.0	2.0	2.1
Germany	2.2	1.2	1.7	1.6
Italy	1.6	1.2	1.4	1.5
United Kingdom	2.6	2.4	2.3	2.2
Japan	2.8	2.2	2.0	1.6

Sources: *Consensus Forecasts* (October 2006) and Ontario Ministry of Finance Survey of Forecasts (October 2006).

Details of the Ontario Economic Outlook

This table shows the key details of the updated economic outlook for the 2006 to 2009 period.

The Ontario Economy, 2004 to 2009 (Per Cent Change)

	Actual		Projected			
	2004	2005	2006	2007	2008	2009
Real Gross Domestic Product	3.1	2.8	1.6	2.0	3.0	3.1
Personal consumption	3.1	3.5	3.1	2.6	2.9	3.4
Residential construction	3.5	0.8	(1.2)	(2.8)	2.0	3.0
Non-residential construction	(1.0)	(1.1)	4.5	3.6	4.1	3.8
Machinery and equipment	8.9	11.0	8.7	5.8	5.6	6.0
Exports	5.8	2.7	(0.5)	0.2	3.3	2.9
Imports	7.2	4.7	3.5	1.1	3.5	3.4
Nominal Gross Domestic Product	5.2	4.1	3.0	3.7	4.7	4.8
Other Economic Indicators						
Retail sales	3.2	4.7	4.2	3.8	4.7	4.6
Housing starts (000s)	85.1	78.8	75.0	70.0	71.0	72.0
Personal income	4.5	4.7	4.6	4.1	4.7	5.0
Wages and salaries[1]	4.7	5.0	4.3	4.1	4.8	5.1
Corporate profits	13.7	(0.4)	(1.0)	3.0	6.0	5.4
Consumer Price Index	1.9	2.2	1.9	1.6	1.8	1.8
Labour Market						
Employment	1.7	1.3	1.4	1.2	1.6	1.6
Job creation (000s)	103	81	92	76	103	108
Unemployment rate (per cent)	6.8	6.6	6.3	6.3	6.2	6.1

[1] Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

SECTION III: ONTARIO REVENUE OUTLOOK

The revenue forecast reflects developments to date and the current economic outlook, but there are risks to the forecast that the Province will continue to monitor over the coming months. Recent signs of weakness in corporate profits give rise to concerns for historically volatile Corporations Tax revenues. Uncertainty remains regarding the 2005 Canada–Ontario Agreement, posing a challenge to developing the revenue outlook and fiscal plan. Ontario does not accept the federal position that the unanticipated measures announced by the federal government in its 2006 budget count towards the Agreement. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

Since the 2006 Ontario Budget, the economic growth outlook for 2006 to 2008 has softened, reflecting higher oil prices, a stronger Canadian dollar and a slower growth outlook for the U.S. economy. The negative revenue impact in 2006–07 of slower economic growth is offset by proceeds from the Teranet Income Fund initial public offering (IPO) and higher revenues related to processing of prior years' tax returns. The revenue increase related to prior years is largely one-time in nature, with only a portion of the increase carrying forward over the medium term. Also contributing to higher 2006–07 revenues is Ontario's share of Government of Canada transfers to all provinces and territories under the federal trusts announced in the 2006 federal budget.

Over the medium term, slower projected economic growth results in a lower forecast for taxation revenues. Partly offsetting the revenue impact of less robust economic growth are higher revenues related to processing of prior years' tax returns and Government of Canada transfers under the federal trusts.

The 2006 Ontario Budget included $2.2 billion of funding from the 2005 Canada–Ontario Agreement in its medium-term fiscal plan. The Agreement, although historic and a significant victory for the people of Ontario, represented just a first step towards addressing Ontario's fairness issues. Regrettably, it has not yet been honoured by the new federal government. The federal government made an unequivocal commitment to honour the Agreement, recognizing that it was in the interests of all Ontarians and all Canadians to invest in a fair way in Ontario's prosperity. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

2006–07 REVENUE OUTLOOK

Total revenue in 2006–07 is currently projected to be $87,044 million, an increase of $1,314 million from the 2006 Budget Plan.

SUMMARY OF 2006–07 IN-YEAR REVENUE CHANGES SINCE BUDGET ($ MILLIONS)

Taxation Revenue		
Personal Income Tax	650	
Corporations Tax	(260)	
Tobacco Tax	(80)	
Employer Health Tax	(15)	
Ontario Health Premium	(10)	
		285
Government of Canada		
Trusts Announced in 2006 Federal Budget	456	
		456
Other Non-tax Revenue		
Teranet IPO	573	
		573
Total Revenue Changes		1,314

The Personal Income Tax revenue outlook for 2006–07 has increased by a net amount of $650 million. Processing of personal income tax returns during 2006 has resulted in higher revenues largely related to prior years. This results in a substantial increase in revenues in 2006–07 as higher prior-year tax revenues than included in past Public Accounts must be reflected in the current year. Only a portion of this increase carries forward over the medium term. The 2006–07 increase is partially offset by the impact of slower projected wages and salaries growth in 2006. The 2006–07 Personal Income Tax revenue forecast also reflects an estimated $30 million revenue decrease due to tax changes since the 2006 Ontario Budget.

- In August 2006, the Province announced that it would create a new, enhanced dividend tax credit to encourage more investment by Ontarians in Canadian corporations, and to improve the integration of the corporate and personal income tax systems.

- Ontario will also parallel proposed federal tax changes that would provide benefits to Ontarians, including a full exemption for postsecondary student scholarship income, a tax deduction for tradespersons, and the elimination of capital gains on certain charitable donations.

The Corporations Tax revenue outlook for 2006–07 has decreased by $260 million from the Budget forecast. This is $510 million lower than the First Quarter Ontario Finances' projection of a $250 million increase in Corporations Tax revenues in 2006–07. This reflects slower projected growth in pre-tax corporate profits in 2006 and higher-than-expected refunds in respect of 2005 corporate tax return filing.

Tobacco Tax revenue in 2006–07 is forecast to decrease by $80 million from the 2006 Ontario Budget forecast based on lower-than-projected revenue receipts during the first half of the fiscal year.

Revenues from the Employer Health Tax and Ontario Health Premium are forecast to decrease by $15 million and $10 million respectively as a result of projected softening of economic growth in 2006.

The forecast for Government of Canada transfers has increased by $456 million, representing Ontario's share of Government of Canada transfers to all provinces and territories under the federal trusts announced in the 2006 federal budget and confirmed by the recently released federal financial results for 2005–06.

The First Quarter Ontario Finances noted that the Sales and Rentals revenue forecast increased by $570 million, reflecting the expected gross amount of the Province's share of proceeds related to the Teranet Income Fund IPO announced on June 16, 2006. An additional $3 million was subsequently realized upon the sale of income fund units by the Province's designees.
The update on proceeds from the Teranet IPO is discussed in greater detail in Annex II, *Ontario's Medium-term Fiscal Plan and Outlook.*

Medium-term Revenue Changes Since Budget

Summary of Medium-term Revenue Changes Since Budget
($ Billions)

	Outlook		
	2006–07	2007–08	2008–09
Key Revenue Changes Since 2006 Budget			
Slower Economic Growth	(0.5)	(0.8)	(1.0)
Teranet IPO	0.6	–	–
Prior Years' Tax Return Processing	0.9	0.3	0.3
Trusts Announced in 2006 Federal Budget	0.5	0.5	0.2
Other	(0.1)	(0.2)	(0.3)
Total Revenue Changes	1.3	(0.3)	(0.8)

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance

Since the 2006 Ontario Budget, the economic growth outlook for 2006 to 2008 has softened, reflecting higher oil prices, a stronger Canadian dollar and a slower growth outlook for the U.S. economy. The negative revenue impact of slower economic growth is offset in 2006–07 by proceeds from the Teranet Income Fund IPO and higher revenues related to processing of prior years' tax returns. The revenue increase related to prior years is largely one-time in nature, with only a portion of the increase carrying forward over the medium term. Also contributing to higher revenues is Ontario's share of Government of Canada transfers to all provinces and territories under the trusts announced in the 2006 federal budget.

The Taxation Revenue forecast reflects an estimated $60 million revenue decrease by 2008–09, due to personal income tax changes, including a proposed enhanced dividend tax credit, paralleling proposed federal tax changes and improvements to Ontario Property and Sales Tax Credits. Also reflected in the forecast are projected lower Tobacco Tax revenues and the anticipated impact of the federal–provincial agreement to streamline the administration of Ontario's corporate tax system, which reduces Corporations Tax revenues by $35 million in 2008–09. The latter issue is discussed in detail in Annex IV, *Corporate Tax Harmonization.*

MEDIUM-TERM REVENUE OUTLOOK

MEDIUM-TERM REVENUE OUTLOOK ($ BILLIONS)

Revenue	2006–07	2007–08	2008–09
Taxation Revenue	61.6	63.5	66.1
Government of Canada	14.0	15.4	15.5
Income from Government Enterprises	3.9	4.1	4.3
Other Non-tax Revenue	7.5	7.0	7.3
Total Revenue	**87.0**	**90.0**	**93.2**

Note: Numbers may not add due to rounding.

Total revenue in 2008–09 is projected to be $93.2 billion, an increase of $6.2 billion over the level forecast for 2006–07. This represents an average annual growth rate of 3.5 per cent between 2006–07 and 2008–09.

Taxation revenue is forecast to increase by $4.6 billion between 2006–07 and 2008–09, with annual growth averaging 3.6 per cent. This is consistent with nominal GDP annual growth averaging 4.2 per cent from 2006 to 2008.

Federal payments to Ontario are forecast to increase by $1.4 billion between 2006–07 and 2008–09, with annual growth averaging 5.0 per cent. The forecast is based on current federal–provincial agreements, funding commitments, and formulas for major health and social transfers. The forecast includes $2.2 billion over three years in Canada–Ontario Agreement transfers and $1.1 billion over three years, representing Ontario's share of Government of Canada trusts.

Income from Government Enterprises is forecast to increase by $0.4 billion over the medium term.

Other Non-Tax revenue is forecast to decrease by $0.3 billion between 2006–07 and 2008–09. The decrease is due to the $0.6 billion one-time Sales and Rentals revenues in 2006–07 from the Teranet IPO. Adjusting for this, Other Non-Tax revenue increases by $0.3 billion between 2006–07 and 2008–09, representing an average annual growth rate of 2.2 per cent.

SECTION IV: POTENTIAL RISKS TO PROVINCIAL REVENUES

A growing economy with rising incomes, corporate profits and consumer spending generates higher revenues to pay for public services. Taxation revenues make up the largest category of Provincial revenue. Of the $87.0 billion in total revenues forecast for 2006–07, $61.6 billion, or about 71 per cent, is expected to come from taxation revenues. Three revenue sources within this category — Personal Income Tax, Retail Sales Tax and Corporations Tax — account for about 55 per cent of total revenues. Inherent in any multi-year forecast is uncertainty about the future, making cautious and prudent planning a critical element of managing public finances.

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions. It should be cautioned that these estimates, while useful, are only guidelines and can vary depending on the composition and interaction of the potential risks.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
TOTAL REVENUES		
• Real GDP • GDP Deflator	1.6 per cent growth in 2006 1.4 per cent increase in 2006	$645 million revenue change for each percentage point change in real GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
• Canadian Interest Rates	4.0 per cent three-month treasury bill rate in 2006	Between $65 million and $325 million revenue change in the opposite direction for each percentage point change in interest rates.
• U.S. Real GDP	3.4 per cent growth in 2006	Between $195 million and $475 million revenue change for each percentage point change in U.S. real GDP growth.
• Canadian Dollar Exchange Rate	88.5 cents US in 2006	Between $25 million and $115 million revenue change in the opposite direction for each one cent change in the Canadian dollar exchange rate.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Total Taxation Revenues		
• Revenue Base[1]	3.3 per cent growth in 2006–07	$590 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
• Nominal GDP	3.0 per cent growth in 2006	
Personal Income Tax Revenues		
• Revenue Base	5.8 per cent growth in 2006–07	
Key Economic Assumptions		
• Wages and Salaries	4.3 per cent growth in 2006	$240 million revenue change for each percentage point change in wages and salaries growth.
• Employment	1.4 per cent growth in 2006	
• Unincorporated Business Income	3.3 per cent growth in 2006	
Key Revenue Assumptions		
• Net Capital Gains Income	18 per cent decrease in 2006	$4 million revenue change for each percentage point change in net capital gains income growth.
• RRSP Deductions	6.0 per cent growth in 2006	$15 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
• 2005 Tax-Year Assessments[2]	$20.4 billion	$204 million revenue change for each percentage point change in 2005 Personal Income Tax assessments.[4]
• 2004 Tax-Year and Prior Year Assessments[2]	$1.3 billion	$13 million revenue change for each percentage point change in 2004 and Prior Year Personal Income Tax assessments.[4]
Retail Sales Tax Revenue		
• Revenue Base	4.0 per cent growth in 2006–07	
Includes:		
• Taxable Household Spending	3.3 per cent growth in 2006–07	
• Other Taxable Spending	4.8 per cent growth in 2006–07	

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES		
Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
Key Economic Assumptions		
• Retail Sales	4.2 per cent growth in 2006	
• Nominal Consumption Expenditure	4.3 per cent growth in 2006	$90 million revenue change for each percentage point change in nominal consumption expenditure growth.
CORPORATIONS TAX REVENUES		
• Revenue Base	0.3 per cent decline in 2006–07	
• Corporate Profits	1.0 per cent decline in 2006	$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
• 2005–06 Tax Assessment Refunds[3]	$1.3 billion payable in 2006–07	$13 million revenue change in the opposite direction for each percentage point change in 2005–06 refunds.[4]
• 2005–06 Tax Payments Upon Filing	$0.8 billion receivable in 2006–07	$8 million revenue change for each percentage point change in 2005–06 payments upon filing or assessment payments.[4]
• 2005–06 Tax Assessment Payments	$0.8 billion receivable in 2006–07	$8 million revenue change for each percentage point change in 2005–06 assessment payments.
EMPLOYER HEALTH TAX REVENUES		
• Revenue Base	4.1 per cent growth in 2006–07	
• Wages and Salaries	4.3 per cent growth in 2006	$35 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
• Revenue Base	4.7 per cent growth in 2006–07	
• Personal Income	4.6 per cent growth in 2006	$25 million revenue change for each percentage point change in personal income growth.
• 2005 Tax Year Assessments	$2.3 billion	$23 million revenue change for each percentage point change in Ontario Health Premium Assessments.

SELECTED ECONOMIC AND REVENUE RISKS AND SENSITIVITIES

Item/Key Components	2006–07 Assumption	2006–07 Sensitivities
GASOLINE TAX REVENUES		
• Revenue Base	0.4 per cent growth in 2006–07	
• Gasoline Pump Prices	95.0 cents per litre in 2006	$2 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
FUEL TAX REVENUES		
• Revenue Base	1.8 per cent growth in 2006–07	
• Real GDP	1.6 per cent growth in 2006	$13 million revenue change for each percentage point change in real GDP growth.
LAND TRANSFER TAX REVENUES		
• Revenue Base	3.0 per cent decline in 2006–07	
• Housing Resales	2.0 per cent decrease in 2006	$10 million revenue change for each percentage point change in both the number and prices of housing resales.
• Resale Prices	5.9 per cent growth in 2006	
HEALTH AND SOCIAL TRANSFERS		
• Canada-wide Revenue Base	$28.6 billion in 2006–07	
• Ontario Revenue Share	37.7 per cent in 2006–07	
• Ontario Population Share	38.9 per cent in 2006–07	$44 million revenue change for each tenth of a percentage point change in population share.
• Ontario Basic Federal PIT Share	43.9 per cent in 2006–07	$6 million revenue change in the opposite direction for each tenth of a percentage point change in Basic Federal Personal Income Tax base share.

[1] Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

[2] Ontario 2005 Personal Income Tax (PIT) is a forecast estimate because 2005 tax returns are currently being assessed by the Canada Revenue Agency.

[3] Corporations Tax refunds arising during 2005–06 are still an estimate because tax returns for corporate fiscal years ending in Ontario's 2005–06 fiscal year are still being assessed by the Tax Revenue Division of the Ontario Ministry of Finance.

[4] Now that 2005–06 Public Accounts of Ontario have been finalized, any change in 2005 PIT assessments or 2005–06 Corporations Tax revenues will have a dual effect on 2006–07 revenues through: a) a change in the revenue base upon which this year's growth is applied, and b) a revenue adjustment applied against the current year in respect of any variance from the estimate included in the 2005–06 Public Accounts.