Ontario

2006 Ontario

Economic Outlook and Fiscal Review

The Honourable Greg Sorbara
Minister of Finance

Background Papers

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FOREWORD

When the McGuinty government came to office in 2003, it inherited a $5.5 billion fiscal deficit, as well as significant deficits in health care, education and infrastructure.

Over the past three years, through its prudent and disciplined fiscal approach, the government has made progress in restoring Ontario's financial health, while making historic, long-term investments in health, education, infrastructure and a strong economy.

Ontario's economy is fundamentally strong and has shown great resilience in the face of adverse external economic forces that have been building in recent years. Consumer spending and business investment have experienced solid growth in the first half of 2006, and the unemployment rate has fallen to an average of 6.4 per cent — the lowest in five years. Since October 2003, Ontario has created 254,100 net new jobs.

However, Ontario's economy continues to be affected by external risks and pressures, notably high oil prices, a strong Canadian dollar and a weakening of the U.S. economy. These factors have caused Ontario's economy to grow more slowly than projected in the March 2006 Budget.

The government's fiscal prudence and investments to strengthen the economy since 2003 have prepared the province to weather this period of slower, short-term economic growth. Over the medium term, Ontario's growth is expected to strengthen significantly.

While Ontario's economic fundamentals remain strong, the government recognizes the need to introduce measures to boost jobs and growth in the short term. Building on current investments, the government is therefore committing additional resources to training and job services, infrastructure spending, and measures to promote interprovincial trade and Ontario tourism.

Slower economic growth has also had an impact on Ontario's fiscal outlook. While the 2006–07 deficit target remains unchanged from the $1.9 billion deficit projection outlined in the First Quarter Ontario Finances (a deficit of $0.9 billion if the reserve is not required), the medium-term fiscal outlook is now projecting deficits of $2.2 billion in 2007–08 (a deficit of $0.7 billion if the reserve is not required) and $1.0 billion in 2008–09 (a surplus of $0.5 billion if the reserve is not required).

The government remains committed to eliminating the deficit. It will therefore continue to be prudent and disciplined in its approach to managing the Province's finances, a key part of which includes keeping program spending under control.

Fair and equitable funding arrangements with the federal government are also critical to Ontario's ability to strengthen its economic advantage through investments in health, postsecondary education, infrastructure and training. At present, Ontarians receive less federal support in these areas than Canadians in other provinces and territories. The Ontario Government will therefore continue to press the federal government to honour the funding commitments it has already made and to take additional measures to treat Ontarians fairly.

Ontario's economic foundation remains strong. The government's prudent and disciplined approach, in addition to ongoing strategic investments in a well-educated and highly skilled population, a high-quality health care system, reliable, modern infrastructure and key economic sectors, will continue to strengthen the economy and ensure that the province is well positioned to manage both the challenges and opportunities ahead.

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

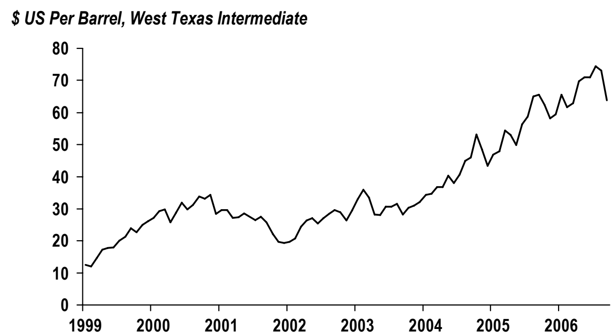
[1] Includes supplementary labour income.
Source: Ontario Ministry of Finance.

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.

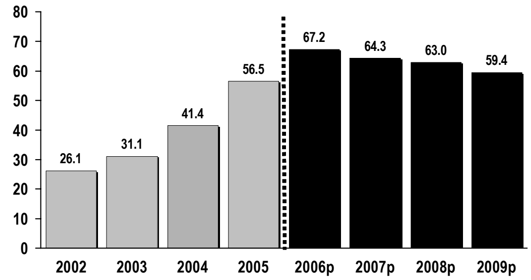
Natural gas prices plunged 25 per cent in September to average $5.20 US per million British Thermal Units (MMBtu) — the lowest monthly average in two years. They have averaged about $6.90 US per MMBtu so far in 2006, down from a record annual average of $9.00 US per MMBtu in 2005, but significantly higher 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.

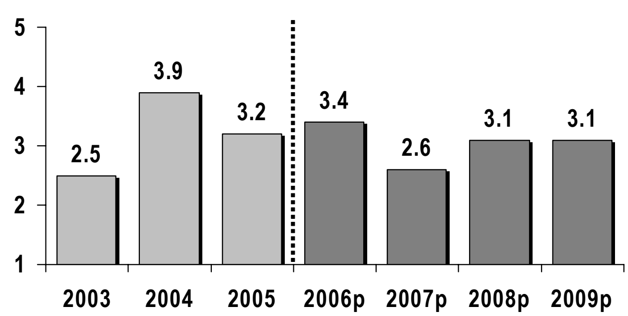
For planning purposes, the Ministry of Finance forecasts oil prices to average $67.50 US per barrel in 2006, $65.00 US per barrel in 2007, $64.00 US per barrel in 2008 and $60.00 US per barrel in 2009.

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



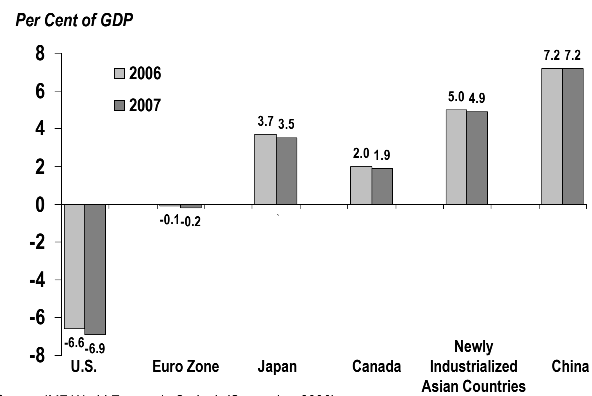
p = private-sector survey average.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2006).

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.

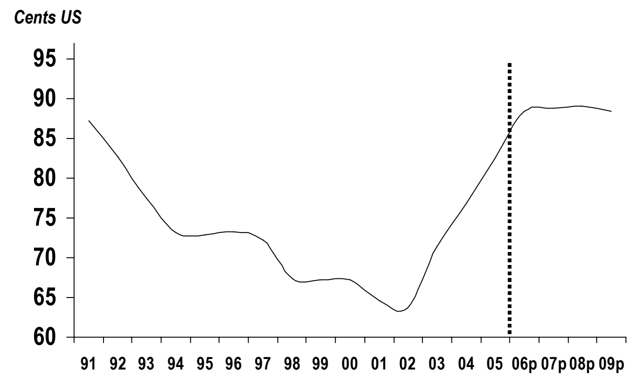
Private-sector forecasters expect the U.S. current account deficit to show little improvement in 2007. The longer global imbalances last, the more vulnerable the United States may be to a sharper correction, affecting the value of the U.S. dollar. A steep decline in the U.S. dollar would likely result 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.

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.

Canadian Dollar



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

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)

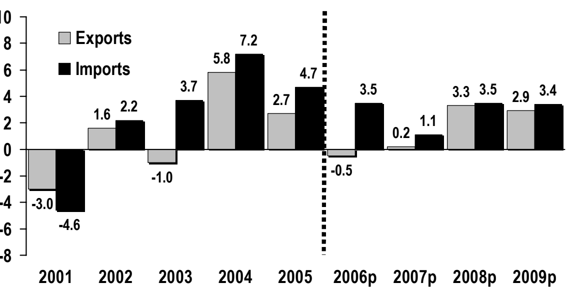
	2006p	2007p	2008p	2009p
Private-sector Average	88.5	88.8	89.1	88.5
High	88.9	94.0	90.9	91.0
Low	88.0	82.6	86.9	85.6
Ministry of Finance	88.5	89.0	89.0	89.0

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



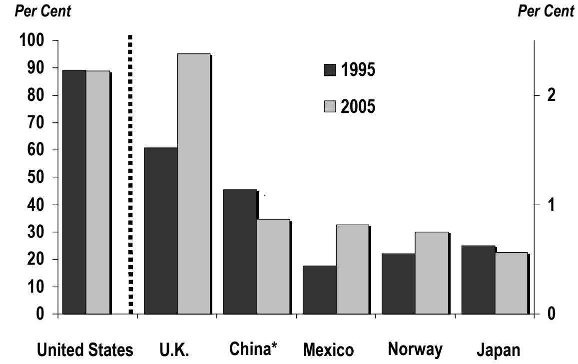
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

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.

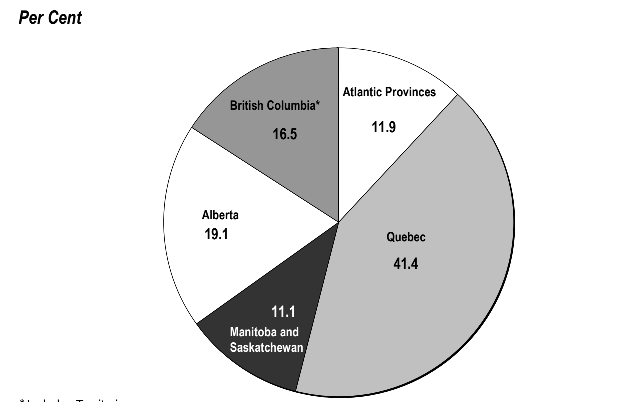
The United States is Ontario's largest trading partner, accounting for almost 90 per cent of Ontario's international merchandise exports. Over the past three years, Ontario's nominal merchandise exports to the United States have fallen by five per cent. So far this year, Ontario's exports to the United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

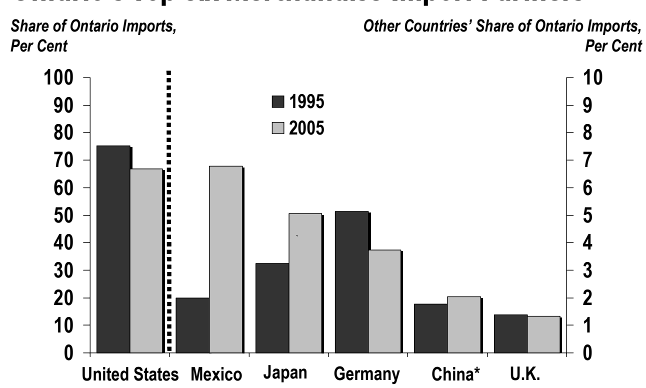
Ontario's imports continue to grow at a rapid pace, as a result of solid growth in domestic demand and a strong dollar. While the vast majority of Ontario's imports come from the United States, other regions are becoming more prominent. Imports from China have risen by almost 90 per cent over the last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

Share of Ontario Interprovincial Exports, 2002



* Includes Territories
Source: Statistics Canada.

Ontario's Top Six Merchandise Import Partners

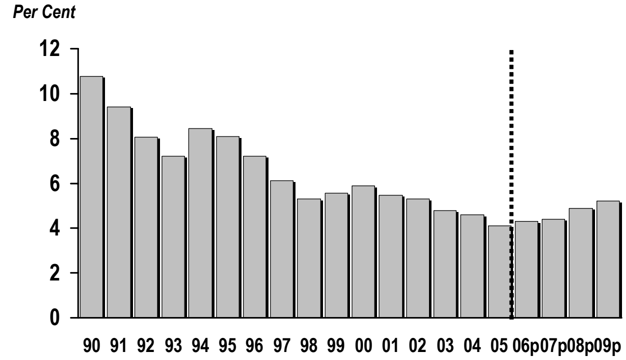


* Includes China, Hong Kong and Mongolia.
Source: Statistics Canada.

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*).

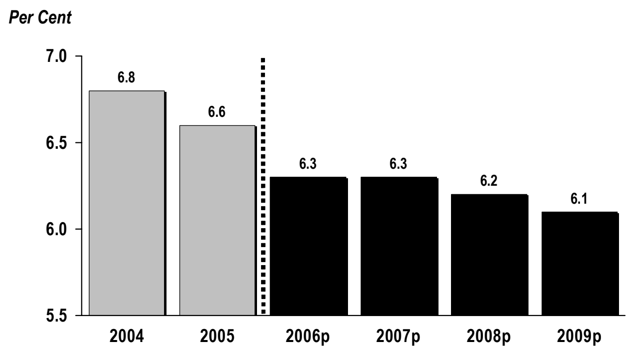
Ontario is working with the small business sector to simplify Ontario tax administration. It is also working with the Small Business Agency of Ontario to help small businesses grow and succeed, and reducing paper burden to save owners and entrepreneurs time and money.

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.

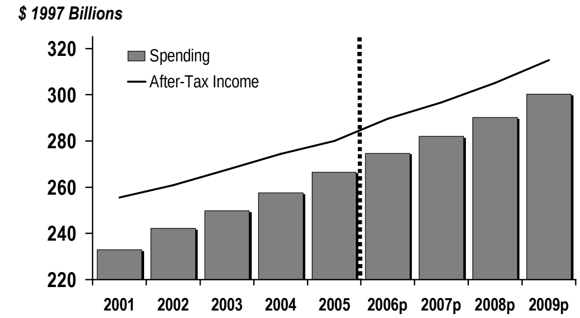
Record-high oil prices and the high Canadian dollar, along with competition from low-cost global producers, have exerted increased pressure on the goods-producing industries, particularly the export-oriented manufacturing sector. Yet, while economic conditions have adversely affected many manufacturers, 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.

Ontario Real Consumer Spending and Real After-Tax Income



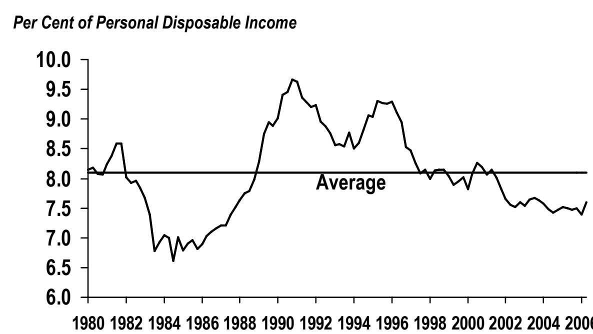
p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

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.

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.

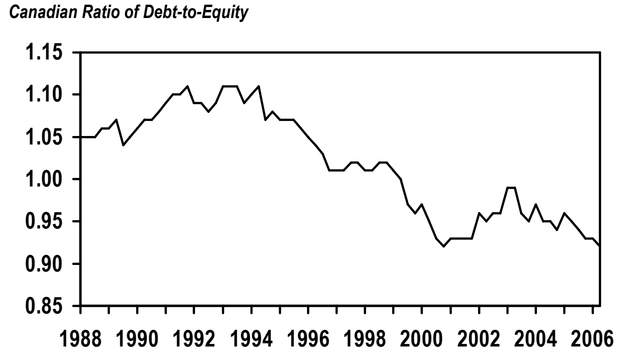
Sources: Bank of Canada, Canadian Real Estate Association, Statistics Canada and Ontario Ministry of Finance.

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.

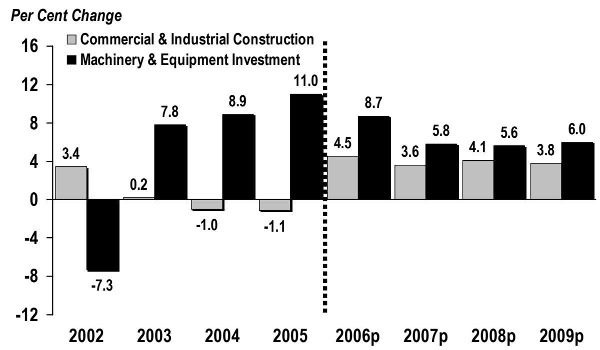
Business Balance Sheets Are Strong



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.

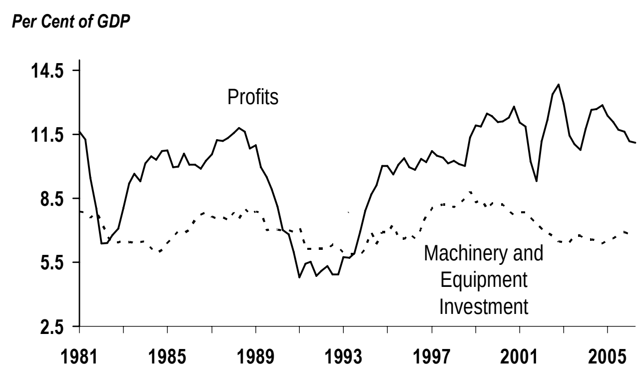
Real Business Investment



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

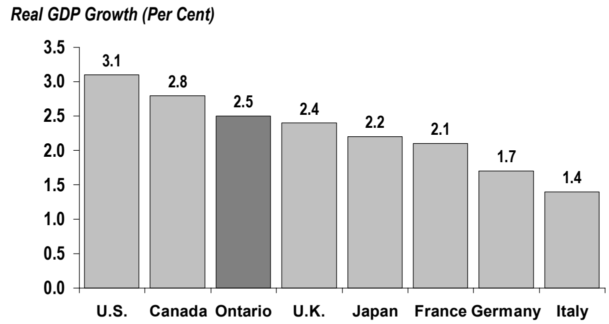
In 2005, the entertainment and creative cluster contributed nearly $9.9 billion to Ontario's economy (2.2 per cent of GDP) and employed approximately 185,000 people, accounting for 42 per cent of Canada's total workforce in this cluster.

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 vs. the G7
2006 to 2009 (Average)



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

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.

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.

ANNEX II

ONTARIO'S MEDIUM-TERM FISCAL PLAN AND OUTLOOK

INTRODUCTION

In 2003–04, Ontario's deficit was $5.5 billion. In addition to the fiscal deficit, the province had significant deficits in health care, education and infrastructure. Through a prudent and disciplined fiscal approach, the government has made progress on restoring Ontario's financial health, while making historic, long-term investments in health, education, infrastructure and a strong economy.

The 2006 Budget outlined a medium-term fiscal plan that would return the Province to a sustainable fiscal balance by 2008–09. However, record-high oil prices, the strong Canadian dollar and a weaker outlook for growth in the United States — Ontario's largest trading partner — have led to slower projected economic growth than anticipated in the 2006 Budget. As a result, while the 2006–07 deficit outlook of $1.9 billion remains on track, the medium-term fiscal outlook includes deficits of $2.2 billion in 2007–08 and $1.0 billion in 2008–09 — reflecting the impact of more moderate economic growth on Ontario's revenue outlook. The Province will post a $0.5 billion surplus if the reserve is not required in 2008–09.

The government remains committed to eliminating the deficit. It will therefore continue to be prudent and disciplined in its approach to managing the Province's finances, including keeping program spending growth under control. This approach, in addition to ongoing strategic investments in health care, education, infrastructure and key economic sectors, will continue to strengthen the economy and ensure that the province is well positioned to manage both the challenges and opportunities ahead.

This Annex provides an overview of the following:

- Section I: Ontario's Medium-term Fiscal Plan and Outlook
- Section II: 2006–07 Second-quarter Fiscal Update

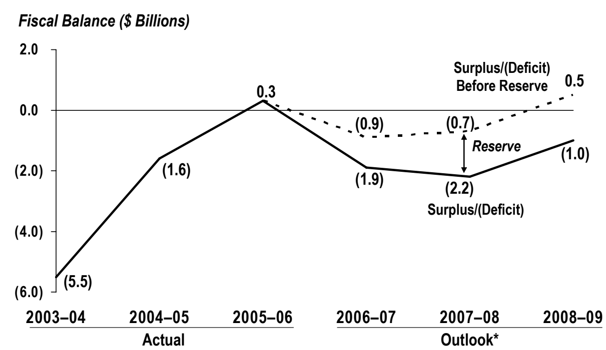
Additional information can be found in Annex VII, *Details of Ontario's Finances.*

SECTION I: ONTARIO'S MEDIUM-TERM FISCAL PLAN AND OUTLOOK

The inherited deficit in 2003–04 of $5.5 billion was the result of a prolonged period when annual growth in Provincial spending exceeded annual growth in Provincial revenue. By introducing a responsible and disciplined approach to fiscal planning, the government has made progress towards restoring the financial health of the Province by exceeding its planned deficit targets in each fiscal year since 2003–04. In 2004–05, the deficit was reduced to $1.6 billion, and the Consolidated Financial Statements for 2005–06 indicated that the Province's fiscal performance, projected to be a $1.4 billion deficit at the time of the 2006 Budget, had improved to a modest surplus of $0.3 billion.

Higher revenues, combined with lower interest on debt expenses, have given the government the flexibility to invest further in key priority areas and still improve upon the 2006 Budget deficit projection of $2.4 billion for 2006–07. In fact, the Province has already reported an improvement of $0.4 billion in the deficit outlook for 2006–07 from the 2006 Budget forecast.

Ontario's Medium-term Fiscal Plan



* Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance.

While the 2006–07 deficit target remains unchanged from the $1.9 billion deficit projection outlined in the First Quarter Ontario Finances, or $0.9 billion if the reserve is not required, the medium-term economic growth outlook has softened, reflecting record-high oil prices, a stronger Canadian dollar and a slower projected growth outlook for the U.S. economy. The medium-term fiscal outlook, which includes reserves of $1.5 billion in 2007–08 and 2008–09, is now projected to be a deficit of $2.2 billion in 2007–08 and $1.0 billion in 2008–09, reflecting the impact of the slower economic growth on Provincial revenue. This represents a change of $0.7 billion in 2007–08 and $1.0 billion in 2008–09 from the fiscal targets presented in the 2006 Budget. The Province will post a deficit of $0.7 billion if the reserve is not required in 2007–08 and a $0.5 billion surplus if the reserve is not required in 2008–09. The government is committed to eliminating the fiscal and structural deficits through prudent fiscal management, including keeping expense growth under control.

Key Elements of Ontario's Medium-term Fiscal Plan

The key elements of the government's medium-term fiscal plan, which will ensure an ongoing commitment to a disciplined and prudent approach to fiscal planning, include:

- promoting a strong economy by investing in Ontario's infrastructure, health care, education, and postsecondary education and training
- making disciplined decisions that hold the annual rate of growth in total spending to 2.7 per cent on average over the medium term — significantly less than the 3.5 per cent average annual rate of growth in total revenue
- working constructively with the federal government towards a set of principled and sustainable federal–provincial fiscal arrangements
- responsibly maintaining a cautious and prudent fiscal planning process, including an annual reserve
- forming the Ontario Economic Forecasting Council, which will meet with the Minister of Finance to discuss macroeconomic projections
- identifying $750 million in program review savings by 2007–08.

MEDIUM-TERM FISCAL OUTLOOK

While the 2006–07 fiscal outlook is unchanged from the $1.9 billion deficit forecast in the First Quarter Ontario Finances, the medium-term fiscal outlook now projects a deficit of $2.2 billion in 2007–08 and $1.0 billion in 2008–09, including the reserve. This represents a change of $0.7 billion in 2007–08 and $1.0 billion in 2008–09 from the fiscal targets presented in the 2006 Budget. The Province will post a deficit of $0.7 billion if the reserve is not required in 2007–08 and a $0.5 billion surplus if the reserve is not required in 2008–09.

As per the *Fiscal Transparency and Accountability Act, 2004,* the following table provides details of projected revenue and expense from 2006–07 through to the 2008–09 fiscal year. Further details are included in Annex VII, *Details of Ontario's Finances*.

MEDIUM-TERM FISCAL PLAN AND OUTLOOK ($ BILLIONS)

	Actual	Outlook[1]		
	2005–06	2006–07	2007–08	2008–09
Revenue				
Taxation Revenue	59.9	61.6	63.5	66.1
Government of Canada	13.3	14.0	15.4	15.5
Income from Government Enterprises	4.3	3.9	4.1	4.3
Other Non-Tax Revenue	6.7	7.5	7.0	7.3
Total Revenue	**84.2**	**87.0**	**90.0**	**93.2**
Expense				
Programs				
Health Sector	32.8	35.5	37.5	38.9
Education Sector[2]	11.6	12.1	12.6	12.7
Postsecondary Education and Training Sector	4.7	5.2	5.9	6.0
Children's and Social Services Sector	10.1	10.3	10.5	10.6
Justice Sector	3.1	3.2	3.2	3.2
Other Programs	12.6	12.4	11.6	11.6
Total Programs	**74.9**	**78.8**	**81.2**	**83.1**
Interest on Debt	9.0	9.2	9.5	9.6
Total Expense	**83.9**	**88.0**	**90.8**	**92.7**
Surplus/(Deficit) Before Reserve	**0.3**	**(0.9)**	**(0.7)**	**0.5**
Reserve	–	1.0	1.5	1.5
Surplus/(Deficit)	**0.3**	**(1.9)**	**(2.2)**	**(1.0)**

[1] Second-quarter fiscal forecast as at September 30, 2006.

[2] Education sector includes Teachers' Pension Plan (TPP). Excluding TPP, total education sector expense is $11.3 billion in 2005–06, and projected at $11.7 billion in 2006–07, $12.1 billion in 2007–08 and $12.4 billion in 2008–09.

Note: Numbers may not add due to rounding.

MEDIUM-TERM 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.*

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.

MEDIUM-TERM EXPENSE OUTLOOK

Over the medium term, total expense will rise from $88.0 billion in 2006–07 to $92.7 billion in 2008–09 — an increase of $4.7 billion. To put the Province's finances on track towards a sustainable fiscal balance, annual average growth in spending over the medium term will be held to less than the annual average rate of growth in revenue. Annual growth in total expense is expected to average 2.7 per cent over this period, which is less than the 3.5 per cent average annual growth in revenue forecast over the medium term.

DETAILS OF EXPENSE OUTLOOK

- Total **health sector** spending, including the impact of consolidating the Province's 156 hospitals (including four specialty psychiatric hospitals), will grow by $2.7 billion to $35.5 billion in 2006–07. Between 2005–06 and 2008–09, total health spending will increase by $6.1 billion.

- Total **education sector** spending, including the impact of consolidating the Province's 103 school boards and authorities, will grow by $0.5 billion to $12.1 billion in 2006–07, increasing to $12.7 billion by 2008–09. Excluding Teachers' Pension Plan expense, education sector spending will grow by $0.4 billion to $11.7 billion in 2006–07, increasing to $12.4 billion by 2008–09.

- Total **postsecondary education and training** sector spending, including the impact of consolidating the Province's 24 colleges of applied arts and technology, will grow by $0.5 billion to $5.2 billion in 2006–07, increasing to $6.0 billion by 2008–09.

- **Children's and Social Services sector** funding to support vulnerable adults, families and at-risk youth will grow by an additional $0.3 billion in 2006–07 to $10.3 billion, rising to $10.6 billion by 2008–09.

- **Justice sector** spending will grow by $0.1 billion to $3.2 billion in 2006–07 and remain at that level throughout the medium term.

- **Other Programs** spending will total $12.4 billion in 2006–07, but will decrease to $11.6 billion in 2007–08 and 2008–09, mainly reflecting one-time investments in 2006–07 such as those related to the Teranet IPO proceeds, the Ontario Home Electricity Relief program, and additional forest fire fighting costs.

- **Interest on debt expense** is forecast to grow by $0.4 billion between 2006–07 and 2008–09, reflecting the government's deficit targets and interest rates that are forecast to increase from historically low levels. In 2006–07, interest on debt costs will amount to about 11 per cent of total Provincial revenue and will fall to about 10 per cent in 2008–09. This represents an improvement over 2003–04, when interest on debt expense represented 14 per cent of total Provincial revenue.

FISCAL PRUDENCE

The government is applying a disciplined approach to balancing strategic investments in key priority areas with a plan to achieve a sustainable fiscal balance. The government's medium-term fiscal plan also includes prudence in recognition of the risks that could materialize as a result of changes in the economic and fiscal outlook.

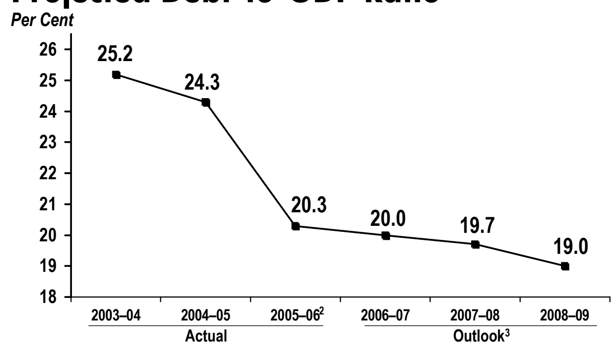
Fiscal prudence is particularly important in the current context, where the economic outlook has softened due to record-high oil prices, a strong Canadian dollar and a slower projected growth outlook for the U.S. economy. The government's medium-term fiscal plan continues to include reserves of $1.0 billion in 2006–07 and $1.5 billion in 2007–08 and 2008–09 to protect the fiscal plan against the impact of external adverse developments. The 2007–08 and 2008–09 reserves are $0.5 billion higher than the $1.0 billion reserve in 2006–07 to better reflect the risks and uncertain nature of medium-term fiscal projections.

Consistent with the principles of increased fiscal transparency and accountability, the government provides quarterly fiscal and economic updates using the best available information.

MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

The government's medium-term fiscal plan includes a commitment to maintain a prudent level of Provincial debt relative to the size of Ontario's economy as measured by nominal GDP. Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing debt charges crowd out funds available for spending on government priorities. Responsible fiscal management, therefore, needs to be long term to ensure that future generations are not burdened with an unsustainable debt load.

Projected Debt-to-GDP Ratio[1]



[1] Debt is defined as accumulated deficit.
[2] The substantial decline in 2005–06 is primarily due to a one-time reduction in the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, reflecting the balance of the sectors' assets less their liabilities.
[3] Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance.

As per the *Fiscal Transparency and Accountability Act, 2004*, Provincial debt is defined as accumulated deficit, which is the sum of all past Provincial surpluses and deficits.

Consistent with the medium-term fiscal outlook provided in this update, the Province's debt-to-GDP ratio is projected to decline from 25.2 per cent in 2003–04 to 20.0 per cent in 2006–07 and 19.0 per cent by 2008–09.

Key Changes Since the 2006 Ontario Budget

The government's medium-term fiscal outlook has been updated to reflect revenue and expense changes since the Budget, including updates to the Province's interest on debt forecast. Further details are included in Annex I, *Ontario's Economic and Revenue Outlook*, and Annex VII, *Details of Ontario's Finances.*

In 2005–06, the Province recorded a modest surplus of $298 million, which is an improvement from the interim deficit projection of $1.4 billion reported in the 2006 Budget. This modest surplus, confirmed by the Auditor General in the 2005–06 Consolidated Financial Statements, can be primarily attributed to higher-than-expected tax revenues and lower-than-expected net expenses of hospitals, colleges and school boards. Higher revenues in 2006–07, combined with lower interest on debt expense, have given the government the flexibility to invest further in key priority areas and still improve upon the 2006 Budget deficit projection of $2.4 billion for 2006–07. However, the deficit is now projected to be $2.2 billion in 2007–08 and $1.0 billion in 2008–09, including the reserve, reflecting the medium-term impact of slower economic growth on Provincial revenues. The Province will post a $0.5 billion surplus if the reserve is not required in 2008–09.

The following table provides an overview of the key changes to the medium-term revenue and expense outlooks and the reserve since the release of the 2006 Budget. Additional details on key changes to the 2006–07 fiscal outlook since the 2006 Budget are provided in Section II of this Annex.

Impact of Key Changes to the Medium-term Deficit Targets ($ Billions)

	Outlook		
	2006–07	2007–08	2008–09
Surplus/(Deficit) as per 2006 Budget	(2.4)	(1.5)	0.0
Total Revenue Changes Since 2006 Budget	1.3	(0.3)	(0.8)
Key Expense Changes Since 2006 Budget:			
Additional Funding to Reduce Health Wait Times	0.1	0.2	0.2
Investment of Teranet IPO Proceeds into Priorities (see Section II)	0.5	–	–
Spending Related to Federal Trusts	0.5	0.5	0.2
Other Expense (Net), Including Interest on Debt Savings	(0.2)	(0.2)	(0.1)
Total Expense Changes Since 2006 Budget	0.9	0.5	0.3
Total Changes Since 2006 Budget	0.4	(0.7)	(1.0)
Surplus/(Deficit)	(1.9)	(2.2)	(1.0)
Reserve	1.0	1.5	1.5
Surplus/(Deficit) Before Reserve	(0.9)	(0.7)	0.5

Note: Numbers may not add due to rounding.

DETAILS OF KEY REVENUE CHANGES

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.

All other medium-term revenue changes lower the revenue outlook over the medium term. The medium-term revenue outlook changes are discussed in greater detail in Annex I, *Ontario's Economic and Revenue Outlook*.

UPDATE ON THE PROCEEDS FROM THE INITIAL PUBLIC OFFERING (IPO) OF TERANET

The First Quarter Ontario Finances reported that an estimated $570 million was expected from the Teranet IPO proceeds, of which $54 million was devoted to service improvements and system enhancements of Teranet.

The amount included $410 million in cash received from the IPO on June 16, 2006.
The $160 million cash component of the transaction received by the Province in a deferred payment was dependent upon the market price of the income fund units at the time the Province's designees sold their income fund units and paid the Province the deferred payment. In September, the Province's designees sold their income fund units and paid the Province $163 million, resulting in an additional $3 million in revenue.

The proceeds from the Teranet IPO have been added to the Ministry of Finance Operating Contingency Fund and the government will continue to determine priority areas in which to invest the proceeds. Details on priority areas where the government is proposing to invest the Teranet IPO proceeds can be found in Section II of this Annex.

Details of Key Expense Changes

Major changes to the medium-term expense outlook since the 2006 Budget include:

- increases in total **health sector** expense by $0.1 billion in 2006–07, $0.2 billion in 2007–08 and $0.2 billion onwards, to reflect enhancements to the government's Wait Times Strategy
- an amount of $0.5 billion allocated to the Contingency Fund until priority projects to be funded by the **proceeds from the Teranet Income Fund IPO** in 2006–07 are determined; details on key investments to date can be found in Section II of this Annex
- spending related to **the Government of Canada transfers under the federal trusts,** which amount to $0.5 billion in 2006–07 and 2007–08, and $0.2 billion in 2008–09, pending satisfactory resolution of issues related to the Canada–Ontario Agreement
- a net decrease in other expenses by $0.2 billion in 2006–07 and 2007–08, and $0.1 billion in 2008–09, mainly due to the impact of **lower interest on debt costs** arising from continued cost-effective debt management and lower interest rates than were forecast at the time of the 2006 Budget.

Modernizing Government Update

The government's modernization plan contains three objectives:

- **program review** — achieving savings of $750 million by 2007–08 from more cost-effective programs
- **efficient government** — delivering higher-quality services in an efficient and effective manner
- **controlling long-term costs** — improving health care, education and other key services in a way that is affordable and fiscally sustainable.

Achievement of Savings

Since taking office, the government has undertaken a comprehensive review to ensure that key programs and services are being delivered in the most cost-effective way possible and to secure their long-term viability. A critical component of the fiscal plan has been the program review target of $750 million to be achieved by 2007–08.

As indicated in the 2006 Budget, $407 million in savings had been found — $350 million in direct program savings and a further $57 million through more efficient management of the Province's revenues. To keep pace with the rising expectations of citizens for high-quality, cost-effective public services, the government is modernizing and improving programs and services both internally and externally. Examples include:

- decreased procurement costs resulting from a more streamlined purchasing process, vendor rebates and 33 new vendors of record
- savings generated by changes in the application of information technology services and products, including the consolidation of key infrastructure services across the Ontario Public Service (e.g., service/datacentre consolidation and common computer applications and services)
- more effective management of government revenues through improved collection of the government's accounts receivable
- reduced ministry accommodation costs and more energy-efficient government buildings — Ontario is leading by example in reducing energy consumption
- improved and more cost-effective service delivery to both citizens and business customers through the implementation of ServiceOntario.

Since the 2005 Budget, ministries across the government have reviewed their baseline expenditures for efficiencies to ensure all expenditures are aligned with the government's priorities. As a result of the review, combined with the work underway to modernize government, the remaining $343 million of the $750 million program review target has been realized and exceeded. All government ministries have realized sufficient savings from program review to absorb almost $400 million in salary and wage and other inflationary pressures. Total savings from modernization equal $806 million annually.

The 2006 Budget confirmed that the government has continued to move forward on the modernization initiatives. For example, the new Securities Transfer Act, coming into force January 2007, creates the first fully harmonized provincial commercial law in Canada. The modernization of Ontario's commercial law framework will help businesses compete in the global economy and facilitate economic growth.

The continued work to modernize government and review all expenditures demonstrates Ontario's commitment to achieving efficiency, effectiveness and economy throughout government.

In November 2005, the first money-back service guarantee was implemented for the Online Birth Certificate Service. As of September 2006, of the 250,189 eligible applications received, 80 refunds have been issued to applicants who did not receive their birth certificate within 15 business days.

Building on the success of the Online Birth Certificate service guarantee, an Online Marriage and Death Certificates Application money-back guarantee will be launched in January 2007, enabling customers quick and convenient access to these vital documents.

The government is also working with broader public-sector (BPS) partners to manage the rate of growth in spending, while improving their respective service levels. OntarioBuys, a Ministry of Finance program, is working with BPS partners to improve their supply chain functions. For instance, an e-supply chain project involving 46 hospital facilities across the province is already yielding significant annual savings available for front-line services. The BPS is demonstrating keen interest in this program and new projects are being initiated. Existing OntarioBuys projects in the health and education sectors, once implemented, will yield demonstrable savings and improve service quality.

The program review savings target was $750 million and has been exceeded. The following table presents total achieved program review savings.

Total Program Review Savings ($ Millions)	2007–08
Previously Reported Savings ($407 Million)	
Supply Chain and Transactional Services	200
Information and Information Technology	100
Accommodation Savings Review	50
Revenue Savings	57
Subtotal	407
Remaining Savings/Efficiencies ($399 Million)	
Salary and Wage Pressures Absorbed	366
Ministry Efficiencies – Absorbing Inflationary Costs	18
Central Agency Review/Integration	15
Subtotal	399
Total	806

SECTION II: 2006–07 SECOND-QUARTER FISCAL UPDATE

2006–07 FISCAL SUMMARY

The 2006 Budget Plan projected a deficit of $2,350 million for 2006–07. As at September 30, 2006, a deficit of $1,949 million is projected for 2006–07, an in-year improvement of $401 million from the deficit projected in the 2006 Budget. Additional information can be found in Annex VII, *Details of Ontario's Finances.*

2006–07 FISCAL OUTLOOK — IN-YEAR CHANGE
($ MILLIONS)

	Budget Plan 2006–07	Outlook[1] 2006–07	In-Year Change
Revenue	85,730	87,044	1,314
Expense			
Programs	77,651	78,789	1,138
Interest on Debt	9,429	9,204	(225)
Total Expense	87,080	87,993	913
Surplus/(Deficit) Before Reserve	(1,350)	(949)	401
Reserve	1,000	1,000	–
Surplus/(Deficit)	(2,350)	(1,949)	401

[1] Second-quarter fiscal forecast as at September 30, 2006.

Total revenue in 2006–07 is currently projected to be $87,044 million, an increase of $1,314 million from the 2006 Budget Plan. In-year revenue changes are discussed in greater detail in Annex I, *Ontario's Economic and Revenue Outlook*.

Total expense is projected to increase to $87,993 million, up a net $913 million from the 2006 Budget Plan and up $494 million from the outlook presented in the First Quarter Ontario Finances. This is mainly due to an in-year increase in the Operating Contingency Fund of $456 million related to the federal trusts and the $519 million in proceeds from the Teranet IPO, offset by interest on debt savings of $225 million.

The reserve, included to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, is unchanged at $1.0 billion. Any portion of the reserve not required at year-end will be used to reduce the deficit.

The 2006–07 fiscal outlook continues to include funding from the 2005 Canada–Ontario Agreement. Issues surrounding federal transfers are discussed in greater detail in Annex III, *Fairness for All Canadians.*

2006–07 Expense Outlook

SUMMARY OF IN-YEAR EXPENSE CHANGES SINCE BUDGET
($ MILLIONS)

		In-Year Change
Expense Changes This Quarter:[1]		
Ministry of Finance — Increase to Operating Contingency Fund for the federal trusts		456
Ministry of Natural Resources — Additional forest fire fighting costs		124
Ministry of Health and Long-Term Care[2] — Wait Times Strategy		109
Ministry of Community and Social Services — Ontario Disability Support Program		25
Ministry of Children and Youth Services — Youth Challenge Fund		15
Ministry of Education — TVOntario Strategic Plan implementation		8
Ministry of Public Infrastructure Renewal — Caledonia — Purchase of Douglas Creek Estates		6
Ministry of Finance — Increase to Operating Contingency Fund for additional proceeds from the Teranet IPO		3
Interest on Debt — Savings		(74)
Sub-Total		672
Proposed Investments Related to Teranet IPO Proceeds		
Ministry of Transportation — Toronto Transit Vehicle Assistance	150	
Ministry of Agriculture, Food and Rural Affairs — Assistance to Farmers	101	
Ministry of Agriculture, Food and Rural Affairs — Rural Infrastructure	70	
Ministry of Agriculture, Food and Rural Affairs — Rural Development	5	
Total Proposed Investments Related to Teranet IPO Proceeds		326
Total Expense Changes, Including Investments Related to Teranet IPO Proceeds		998
Ministry of Finance — Operating Contingency Fund offsets		(498)
Ministry of Public Infrastructure Renewal — Capital Contingency Fund offsets		(6)
Net Expense Changes This Quarter		494
Net Expense Changes Reported in First Quarter Ontario Finances		419
Total Expense Changes Since Budget		913

1 Second-quarter fiscal forecast as at September 30, 2006.
2 Includes amounts allocated to hospitals' net expense for Wait Times Strategy.

The following is a detailed explanation of the in-year changes this quarter.

- The Province proposes that the Operating Contingency Fund under the **Ministry of Finance** be increased by $456 million in 2006–07 to reflect spending related to the federal trusts, pending satisfactory resolution of issues related to the Canada–Ontario Agreement.

- An in-year increase of $124 million in the **Ministry of Natural Resources** for additional personnel and equipment resources is required to support forest fire fighting, due to the above-average number of fires this season, fully offset from the Operating Contingency Fund.

- **Health sector** expense increased by $109 million, reflecting enhancements to the government's Wait Times Strategy, including about $50 million for 127,200 additional key procedures (hip and knee replacements, cataract surgeries, MRI exams and CT scans) and about $59 million to improve supporting programs and services.

- An increase of $25 million in the **Ministry of Community and Social Services** is a result of the elimination of the four-month limit on retroactive payments for the Ontario Disability Support Program, fully offset from the Operating Contingency Fund.

- An increase of $15 million in the **Ministry of Children and Youth Services** is supporting the Youth Challenge Fund to provide prevention and early intervention initiatives for youth at risk, fully offset from the Operating Contingency Fund.

- An in-year increase of $8 million in the **Ministry of Education** is supporting the modernization of TVOntario through its conversion to digital broadcasting, fully offset from the Operating Contingency Fund.

- The **Ministry of Public Infrastructure Renewal** has paid $22 million to acquire the Douglas Creek Estate Lands. The net impact on the ministry's allocation is an increase of $6 million, fully offset from the Capital Contingency Fund. As part of its broader response and strategy to provide support and assistance to individuals and businesses of Caledonia, the government has provided $25 million this fiscal year, of which $2 million was reported in the First Quarter Ontario Finances for business assistance.

- An increase of $3 million in the **Ministry of Finance** Operating Contingency Fund resulting from the additional revenue from the Teranet IPO when the Province's designees sold their income fund units and paid the Province.

- Savings of $74 million in **Interest on Debt** costs for 2006–07 are mainly due to cost-effective debt management and lower-than-forecast long-term interest rates.

The following provides details of the government's investments to date related to the Teranet IPO proceeds in the Operating Contingency Fund.

- A $150 million increase in the **Ministry of Transportation** is for the contribution to the City of Toronto to help fund the replacement and refurbishment of Toronto Transit Commission (TTC) vehicles, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund. This contribution recognizes the unique funding requirements of the TTC — Canada's largest municipal transit agency.

- There is an increase in the **Ministry of Agriculture, Food and Rural Affairs** of $96 million in assistance to farmers to match the federal Canadian Agricultural Income Stabilization Inventory Transition Initiative, and $5 million to support horticulture producers through the Self-Directed Risk Management Program, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund.

- An investment of $70 million in the **Ministry of Agriculture, Food and Rural Affairs** is for rural communities to support projects such as water and wastewater infrastructure, and roads and bridges, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund.

- An increase of $5 million in the **Ministry of Agriculture, Food and Rural Affairs** is assisting rural communities with economic development projects, fully offset from the Teranet IPO proceeds in the Operating Contingency Fund.

ANNEX III

FAIRNESS FOR ALL CANADIANS

Introduction

For over 15 years, successive Ontario governments have urged the federal government to address the systemic unfairness towards the people of Ontario in federal programs and transfers. In 2004, the McGuinty government documented the inequities in greater detail than ever before and its call for fairness received support from business, community, sectoral and municipal leaders from all regions of Ontario.

The Government of Ontario and the people of this province believe that equitable treatment is a fundamental principle that must serve as the underpinning of our fiscal arrangements. Outside of the country's formal Equalization program, federal transfers and programs of general application should treat all Canadians equally. Federal cash transfers to provinces and territories that support these programs should be allocated on an equal per-capita basis.

This unfairness represents a real drain on the Ontario economy and a significant barrier to progress for the people of this province. With fair support from the federal government, Ontario could do even more to strengthen the economy and improve vital public services like health care and education.

More and more, studies are supporting what Ontario has been saying: that outside of the Equalization program itself, all Canadians deserve the same level of support from their national government for their public services. Even the federal government's own study, the O'Brien Report, agrees that backdoor equalization with respect to health and social transfers needs to be addressed. All Canadians are equal, and the federal government should invest fairly in the future prosperity of all Canadians and all regions.

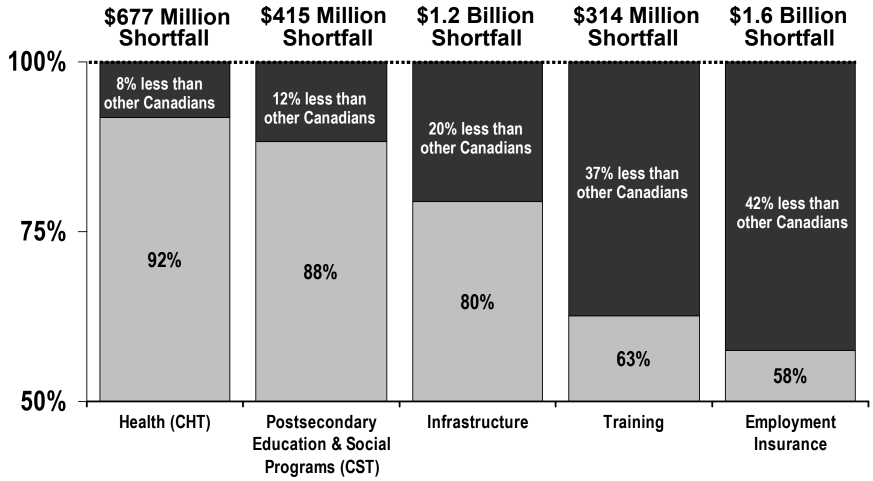
Ontarians Do Not Receive Fair Treatment

The Ontario Government recognizes the importance of modern and efficient infrastructure to support economic growth. That's why the 2006 Ontario Budget included a $1.2 billion investment in the Province's public transit systems, municipal roads and bridges. This investment includes $670 million through the Move Ontario Trust to enable the extension of the Toronto subway to Vaughan, and $167 million to enable expansion of public transit in Mississauga, Brampton and York Region. The initiative builds on the provision of two cents per litre of gas tax revenues to municipalities in support of public transit, and the government's ReNew Ontario plan to invest more than $30 billion over five years in health care, education, water and wastewater, justice, transportation and transit infrastructure.

The federal government is a necessary partner in the Toronto–York subway extension, the North America Gateway and other projects of national strategic significance, and must distribute infrastructure funding fairly over the long term. Under the terms of the existing infrastructure programs, on a per-capita basis, Ontario has only received 80 per cent of the funding made available to the rest of Canada over the terms of those agreements. Over the life of the existing federal infrastructure programs, this shortfall will add up to $1.2 billion.

Ontarians Do Not Receive Fair Treatment[1]

Per-Capita Funding for Ontarians Compared to the Rest of Canada



Average Per-Capita Funding in the Rest of Canada = 100%

Source: Ontario Ministry of Finance, Statistics Canada.

At the same time, the federal government must address the inequities in how it distributes the Canada Health Transfer (CHT), which supports Ontario's hospitals and health care providers, and the Canada Social Transfer (CST), which supports colleges, universities and social programs. Federal support for health care in Ontario is only 92 per cent of the average support given to Equalization-receiving provinces.[2] This means Ontario will receive $53 less per person — an annual shortfall totalling $677 million. Federal transfers to support Ontario's postsecondary education sector and social programs are only 88 per cent of the average support given to Equalization-receiving provinces. This means Ontario will receive $33 less per person — an annual shortfall totalling $415 million.

Federal funding for labour market training in Ontario is also distributed inequitably. Federal support for training and employment services per unemployed person in Ontario is only 63 per cent of the average funding per unemployed person provided to Canadians in other provinces. Ontarians would benefit by $314 million annually if they received the same funding for training as other Canadians.

[1] CHT and CST figures are for the 2006–07 fiscal year and the "rest of Canada" refers to Equalization-receiving provinces; figures for infrastructure refer to funding over the terms of existing federal infrastructure programs; figures for training are for 2004 and refer to per unemployed person, and "rest of Canada" refers to other provinces only, not territories; EI regular benefits figures are for 2005 and refer to per unemployed person, and "rest of Canada" refers to other provinces only, not territories.

[2] All provinces except Ontario and Alberta receive Equalization. Saskatchewan receives more CHT and CST cash per capita than the other seven Equalization-receiving provinces.

Ontarians also receive less federal Employment Insurance (EI) regular benefits per unemployed person than unemployed persons elsewhere in Canada. EI regular benefits for unemployed Ontarians are only 58 per cent of the average for unemployed persons in the rest of Canada. Ontarians would benefit by $1.6 billion annually if they received the same level of EI benefits as other Canadians.

Canada–Ontario Agreement

In 2005, the Canadian and Ontario governments entered into a historic agreement that finally addressed some of Ontario's concerns about fairness. Progress was made in a number of areas, including funding to support Ontario workers and immigrants at levels comparable to that of other provinces.

The Canada–Ontario 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 new federal government made an unequivocal commitment to honour that Agreement, recognizing that it was in the interests of all Ontarians and all Canadians to invest in a fair way in Ontario's prosperity.

Letter from Stephen Harper to Dalton McGuinty, January 18, 2006

Dear Premier McGuinty,

It was a pleasure to speak with you earlier this week.

When we met in my office in May 2005, no agreement had been finalized between yourself and the Prime Minister. We did reach an understanding that **I would be amenable to supporting a fiscal imbalance agreement reached between Ontario and Canada.***

Our platform released last week does not provide for the last two years of this agreement as that would put us beyond the term of the current Ontario government. However, given your strong commitment to the terms of the current agreement, **I have no difficulty in accommodating your request**.* This means **we will be fully funding this agreement*** through the 2009–10 and 2010–11 fiscal years, a commitment which is **clearly within the fiscal flexibility of our plans.***

I have attached the spreadsheet which sets out the details of the funding of that agreement in order to avoid any confusion.

Sincerely,

Hon. Stephen Harper, P.C., M.P.

* Emphasis added.

Prime Minister Harper's Commitment to the Canada–Ontario Agreement ($ Millions)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	Total
Higher Education	400	–	350	400	400	400	**1,950**
Housing and Infrastructure	150	150	100	100	100	–	**600**
Cities	149	149	–	–	–	–	**298**
Labour Market Development and Immigration	80	300	400	560	634	634	**2,608**
Climate Change	–	40	140	158	200	–	**538**
Corporate Tax Collection and Meat Inspection	10	80	350	250	100	100	**890**
Total	789	719	1,340	1,468	1,434	1,134	**6,884**

Based on the specific, firm, written commitment to the Canada–Ontario Agreement, set out in the Honourable Stephen Harper's letter to Premier Dalton McGuinty on January 18, 2006, Ontario built these revenues and corresponding expenditures into its March 2006 Budget medium-term fiscal plan.

REVENUE FROM 2005 CANADA–ONTARIO AGREEMENT INCLUDED IN ONTARIO'S MEDIUM-TERM FISCAL PLAN ($ MILLIONS)

	2006–07	2007–08	2008–09	Three-Year Total
Immigration[1]	2	2	2	**6**
Labour Market Partnership	93	108	155	**356**
Corporate Tax Collection	–	250	150	**400**
Higher Education	–	350	400	**750**
Housing	150	–	–	**150**
Infrastructure	–	100	100	**200**
Climate Change	40	140	158	**338**
Total Included in Fiscal Plan	**285**	**950**	**965**	**2,200**

[1] Annual funding to support the development of an immigration portal. Under the Canada–Ontario Agreement, $320 million annually by 2009–10 in newcomer services will be delivered to Ontarians by the federal government.

Uncertainty remains regarding the Agreement resulting from the unanticipated announcement in the 2006 federal budget of the intention to include several trusts, certain tax measures and "further amounts allocated" as counting towards the Agreement.

Furthermore, the federal government made unexpected changes to the form and timing of revenues to flow to Ontario through the Agreement. Finally, Ontario awaits the balance of the funds committed under the Agreement, including outstanding 2005–06 amounts and the long-term funding that was promised in the Honourable Stephen Harper's January 18, 2006 letter.

FEDERAL TRUSTS

The May 2006 federal budget announced the federal government's intention to create several trusts worth $3.3 billion for the benefit of all provinces and territories. These trusts provide support to provinces and territories for postsecondary education, public transit and housing.

Ontario will receive $390 million over two years from the Postsecondary Education Infrastructure Trust; $352 million over three years from the Public Transit Capital Trust; $312 million over three years from the Affordable Housing Trust; and $80 million over three years from the Off-Reserve Aboriginal Housing Trust.

The Province is including $1,134 million of revenue from these trusts in its medium-term fiscal outlook. The Province proposes that the Operating Contingency Fund under the Ministry of Finance be increased by $1,134 million over three years to reflect supplemental spending related to these trusts, pending satisfactory resolution of issues related to the Canada–Ontario Agreement.

Ontario does not accept the position that the unanticipated measures announced by the federal government in its 2006 Budget count towards the Canada–Ontario Agreement. No other province has been called upon to use these trusts to offset pre-existing federal commitments, deals or obligations.

If the federal government maintains that the trusts apply against the Canada–Ontario Agreement revenues already built into the Province's fiscal plan, which also already have expenditures aligned against them, then there is no supplemental funding available to spend in those areas beyond what was already included in Ontario's March 2006 Budget.

To maintain otherwise would be to claim that funds provided once are to be spent twice.

Fairness for All Canadians

Ontario is calling on the federal government to honour its commitment to the government and to the people of Ontario. This means moving forward to ensure that Canadians living in Ontario are treated fairly by their national government in the areas of health and social transfers, infrastructure funding, support for workers — and all federal programs designed to help Canadians across the country.

Ontario and the federal government must work together in a forward-looking manner to address the future prosperity of the Province and Canada.

The Government of Ontario welcomes Ottawa's acknowledgment and attention to the fiscal imbalance and Ontario's equitable treatment concerns. In the longer term, we need a fundamental re-examination of our fiscal architecture. The Government of Ontario has put forward a number of suggestions for such a review.

Ultimately, the Government of Ontario's position can be summarized, simply, as *Fairness for All Canadians.* We expect the federal government to make meaningful, concrete steps towards achieving fairness immediately.

ANNEX IV

CORPORATE TAX HARMONIZATION —
CREATING A MORE COMPETITIVE TAX CLIMATE FOR BUSINESS

CREATING A MORE COMPETITIVE TAX CLIMATE FOR BUSINESS

Strengthening Ontario's competitiveness requires creating a climate for investment growth while ensuring that the government has the resources it needs to make strategic investments in the people and economy of the province.

A competitive tax system is essential to attract business investment and foster economic growth in a highly competitive global economy. Ontario already has a competitive corporate tax system. Ontario's combined federal–provincial statutory corporate income tax rate for manufacturing is below the average for the United States. It is also below the combined rate in each of the Great Lakes states against which Ontario competes most directly.

To further enhance Ontario's investment climate, the Ontario capital tax is being phased out. The capital tax, which taxes business investment rather than profits, is widely recognized as a barrier to investment. As a key element of the government's strategy to promote new investment, economic growth and job creation, a plan to eliminate Ontario's capital tax by 2012 was legislated. The 2006 Ontario Budget built on that plan by accelerating the capital tax rate cut. Starting on January 1, 2007, every corporation still paying capital tax will have its rate cut by five per cent.

The following table sets out the legislated capital tax elimination plan:

ONTARIO'S CAPITAL TAX ELIMINATION PLAN[1]

		Rates (%)			
			Financial Institutions		
				Taxable Capital Above $400 M	
	Deduction ($ M)	Regular Corporations	1st $400 M of Taxable Capital	Non-Deposit Taking	Deposit Taking
Jan. 1, 2004	5	0.3	0.6	0.72	0.9
Jan. 1, 2005	7.5	0.3	0.6	0.72	0.9
Jan. 1, 2006	10	0.3	0.6	0.72	0.9
Jan. 1, 2007	12.5	0.285	0.57	0.684	0.855
Jan. 1, 2008	15	0.285	0.57	0.684	0.855
Jan. 1, 2009	15	0.225	0.45	0.54	0.675
Jan. 1, 2010	15	0.15	0.3	0.36	0.45
Jan. 1, 2011	15	0.075	0.15	0.18	0.225
Jan. 1, 2012	Eliminated				

[1] Shading denotes the five per cent capital tax rate cut announced in the 2006 Ontario Budget and enacted on May 18, 2006.

Ontario's tax system also provides a variety of corporate income tax incentives and rate reductions to encourage economic growth and job creation. These include[1]:

- $380 million in annual support for research and development through Ontario-only tax deductions and tax credits
- $900 million annually to provide a reduced tax rate for small businesses
- $255 million annually to provide a reduced tax rate on income from manufacturing and processing, mining, logging, farming and fishing
- $150 million annually in tax credits to support the entertainment and creative industries.

To further support job creation and Ontario's competitiveness, the government has introduced or enhanced a number of income tax credits:

- The Apprenticeship Training Tax Credit was implemented to encourage the hiring and training of apprentices.
- Tax credits for film and television production, computer animation, sound recording, book publishing and interactive digital media have been enhanced.
- A new, enhanced dividend tax credit is proposed, starting in 2006, that would encourage greater investment in Ontario corporations and better integrate the corporate and personal income tax systems. Ontario taxpayers would pay less tax on their dividends from large Canadian companies, which would, in turn, create a more competitive business and investment climate. This would provide a benefit to investors of $40 million in 2006–07, rising to $120 million when fully implemented in 2010–11.

While a competitive tax system is an important element in enhancing Ontario's attractiveness as a place to invest, other factors also play a key role in business location decisions. For example, publicly funded health care is a major competitive advantage for the province. Ontario has numerous other competitive strengths, including a well-trained labour force, proximity to markets and a high quality of life. The Ontario Government continues to make key investments in infrastructure, health, education and innovation to help strengthen Ontario's business environment.

A 2006 study by KPMG found that the overall cost of doing business in Ontario (including taxes paid by businesses) is below that of most major cities in the United States and other industrialized countries. In fact, among the 24 large cities in the G7 featured in that study, Toronto had the third-lowest cost of doing business.

[1] Annex V, *Transparency in Taxation*, provides a detailed listing of tax measures provided by Ontario.

Corporate Tax Harmonization[2]

The government is taking additional action to further reduce the cost of doing business in Ontario. The Canada–Ontario Agreement of May 2005 committed both governments to work towards concluding an agreement on a single corporate tax administration.

On October 6, 2006, Ontario entered into a Memorandum of Agreement (MOA) with the federal government to streamline the administration of Ontario's corporate tax system. As a result, Ontario businesses will spend less time on paperwork, and more time creating jobs and fostering a strong, prosperous economy.

When fully implemented, Ontario corporations will save $90 million annually in Ontario corporate income tax from a harmonized corporate income tax base and up to an additional $100 million annually in compliance costs from one tax form, one tax administration and one set of tax rules.

Single Tax Administration

The MOA on a single corporate tax administration represents a major step in the government's goals of providing greater efficiency in service delivery and creating a stronger, more productive and competitive economy.

Effective for taxation years ending after December 31, 2008, Ontario corporations will begin filing a single combined federal and Ontario corporate tax return with the Canada Revenue Agency (CRA). Businesses will begin remitting Ontario tax instalment payments to the CRA as early as February 2008.

The CRA will collect and administer Ontario's corporate income tax, capital tax, corporate minimum tax and the special additional tax on life insurers. The CRA administration of these taxes will include assessments, collections, audits and appeals.

In addition, the MOA allows for the delivery of early compliance gains to business, including more coordinated audits and other administrative efficiencies, prior to the single administration in 2009.

Corporate Income Tax Base Harmonization

As part of the single tax administration, Ontario will enter into a corporate income tax collection agreement with the federal government that is substantially similar to agreements currently in place with all other provinces, except Quebec and Alberta. Ontario already has a tax collection agreement with the federal government for its personal income tax.

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[2] Federal administration of Ontario corporate taxes and consequential tax proposals will require legislative amendments that must be approved by the legislature.

The Ontario corporate income tax collection agreement, like those of other provinces, will require Ontario to fully harmonize with the federal definition of corporate taxable income. As a result, any Ontario differences from the federal definition of taxable income will expire for taxation years ending after 2008.

To improve Ontario's competitiveness and enhance the benefits of tax base harmonization, most Ontario-only measures that currently apply in calculating Ontario taxable income will not be replaced. Eliminating these differences from the federal tax base will provide business with an Ontario corporate income tax cut of $90 million a year.

The most significant measure that Ontario will not be replacing is the income tax provision that requires an Ontario-based corporation to add back into income a portion of certain management fees, rents, royalties and other similar payments made to certain non-residents. This add-back provision generally has the effect of imposing a five per cent tax on these payments. Eliminating the add-back will provide an estimated $70 million annual tax reduction that will primarily benefit the manufacturing, wholesale and retail trade, and film production sectors, and help foster a more innovative and competitive economy.

The remaining $20 million net annual cut in Ontario corporate income tax will arise from eliminating other Ontario tax measures in order to harmonize with the federal definition of taxable income.

Support for Research and Development

Ontario currently provides $380 million annually in corporate income tax incentives to support research and development (R&D). One of these incentives is a deduction for the portion of the federal investment tax credit that relates to Ontario scientific research and experimental development (SR&ED). This deduction has the effect of enhancing the value of the federal SR&ED investment tax credit for Ontario corporations. However, as an Ontario-only deduction, it does not conform to the requirements of a harmonized tax base.

Given the importance of R&D to a vibrant, innovative and competitive economy, Ontario will replace this deduction with a new 4.5 per cent non-refundable tax credit on SR&ED expenses incurred in Ontario that qualify for the federal investment tax credit. A phased-in three-year carry-back and a 20-year carry-forward will be provided for unused credits. The tax credit will take effect for taxation years ending after 2008.

The tax credit rate has been set to maintain the same revenue cost to Ontario as the R&D deduction. Ontario's R&D deduction will provide an estimated $200 million of tax support in 2006. By converting the R&D deduction to a tax credit, this tax support would now become taxable for both federal and Ontario tax purposes. While the tax credit rate has been designed to be revenue-neutral to Ontario, the federal government would receive an annual revenue windfall of about $40 million (based on the current $200 million estimate) from the taxation of the credit.

Support for Ontario's Mining Sector

To support jobs and investment in the mining sector, the 2004 Ontario Budget announced that Ontario would not parallel federal legislation to replace the resource allowance with a typically less generous deduction for mining taxes and Crown royalties.

For taxation years ending after 2008, Ontario will be required to follow the federal deduction for mining taxes and royalties. However, to maintain the effect of Ontario's existing resource allowance, a tax credit/debit mechanism, with an indefinite carry-forward for unused credits, will be introduced.

Maintaining the effect of the existing resource allowance will continue to provide an annual benefit of about $40 million, net of the deduction for mining taxes paid, to the mining sector in Ontario's northern communities.

Transitional Rules for Income Tax Base Harmonization

The requirement to parallel the federal definition of taxable income means that federal "pools" for items such as unclaimed depreciation and losses will apply for Ontario purposes starting with taxation years ending after 2008.

Ontario generally parallels federal income tax base changes in order to reduce compliance costs to business. As a result, many corporations do not have significant differences in their tax pools for Ontario and federal purposes. In some cases, however, differences may arise where corporations have deducted different amounts from their tax pools for Ontario and federal purposes.

In the absence of transitional rules, the use of federal tax pools could cause Ontario corporate income tax to be either overstated or understated.

To ensure a smooth transition to the federal tax base, Ontario will introduce a mechanism that is designed to eliminate, over five years, the amounts by which Ontario corporate income tax is overstated or understated.

Ontario will be consulting with the business community on the details of the transitional rules.

Capital Tax Base Harmonization

Until Ontario's capital tax is eliminated, harmonizing with the federal corporate income tax base will require changes to the calculation of Ontario capital tax. Currently, corporations that are not financial institutions calculate their Ontario taxable capital by restating the balance sheet into Ontario corporate income tax values. Since corporations will no longer be calculating Ontario corporate income tax values after 2008 as a result of income tax base harmonization, Ontario will need to move to a new method of calculating taxable capital.

To further enhance business compliance savings and administrative efficiencies for the Ontario and federal governments, Ontario's capital tax base for non-financial institutions will be harmonized with the federal Large Corporations Tax (Part I.3 of the *Income Tax Act* (Canada)). Ontario's legislated capital tax elimination schedule will continue to apply. In the case of corporations with permanent establishments in Ontario and elsewhere, the capital tax liability will also continue to be reduced to reflect the percentage of income allocated outside Ontario.

Since Ontario's capital tax for financial institutions is already largely harmonized with the federal capital tax, no policy changes are required with respect to the Ontario capital tax for financial institutions, except that it will be administered by the CRA for taxation years ending after 2008.

Benefits to Provinces

The MOA contains a number of provisions that will benefit Ontario and other provinces that participate in a corporate income tax collection agreement. These include:

- a federal–provincial review to ensure the provinces are not disadvantaged by the current timing of federal tax payments
- $25 million in annual federal funding for a national initiative to be led by the CRA, comprising enhanced audits of interprovincial income allocation and targeting of interprovincial tax avoidance
- a federal–provincial study on the feasibility of developing a program that would allow corporate income tax refunds to be applied against other provincial and federal tax debts
- an improved management and accountability framework with the CRA.

Provinces will also benefit under their personal income tax collection agreements. For example, the federal government has agreed to waive the charges to the provinces for costs incurred by the CRA to develop the provincial tax-on-income system for personal income tax. This represents a $22 million saving to Ontario.

ANNEX V

TRANSPARENCY IN TAXATION

TRANSPARENCY IN TAXATION

The enactment of the *Fiscal Transparency and Accountability Act, 2004*, represents a major commitment of the Ontario Government to be more open and accountable. Under Section 6 of the Act, the Minister of Finance is required to release a mid-year review of the fiscal plan on or before November 15 of each year, which must include information about the estimated cost of expenditures made through the tax system.

Tax expenditure reporting is an important element of improved fiscal transparency and accountability. This report is the second annual compilation of the estimated cost of Ontario tax provisions.

STRUCTURE OF THE REPORT

This report provides estimates of revenue forgone in 2006 with respect to provisions in the following taxes:

- Personal Income Tax
- Corporate Tax
- Sales and Commodity Tax
- Education Property Tax
- Employer Health Tax
- Estate Administration Tax
- Gross Revenue Charge

Descriptions of each tax provision were provided in the government's first Transparency in Taxation report, presented in Annex III of the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers*. Please refer to the 2005 report for the descriptions.

Electronic copies of the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers* are available via the Internet at:
www.fin.gov.on.ca/english/economy/ecoutlook/statement05/05fs-paperce.pdf
or printed copies are available from:
Publications Ontario
880 Bay Street, Toronto, Ontario M7A 1N8
Telephone: (416) 326-5300
Toll-free: 1-800-668-9938
TTY Toll-free: 1-800-268-7095
Website: www.publications.gov.on.ca

This report includes descriptions only for tax provisions that are new or have been modified since 2005. The descriptions are intended to provide a basic understanding of the provisions and do not replace the relevant legislation or regulations.

SCOPE

Given the absence of a universally accepted definition of a "tax expenditure," this report continues the broad approach adopted in last year's report of listing estimates of forgone revenue that could potentially be included under a broad-based tax system.

Personal and corporate income tax expenditures identified in this report include tax expenditures shared with the federal government and Ontario-only tax expenditures.

Under a tax collection agreement between Ontario and Canada, the federal government determines the personal income tax base. Ontario has limited policy control over the individual components of taxable income and the associated tax expenditures related to the federally defined tax base.

Ontario currently collects and administers its own corporate income tax. However, on October 6, 2006, Ontario entered into a Memorandum of Agreement with the federal government under which the federal government would collect and administer Ontario's corporate income tax and capital tax, effective for taxation years ending after 2008. (See Annex IV, *Corporate Tax Harmonization*, for additional details.)

METHOD

The estimates in this report were developed using the latest available taxation or economic data, forecast to the 2006 calendar year. The data used to estimate the values of the tax provisions come from a variety of sources. Revisions to the underlying data, as well as improvements to the estimation method, may result in changes to the estimated value of a provision in future publications. As well, some tax provision estimates are particularly sensitive to economic conditions or other variables and those values could fluctuate significantly from year to year.

It is important to note that the estimates in this report are not intended to represent the potential revenue gain for the Province if the tax provisions were not in place. Each estimate has been determined separately and in isolation of other factors, such as the economic impact of any change, behavioural responses, the interaction among various tax provisions, or any modifications in policy that might reasonably accompany the change. As a result, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures.

Tax expenditure estimates of less than $1 million are denoted by the letter "s" (small). This report also includes tax provisions for which relevant data from the tax system are not currently available to the Ministry of Finance. Although estimates may not be available, these items are listed to ensure greater accountability and transparency.

Future annual reports will continue to refine Ontario's tax expenditure estimates.

PERSONAL INCOME TAX

Table 1 provides estimates of tax provisions relating to the Ontario Personal Income Tax system. Business provisions listed here are for unincorporated businesses.

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Ontario Non-refundable Tax Credits	
Adoption Expense Credit[3]	1
Age Credit	230
Amounts Transferred from Spouse	40
Basic Personal Credit	4,105
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) Contributions Credit	520
Caregiver Credit	15
Charitable Donations Credit	520
Disability Credit	80
Eligible Dependant Credit	90
Employment Insurance (EI) Premiums Credit	195
Infirm Dependant Credit	1
Medical Expense Credit	105
Ontario Overseas Employment Tax Credit	5
Pension Income Credit	90
Spouse or Common-law Partner Credit	215
Student Loan Interest Credit	10
Tuition Fee and Education Credits	310
Ontario Tax Reduction (OTR)	
OTR — Basic Reduction	165
OTR — Reduction for Dependent Children Under 19	195
OTR — Reduction for Disabled or Infirm Dependants	8
OTR — Total	305
Other Ontario Tax Credits[4]	
Ontario Focused Flow-through Share Tax Credit	2
Ontario Political Contribution Tax Credit	5

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Ontario Property and Sales Tax Credits (OPSTC)	
OPSTC — Non-seniors	460
OPSTC — Seniors[5]	505
OPSTC — Total[5]	965
Ontario Labour Sponsored Investment Fund and Employee Ownership Tax Credits	
Employee Ownership (EO) Tax Credit	s
Labour Sponsored Investment Fund (LSIF) Tax Credit	20
Research-oriented Investment Fund (ROIF) Tax Credit	1
Exemptions, Deductions and Deferrals Shared with the Federal Government	
Business	
Items for Which an Estimate is not Available	
Assistance for Artists and Deduction for Canadian Art Purchased by Unincorporated Businesses	
Assistance for Prospectors and Grubstakers	
Deduction of Accelerated Capital Cost Allowance	
Deferral Through Use of Billed-basis Accounting by Professionals	
Employment	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction of Other Employment Expenses	260
Deduction of Union and Professional Dues	130
Employee Stock Options	150
Moving Expense Deduction	15
Northern Residents' Deductions	1
Items for Which an Estimate is not Available	
Deductions for Tradespersons' and Apprentice Vehicle Mechanics' Tools	
Deductions for Artists and Musicians	
Deduction for Military and Police Deployed to High-risk International Missions	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
Non-taxation of Allowances to Public Officials	
Non-taxation of Business-paid Health and Dental Benefits	
Non-taxation of Certain Non-monetary Employment Benefits	

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Special Tax Computations for Certain Retroactive Lump-sum Payments	
Farming and Fishing	
Items for Which an Estimate is not Available	
Cash-basis and Flexibility in Inventory Accounting	
Deduction of Farm Losses for Part-time Farmers	
Deferral of Income for Farmers	
Net Income Stabilization Account for Farmers	
Investment	
$500,000 Lifetime Capital Gains Exemption for Farming or Fishing Property and Small Business Shares	140
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	250
Deduction of Resource-related Expenditures	70
Partial Inclusion of Capital Gains	525
Items for Which an Estimate is not Available	
Capital Gains Exemptions — $1,000 on Personal-use Property and $200 on Foreign Exchange Transactions	
Deduction of Limited Partnership Losses	
Deferral of Capital Gains Through Five-year Reserve	
Deferral of Capital Gains Through Rollovers	
Deferral of Capital Gains Through 10-year Reserve for Farming or Fishing Property and Small Business Shares	
Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust	
Non-taxation of Capital Gains on Principal Residences	
Reduced Inclusion Rate for Capital Gains Arising from Certain Donations	
Taxation of Capital Gains Upon Realization	
Non-taxable Income	
Guaranteed Income Supplement and Allowance Benefits	20
Social Assistance Benefits	20
Workers' Compensation Benefits	155
Items for Which an Estimate is not Available	
Certain Government Pensions and Allowances	
Damages With Respect to Personal Injury or Death	
Death Benefits of Up to $10,000	

TABLE 1: PERSONAL INCOME TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Indians on Reserves	
Income from the Office of the Governor General and Allowances for Diplomats and Other Government Employees Posted Abroad	
Investment Income on Life Insurance Policies	
Lottery and Gambling Winnings	
Strike Pay	
Special Circumstances	
Child Care Expense Deduction	150
Treatment of Alimony, Maintenance and Child Support Payments	50
Items for Which an Estimate is not Available	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
Tax-deferred Savings	
Registered Pension Plans (RPP) — Deduction for Contributions	565
Registered Retirement Savings Plans (RRSP) — Deduction for Contributions	1,875
Items for Which an Estimate is not Available	
Deferred Profit-sharing Plans	
Registered Education Savings Plans (RESP)	
RPP and RRSP — Non-taxation of Investment Income	

1 Estimates do not include the impact of revenue forgone from personal income tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.
2 Estimates are based on 2003 tax-filer data forecast to represent the 2006 taxation year, unless otherwise noted. Tax-filer data include only those returns assessed within one year of the taxation year.
3 Estimate is based on federal estimates.
4 Estimates are based on tax-sharing statements (TSS) unless otherwise noted.
5 Estimate is based on TSS and the enrichment of the income threshold for senior couples to $23,090 proposed in the 2006 Ontario Budget.

PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

The following Personal Income Tax provisions have changed since 2005.

ONTARIO NON-REFUNDABLE TAX CREDITS

The non-refundable tax credits listed in the following table are based on amounts that are adjusted for inflation each year. A brief description of these tax provisions is available in the *2005 Ontario Economic Outlook and Fiscal Review, Background Papers*.

AMOUNTS ON WHICH INDEXED NON-REFUNDABLE TAX CREDITS ARE BASED

	Base Amount	
Non-refundable Tax Credits	2005 ($)	2006 ($)
Adoption Expense Credit, maximum claim	10,000	10,220
Age Credit, maximum claim	4,002	4,090
Reduced by 15 per cent of individual's net income in excess of	29,793	30,448
Basic Personal Credit	8,196	8,377
Caregiver Credit, maximum claim	3,863	3,948
Reduced by dependant's net income in excess of	13,218	13,509
Disability Credit	6,622	6,768
Eligible Dependant Credit, maximum claim	6,960	7,113
Reduced by dependant's net income in excess of	696	711
Dependant's net income less than	7,656	7,824
Infirm Dependant Credit, maximum claim	3,863	3,948
Reduced by dependant's net income in excess of	5,492	5,613
Medical Expense Credit		
Qualifying medical expenses in excess of the lesser of three per cent of net income and	1,856	1,896
Qualifying medical expenses of other dependant, maximum claim	10,000	10,220
Pension Income Credit, maximum claim	1,133	1,158
Spouse or Common-law Partner Credit, maximum claim	6,960	7,113
Not exceeding spouse's or common-law partner's net income deducted from	7,656	7,824
Tuition Fee and Education Credits		
Education Credit, full time (per month)	441	451
Education Credit, part time (per month)	132	135
Maximum transfer	5,667	5,792

OTHER ONTARIO TAX CREDITS

Ontario Property and Sales Tax Credits (OPSTC) —The Property Tax Credit is the lesser of occupancy cost and a basic property tax credit amount plus 10 per cent of occupancy cost. Occupancy cost is property tax or 20 per cent of rent paid on an individual's or couple's principal residence plus $25 if residing in a college residence. The basic property tax credit amount is $250 for non-senior individuals or couples and $625 for senior individuals or couples. The Sales Tax Credit is $100 for an individual plus $100 for a spouse or common-law partner and $50 for each dependent child aged 18 or under. The credits for non-seniors are jointly reduced by two per cent of family net income in excess of $4,000; the credits for seniors are jointly reduced by four per cent of family net income in excess of $22,250, which the 2006 Ontario Budget proposes to increase for senior couples. The maximum OPSTC are $1,000 for non-seniors and $1,125 for seniors. The estimate includes the proposed increase to the income threshold for senior couples, which is expected to be $23,090 for 2006.

EXEMPTIONS, DEDUCTIONS AND DEFERRALS SHARED WITH THE FEDERAL GOVERNMENT

EMPLOYMENT

Item for Which an Estimate is not Available

Deductions for Tradespersons' and Apprentice Vehicle Mechanics' Tools —Tradespersons and registered apprentice vehicle mechanics may deduct from their employment income as a tradesperson or apprentice mechanic an amount of up to $500 for the cost of their tools in excess of a specified amount. The deduction for tradespersons' tools parallels the 2006 federal budget initiative.

INVESTMENT

$500,000 Lifetime Capital Gains Exemption for Farming or Fishing Property and Small Business Shares — A $500,000 lifetime capital gains exemption is available for gains from the disposition of qualified farming or fishing property and small business shares. The inclusion of fishing property parallels the 2006 federal budget initiative.

Items for Which an Estimate is not Available

Deferral of Capital Gains Through Rollovers — Individuals (other than trusts) are permitted a rollover of capital gains on eligible small business investments. To the extent that the proceeds are reinvested in one or more eligible small business corporations, the liability for personal income tax on the gain is deferred until the replacement property is sold.
In addition, capital gains on intergenerational transfers of farming or fishing property are deferred in certain circumstances until the property is disposed of outside the immediate family. The inclusion of fishing property parallels the 2006 federal budget initiative.

Deferral of Capital Gains Through 10-year Reserve for Farming or Fishing Property and Small Business Shares — If proceeds from the sale of small business shares or from the sale of farming or fishing property to a child, grandchild or great-grandchild are not all receivable in the year of sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds become receivable. However, a minimum of 10 per cent of the gain must be brought into income each year, creating a maximum 10-year reserve period. For most other assets, the maximum reserve period is five years. The inclusion of fishing property in the 10-year reserve provision parallels the 2006 federal budget initiative.

Reduced Inclusion Rate for Capital Gains Arising from Certain Donations — Effective May 2, 2006, capital gains arising from gifts of publicly listed securities and ecologically sensitive land to public charities are exempt from tax. Previously, capital gains on such donations were subject to one-half the normal 50 per cent inclusion rate for capital gains. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery.

Special Circumstances

Item for Which an Estimate is not Available

Exemption of Scholarship, Fellowship and Bursary Income — For students eligible for the education credit, scholarship, fellowship and bursary income is exempt from tax, starting in 2006. Previously, the first $3,000 of this income was exempt.

CORPORATE TAX

The estimated values of tax provisions in the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 2.

TABLE 2: CORPORATE TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Corporate Income Tax	
Ontario Refundable Tax Credits	
Apprenticeship Training Tax Credit[2,3]	95
Co-operative Education Tax Credit[2,3]	5
Ontario Book Publishing Tax Credit[4]	2
Ontario Business Research Institute Tax Credit	4
Ontario Computer Animation and Special Effects Tax Credit[4]	7
Ontario Film and Television Tax Credit[4]	95
Ontario Innovation Tax Credit	180
Ontario Interactive Digital Media Tax Credit[4]	8
Ontario Production Services Tax Credit[4]	40
Ontario Sound Recording Tax Credit[4]	1
Ontario Deductions and Exemptions	
Additional Deduction for Credit Unions	4
Assets Used to Generate Clean Energy	s
Manufacturing and Processing (M&P) and Resource Sector Credit	255
Non-taxation of the Federal Investment Tax Credit[5]	200
Ontario Current Cost Adjustment	5
Ontario Depletion Allowance	s
Ontario New Technology Tax Incentive	s
Ontario Political Contributions	1
Ontario Resource Allowance[6]	80
Small Business Deduction[7]	900

TABLE 2: CORPORATE TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Exemptions, Deductions and Deferrals Shared with the Federal Government	
Allowable Business Investment Losses[8,9]	5
Deductibility of Charitable Donations[8]	110
Deductibility of Gifts to the Crown[8]	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land[8]	s
Deferral of Income for Farmers[8]	s
Holdback on Progress Payments to Contractors[8]	20
Non-taxation of Non-profit Organizations[8]	100
Partial Inclusion of Capital Gains[8]	940
Items for Which an Estimate is not Available	
Accelerated Write-off of Capital Assets and Resource-related Expenditures	
Cash-basis Accounting and Flexibility in Inventory Accounting	
Deductibility of Countervailing and Anti-dumping Duties	
Deferral Through Capital Gains Rollovers	
Deferral Through Use of Billed-basis Accounting by Professionals	
Expensing of Advertising Costs	
Non-taxation of Provincial, Municipal and Federal Crown Corporations	
Non-taxation of Registered Charities	
Reduced Inclusion Rate for Capital Gains Arising from Certain Donations	
Tax Exemption on Income of Foreign Affiliates of Canadian Corporations	
Taxation of Capital Gains upon Realization	
Capital Tax[10]	
Capital Tax Deduction	300
Deferred Mining Exploration and Development Expenses	6
Deferred Ontario New Technology Tax Incentive and Scientific Research and Experimental Development Costs	s
Exemption for Assets Used to Generate Clean Energy	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	10
Items for Which an Estimate is not Available	
Renounced Mining Expenses	

TABLE 2: CORPORATE TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Mining Tax[11]	
Mining Tax Exemption	8
Mining Tax Holiday for Mines (other than remote mines)	s
Mining Tax Holiday for New Remote Mines	s
Mining Tax Rate for Remote Mines	s
Processing Allowance	50
Items for Which an Estimate is not Available	
Fast Writeoff of Exploration Costs	

1 Estimates are forecast to the 2006 calendar year based on preliminary 2004 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue impact of corporate income tax expenditures provided to mutual fund corporations.

2 Estimates include the impact of both the corporate and personal income tax provisions.

3 The Apprenticeship Training Tax Credit was announced in the 2004 Ontario Budget. The estimated 2006–07 impact as provided in the Budget was $95 million. Some of the apprenticeship programs previously included under the Co-operative Education Tax Credit (CETC) were transferred to the new credit. The estimate for the CETC was produced at the time of the 2004 Ontario Budget.

4 The estimates include the impact of the enhancements outlined in the 2005 Ontario Budget and/or the 2006 Ontario Budget.

5 Relating to qualifying Ontario Research and Development expenses.

6 The resource allowance applies to the mining and oil and gas sectors. The estimate is *not* net of mining taxes and Crown royalties paid.

7 Includes the impact of the Ontario surtax on Canadian-controlled private corporations.

8 Estimates based on assessed 2004 federal tax administration data, allocated to Ontario and forecast to 2006.

9 Estimate could overstate true value as it does not reflect the future reduction in tax revenues that would occur if those losses were instead deducted from future capital gains.

10 Ontario has legislated a plan to eliminate the capital tax by 2012. The capital tax elimination plan is outlined in Annex IV, *Corporate Tax Harmonization*.

11 Estimates are forecast to the 2006 calendar year based on preliminary 2004 Ontario mining tax administration data.

CORPORATE TAX — DESCRIPTION OF TAX PROVISIONS

The following Corporate Income Tax provisions have changed since 2005.

CORPORATE INCOME TAX

ONTARIO REFUNDABLE TAX CREDITS

Ontario Interactive Digital Media Tax Credit — A 20 per cent refundable tax credit for the creation, marketing and distribution of original interactive digital media products by corporations with annual gross revenues of up to $20 million and total assets of up to $10 million. The 2006 Ontario Budget proposed to expand the tax credit rate from 20 per cent to 30 per cent for corporations qualifying under the existing provisions and to extend eligibility for a 20 per cent tax credit to corporations that exceed the current size test and to corporations performing fee-for-service work in Ontario.

Ontario Production Services Tax Credit — An 18 per cent refundable tax credit for foreign-based and non-certified domestic film and television production activity in Ontario. The 18 per cent rate has been extended from March 31, 2006 to March 31, 2007.

EXEMPTIONS, DEDUCTIONS AND DEFERRALS SHARED WITH THE FEDERAL GOVERNMENT

Items for Which an Estimate is not Available

Reduced Inclusion Rate for Capital Gains Arising from Certain Donations — Effective May 2, 2006, capital gains arising from gifts of publicly listed securities and ecologically sensitive land to public charities are exempt from tax. Previously, capital gains on such donations were subject to one-half the normal 50 per cent inclusion rate for capital gains. In addition, capital gains on certain objects certified as being of cultural importance to Canada are exempt from tax if donated to a designated museum or art gallery.

Sales and Commodity Tax

The estimated values of tax provisions relating to sales and commodity taxes, including the Fuel Tax, Gasoline Tax, Land Transfer Tax, Retail Sales Tax and Tobacco Tax, are presented in Table 3.

Table 3: Sales and Commodity Tax

Tax Provisions	2006 Estimates[1] ($ Millions)
Fuel Tax	
Exemptions/Reduced Rates	
Exemption for Biodiesel[2]	s
Exemption for Coloured Fuel[3]	420
Reduced Rate for Railway Diesel[4]	32
Refunds	
Auxiliary Power Take-off Equipment[5]	6
Gasoline Tax	
Exemptions/Reduced Rates	
Exemption for Ethanol, Methanol and Natural Gas[6]	55
Reduced Rate for Aviation Aircraft[7]	265
Reduced Rate for Propane[7]	10
Refunds	
Auxiliary Power Take-off Equipment[5]	s
Aviation Fuel[5]	s
Tax-exempt Use in Unlicensed Equipment[5]	7
Land Transfer Tax	
Exemptions	
Life Leases[8]	1
Deferrals and Exemptions for Corporate Reorganizations[5]	29
Items for Which an Estimate is not Available	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Refunds	
Refund for First-time Home Buyers[5]	33
Retail Sales Tax	
Exemptions	
25¢ Coin Pay Phone Calls[8]	7
Agricultural Goods	250
Audio Books Purchased by Persons Who Are Legally Blind[8]	4
Automobile Insurance Premiums[9,10]	800
Basic Groceries[10]	1,600
Books, Newspapers and Magazines Sold by Subscription	375
Children's Car Seats and Booster Seats[10]	4
Children's Clothing	130
Commercial Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial Vessels Less than 1,400 Cubic Metres	80
Custom Software[11]	75
Donations to Schools, Colleges and Universities[8]	6
Educational CD-ROMs and DVDs[8]	3
Energy	4,190
Feminine Hygiene Products[10]	19
Footwear Sold for $30 or Less	30
Goods Purchased for Use by Fishers and Fur-trappers	s
Individual Life and Health Insurance Premiums[12]	435
Mobile Homes	s
Municipal Fire-fighting Equipment	s
Prepared Foods Sold for $4 or Less[10]	230
Prescription Drugs and Medical Supplies	830
Production Machinery and Equipment	560
Religious Equipment	10
Repairs and Replacements Performed Under Warranty[9]	140
Seedlings	s
Services	9,640
Toll-free Telephone Services[8]	46

TABLE 3: SALES AND COMMODITY TAX

Tax Provisions	2006 Estimates[1] ($ Millions)
Transient Accommodation[13]	85
University Research Equipment	5
Items for Which an Estimate is not Available	
Admissions	
Municipal, Hospital Restructuring	
Museums and Art Galleries	
Used Adult Clothing or Footwear Sold for $50 or Less by Religious, Charitable and Benevolent Organizations	
Credits/Rebates	
Rebate for Alternative Fuel Vehicles[5]	4
RST Rebate for Building Materials for Religious, Charitable and Benevolent Organizations[5]	22
Tax Credit for Fuel Conservation[14]	5
Temporary Exemption for Destination Marketing Fees[10]	2
Temporary Rebate for Building Materials Incorporated into Electricity Generating, Qualifying Nuclear and Deep Lake-water Cooling Facilities[5]	s
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems[5]	s
Vendor Compensation[15]	105
Tobacco Tax	
Compensation for Tax Collectors[16]	s

1 Estimates are forecast to the 2006 calendar year based on preliminary 2002 provincial Input–Output tables from Statistics Canada, unless otherwise noted.
2 Based on estimated amount of biodiesel sold in Ontario.
3 Based on returns filed by registered dyers.
4 Forgone revenue estimated as difference from the regular fuel tax rate.
5 Based on refunds filed or rebates/deferrals claimed.
6 Based on estimated ethanol volumes produced in and imported to Ontario.
7 Forgone revenue estimated as difference from the regular gasoline tax rate.
8 Based on the Ontario Budget estimate, when the measure was proposed, projected to 2006.
9 Estimates assume items would be taxed at eight per cent general RST rate.
10 Figure derived from estimated consumer spending.
11 Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.
12 Based on insurance premiums data provided by the Canadian Life and Health Insurance Association Inc.
13 The RST rate on accommodations is five per cent. Forgone revenue estimated as difference from the regular RST rate of eight per cent.
14 Based on new passenger vehicle sales.
15 Based on returns filed by RST vendors.
16 Based on returns filed by tobacco tax collectors.

Sales and Commodity Tax — Description of Tax Provisions

The following Sales and Commodity Tax provisions have changed since 2005.

Retail Sales Tax

Credits/Rebates

Rebate for Alternative Fuel Vehicles — The RST paid on vehicles powered by alternative fuels is refunded, to a maximum of $750 for propane vehicles and $1,000 for vehicles powered by any other alternative fuel. Certain hybrid electric vehicles are also eligible for a rebate. The 2006 Ontario Budget doubled the maximum RST rebate for qualifying hybrid electric vehicles from $1,000 to $2,000.

Temporary Exemption for Destination Marketing Fees — There is an RST exemption for destination marketing fees charged on transient accommodation on or after May 19, 2004 and on or before June 30, 2006. The 2006 Ontario Budget extended the exemption to include destination marketing fees billed on or before June 30, 2007.

EDUCATION PROPERTY TAX

Table 4 provides estimates of tax provisions relating to the Education Property Tax system.

TABLE 4: EDUCATION PROPERTY TAX[1]

Tax Provisions	2006 Estimates[2] ($ Millions)
Brownfields Financial Tax Incentive Program[3]	s
Charity Rebate	7
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	s
Farm Property Class Tax Rate Reduction	65
Farmlands Awaiting Development Sub-class Tax Rate Reduction	s
Heritage Property Tax Rebate	s
Live Performance Theatres Exemption and Professional Sports Facility Tax Rate Reduction[4]	2
Managed Forest Tax Incentive Program	2
Seniors and Persons with Disabilities Property Tax Relief[5]	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	30
Vacant Land and Excess Land Sub-class Tax Rate Reduction	50
Items for Which an Estimate is not Available	
Other Tax Exemptions Under Public Statutes	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, public–private capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, Boy Scouts Association of Canada and Canadian Girl Guides Association, charitable institutions including Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor)	
Relief from Property Taxes That are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

1 Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.
2 Estimates based on 2006 education tax rates, 2006 Assessment Roll, 2004 Municipal Financial Information Returns and municipal tax policies.
3 Effective October 1, 2004, municipalities may pass bylaws cancelling municipal property taxes on eligible brownfields properties. The Province may match the municipal reduction with an education property tax reduction.
4 In 2006, improved information allowed a much more precise estimate of the exemptions given to live performance theatres.
5 Estimate does not include expenditures due to the exemption from taxation on 10 per cent of the assessment of improvements to accommodate seniors and persons with disabilities in newly built homes or the expenditure on such improvements in existing homes.

EMPLOYER HEALTH TAX

Table 5 provides an estimate of the tax exemption under the Employer Health Tax system.

TABLE 5: EMPLOYER HEALTH TAX (EHT)

Tax Provision	2006 Estimate ($ Millions)
$400,000 Exemption for Private-sector Employers[1]	760

[1] Estimate is based on new methodology and 2004 remuneration data forecast to represent the 2006 taxation year.

ESTATE ADMINISTRATION TAX

Table 6 provides an estimate of the 2006 exemption under the Estate Administration Tax system.

TABLE 6: ESTATE ADMINISTRATION TAX

Tax Provision	2006 Estimate ($ Millions)
Exemption Where the Value of the Estate Does Not Exceed $1,000	s

GROSS REVENUE CHARGE

Table 7 provides an estimate of the tax provision under the Gross Revenue Charge.

TABLE 7: GROSS REVENUE CHARGE (GRC)[1]

Tax Provision	2006 Estimate[2] ($ Millions)
Gross Revenue Charge 10-year Holiday	s

[1] Expenditure does not include the provincial water rental portion of the GRC.
[2] 2006 estimate based on 2004 GRC returns.

ANNEX VI

BORROWING AND DEBT MANAGEMENT

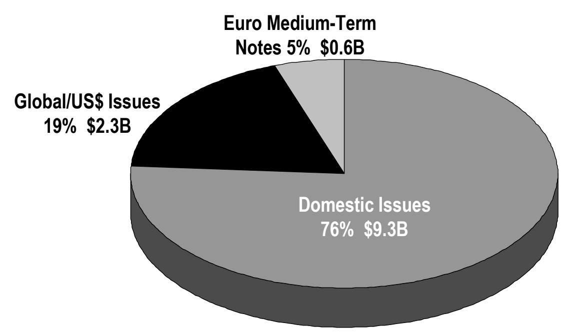
LONG-TERM PUBLIC BORROWING

The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2006–07 is projected at $20.4 billion, down $0.4 billion from the $20.8 billion estimated in the 2006 Budget Plan, and down $0.1 billion from the estimate published in the First Quarter Ontario Finances.

As at September 30, 2006, the Province had raised approximately $10.5 billion or 51 per cent of the long-term public borrowing requirement. Since the end of the quarter, the Province has raised an additional $1.7 billion, for a total of $12.2 billion as at October 16, 2006, leaving $8.2 billion of borrowing to be completed.

Borrowing — All Markets

C$12.2 billion issued



Source: Ontario Financing Authority (October 16, 2006).

Of the $12.2 billion, approximately $9.3 billion or 76 per cent has been issued in the domestic market through a number of instruments. These included:

- Syndicated issues
- Ontario Savings Bonds
- Medium-Term Notes
- Bond auctions.

The Province also issued debt successfully in the international capital markets, including:

- two US$1 billion Global bond issues
- Euro Medium-Term Notes (EMTNs) in U.S. dollars and South African rand.

The Canadian domestic market will continue to be the main funding source in 2006–07. However, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for diversified borrowing opportunities that minimize debt servicing costs. Should cost-effective opportunities continue to be available, approximately 25 per cent of the long-term borrowing program will be raised from international markets.

2006–07 Borrowing Program: Province and OEFC
($ Billions)

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	2.4	1.9	(0.4)
Adjustments for:			
Non-Cash Items Included in Deficit	1.1	0.4	(0.6)
Amortization of Major Tangible Capital Assets	(2.2)	(2.3)	(0.1)
Investment in Capital Assets	2.5	2.6	–
Debt Maturities	15.1	14.9	(0.2)
Debt Redemptions	0.7	0.9	0.2
Canada Pension Plan Borrowing	(0.4)	(0.3)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	–	–	–
Decrease/(Increase) in Short-Term Borrowing	1.4	1.3	–
Other Uses/(Sources) of Cash	0.2	0.9	0.6
Total Long-Term Public Borrowing Requirement	**20.8**	**20.4**	**(0.4)**

Note: Numbers may not add due to rounding.

The change in the total long-term public borrowing requirement for 2006–07 is primarily due to a $0.4 billion decline in the deficit from the 2006 Budget plan. The $0.6 billion decline in non-cash items included in the deficit reflects the net cash impact of the $1.1 billion cash transfer from the federal trusts. This decline in non-cash items is offset by the $0.6 billion increase in other uses of cash, resulting from new loans to school boards under the Good Places to Learn initiative.

Medium-Term Borrowing Outlook: Province and OEFC ($ Billions)

	2006–07	2007–08	2008–09
Deficit/(Surplus)	1.9	2.2	1.0
Adjustments for:			
Non-Cash Items Included in Deficit	0.4	1.8	1.5
Amortization of Major Tangible Capital Assets	(2.3)	(2.4)	(2.6)
Investment in Capital Assets	2.6	2.7	2.7
Debt Maturities:			
Currently Outstanding	14.9	13.8	20.2
Incremental Impact of Future Refinancing	–	1.0	–
Debt Redemptions	0.9	0.7	0.7
Canada Pension Plan Borrowing	(0.3)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	–	0.2	0.6
Decrease/(Increase) in Short-Term Borrowing	1.3	0.3	–
Other Uses/(Sources) of Cash	0.9	0.6	0.8
Total Long-Term Public Borrowing Requirement	20.4	20.5	24.4

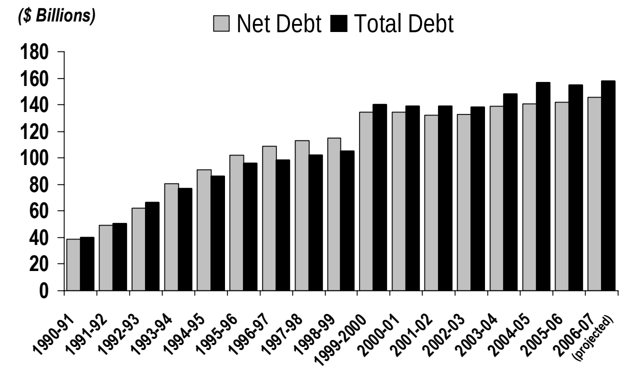
Note: Numbers may not add due to rounding.

Refinancing maturing debt remains a primary component of the medium-term borrowing outlook. Total long-term public borrowing is forecast to increase by $0.7 billion in 2007–08, and $1.0 billion in 2008–09 from the forecast at the time of the 2006 Budget to reflect the revised deficit projections in those years.

DEBT

The Province's total debt as at September 30, 2006 was $156.1 billion. Total debt, which represents all borrowing by the Province without including offsetting financial assets, is projected to be $158.1 billion as at March 31, 2007, compared to $154.9 billion as at March 31, 2006. Total debt is forecast to increase by more than the projected deficit because of an increase in the Province's net investment in capital assets. This investment represents capital assets acquired by the Province (including land, buildings, highways and bridges) net of corresponding amortization expense.

Debt



Sources: Ontario Public Accounts 1991–2006, Ontario Ministry of Finance and Ontario Financing Authority (September 30, 2006).

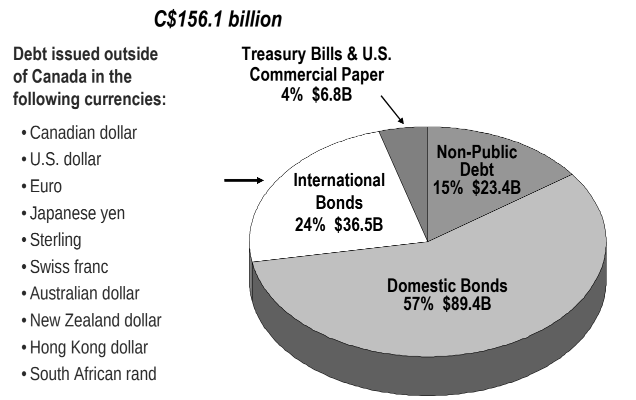
Ontario's net debt — the difference between the Province's total liabilities and total financial assets — is projected to be $145.3 billion as at March 31, 2007, compared to $141.9 billion as at March 31, 2006. As with total debt, net debt is forecast to increase by more than the projected deficit primarily because of the increase in the Province's net investment in capital assets.

TOTAL DEBT COMPOSITION

Total debt of $156.1 billion as at September 30, 2006 consists of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.

Public debt totals $132.7 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $23.4 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of non-marketable debt instruments issued to public-sector pension funds, including the Canada Pension Plan (CPP), mainly in the 1980s.

Total Debt Composition



Source: Ontario Financing Authority (September 30, 2006).

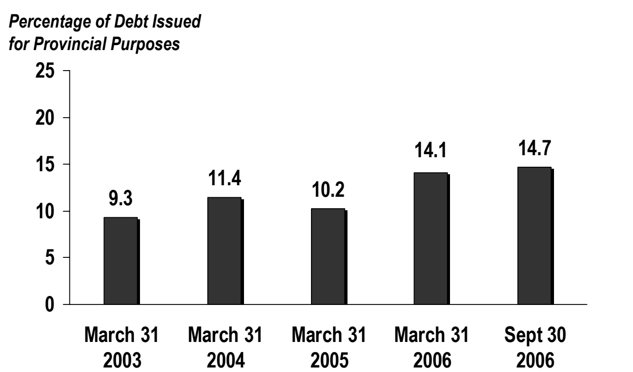
DEBT MANAGEMENT

The Province mitigates the financial risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits.

The Province limits itself to a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes.

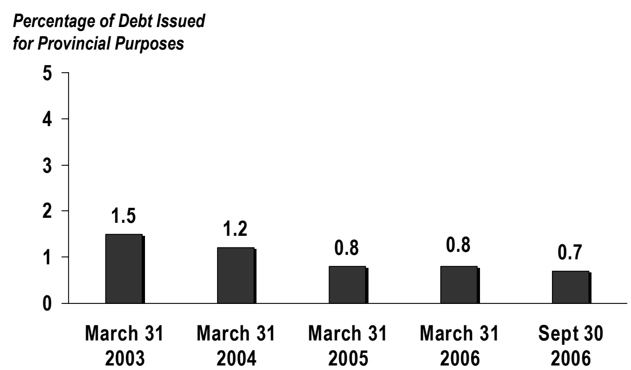
The Province's interest rate reset and foreign exchange exposures have remained well below policy limits during the first half of 2006–07.

Interest Rate Reset Exposure



Source: Ontario Financing Authority (September 30, 2006). Excludes OEFC debt.

Foreign Exchange Exposure

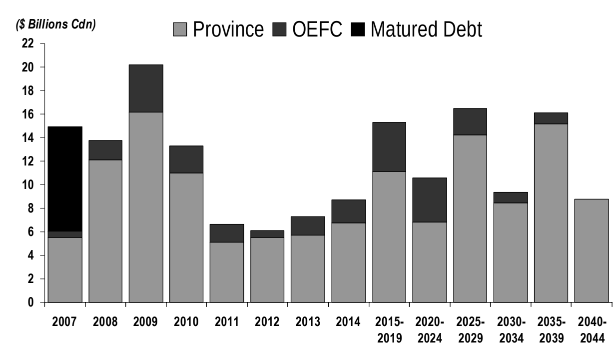


Source: Ontario Financing Authority (September 30, 2006). Excludes OEFC debt.

DEBT MATURITIES

The most significant component of the borrowing program is the refinancing of debt maturities. The Ontario Financing Authority (OFA), on behalf of the Province, will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities



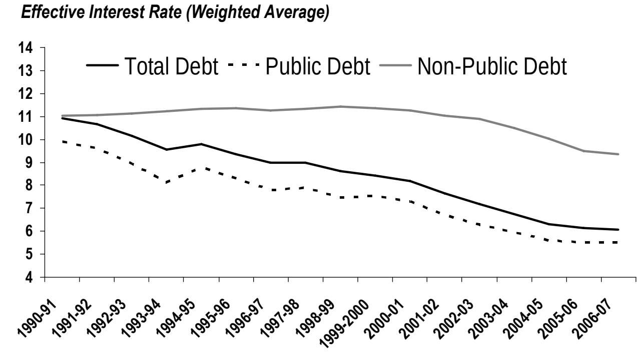
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date.
Excludes the incremental impact of future refinancing.

Source: Ontario Financing Authority (September 30, 2006).

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt of $156.1 billion as at September 30, 2006 was 6.08 per cent, compared to 6.14 per cent as at March 31, 2006. As at March 31, 1991, the effective interest rate on total debt was 10.92 per cent.

Effective Interest Rate (Weighted Average) of Debt



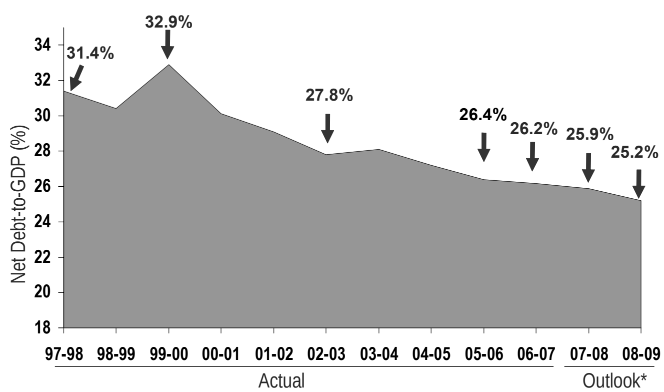
Sources: Ontario Public Accounts 1991–2005 and Ontario Financing Authority (September 30, 2006).

The effective interest rate on public debt was 5.51 per cent as at September 30, 2006, a decrease from 5.52 per cent as at March 31, 2006. The effective interest rate on non-public debt was 9.35 per cent as at September 30, 2006, a decrease from 9.49 per cent as at March 31, 2006.

Net Debt-to-GDP

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or "stranded debt") of OEFC, which manages the debt and certain other liabilities of the former Ontario Hydro. Since then, Ontario's net debt-to-GDP ratio has trended downward, declining to 26.4 per cent in 2005–06. The current outlook projects a ratio of 26.2 per cent in 2006–07, 25.9 per cent in 2007–08 and 25.2 per cent in 2008–09.

Net Debt-to-GDP



* Second-quarter fiscal forecast as at September 30, 2006.
Source: Ontario Ministry of Finance (September 30, 2006).

GLOSSARY OF FINANCIAL TERMS USED IN ANNEX VI

Amortization of Major Tangible Capital Assets: the portion of the cost of major tangible capital assets owned by the Province allocated to annual expense, the portion of the cost of tangible capital assets of fully consolidated government organizations allocated to annual expense, and the Province's portion of the cost of major tangible capital assets of hospitals, school boards and colleges allocated to annual expense.

Canada Pension Plan Borrowing: the Province has the option of borrowing from the Canada Pension Plan as a source of long-term borrowing.

Debt Maturities: total forecasted amount of debt that will be due for repayment in the fiscal year.

Debt Redemptions: total forecasted amount of Ontario Savings Bonds expected to be presented for redemption prior to maturity.

Domestic Bonds: debt securities issued in the domestic market, settling through the domestic clearing system.

Euro Medium-Term Notes (EMTNs): debt issued outside the United States and Canada and structured to meet individual investor requirements.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies, including Canadian and U.S. dollars.

Increase/(Decrease) in Cash and Cash Equivalents: the change in cash and other short-term liquid instruments.

Investment in Capital Assets: the cost of acquiring major tangible capital assets owned by the Province during the year, including land, buildings, highways and bridges; the cost of tangible capital assets acquired by fully consolidated government organizations, including land, buildings and equipment; and the Province's portion of the cost of tangible capital assets acquired by hospitals and colleges during the year, including land, buildings and equipment.

Medium-Term Notes (MTNs): debt instruments offered under a program and structured to meet specific investor needs.

Net Debt: the difference between the Province's total liabilities and total financial assets. The annual change in net debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges.

Non-Cash Items Included in Deficit: adjustments to the deficit (reported on an accrual basis) to determine cash flows to be used in operating activities. Non-cash adjustments include revenues that are earned but not received and/or expenses that were recognized but not paid during the fiscal year.

Syndicated Issues: debt securities that are underwritten by a group of investment dealers.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Treasury Bills: short-term debt instruments issued by governments on a discount basis, usually for durations of 91 days, 182 days or 52 weeks.

Weighted-Average Interest Rate: takes into account the proportion of debt at each level of interest rate in the debt portfolio.

ANNEX VII

DETAILS OF ONTARIO'S FINANCES

Section I: Potential Expense Risks, Cost Drivers and Contingent Liabilities

Expense Risks and Sensitivities

Containing the rate of growth in the Province's medium-term expense plan is a key element of Ontario's fiscal plan. However, a number of expense risks and cost drivers could affect the Province's fiscal performance over the medium term.

A key cost driver within Ontario's expense outlook is the demand for programs and services that arises from changes in the economic outlook or other utilization pressures. These pressures are especially evident in the health and social services sectors.

Under the enhanced reporting introduced in the 2006 Budget, the net expenses of the Province's hospitals, school boards and colleges are included with the Province's total expense. Therefore any variance on these consolidated expenses will impact the Province's bottom line.

The following sensitivities are based on averages for program areas and could change, depending on the nature and composition of the potential risk.

Key sensitivities and risks to the Province's revenue outlook that could follow from unexpected changes in economic conditions are described in Annex I, *Ontario's Economic and Revenue Outlook*.

SELECTED EXPENSE RISKS AND SENSITIVITIES

Program/Sector	2006–07 Assumption	2006–07 Sensitivities
Health Sector	Annual growth of 8.2 per cent.	One per cent change in health spending: $355 million.
Hospitals	Annual growth of 11.1 per cent.	One per cent change in hospital net expense: $165 million.
Drug Utilization	Annual growth of 10 per cent.	One per cent change in utilization of all drug programs: $35 million (seniors and social assistance recipients).
Long-Term Care Homes	75,500 long-term care home beds.	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care home is $38,000. One per cent change in number of beds: $28 million.
Home Care	Over 17 million hours of homemaking and support services;	One per cent change in hours of homemaking and support services: $4 million.
	Nine million nursing and health professional visits.	One per cent change in nursing and professional visits: $6 million.
Elementary and Secondary Schools	Almost two million average daily pupil enrolment.	One per cent enrolment change: $160 million in school boards' net expense.
University Students	327,000 full-time undergraduate and graduate students.	One per cent enrolment change: $26 million.
Ontario Works[1]	199,000 average annual caseload.	One per cent caseload change: $17 million.
Ontario Disability Support Program[1]	212,000 average annual caseload.	One per cent caseload change: $24 million.
College Students	151,000 full-time students.	One per cent enrolment change: $7 million in colleges' net expense.
Interest on Debt	Average cost of borrowing is forecast to be approximately 5.1 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $250 million.
Correctional System	Three million adult inmate days per year.	Average cost $160 per inmate per day. One per cent change in inmate days: $5 million.

[1] Based on 2005–06.

COMPENSATION COSTS

Compensation costs and wage settlements are key cost drivers and have a substantial impact on the finances of both the broader public-sector partners and the Province.

Program/Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians[1]	$76 million	Just over 22,000 physicians in Ontario including approximately 10,900 family doctors and 11,335 specialists.
Hospital Nurses[2]	$44 million	Over 53,000 full-time equivalent (FTE) nurses in hospitals.
Elementary and Secondary School Staff[3]	$140 million	Over 195,000 staff including teachers, principals, administrators, and support and maintenance staff.
College Staff[2]	$12 million	Almost 35,000 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service[4]	$52 million	Over 64,000 public servants.

[1] Based on 2006–07 outlook.
[2] Based on 2005–06 actuals.
[3] One per cent increase in salary benchmarks in Grants for Student Needs based on 2006–07 school year.
[4] Based on 2005–06, reflects total compensation costs.

CONTINGENT LIABILITIES

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described as follows.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario consumer price index for the nuclear used fuel waste management fund. Ontario has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $1.5 billion, which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

Ontario provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2006, was $3.8 billion. The outstanding loans guaranteed and other contingencies amounted to $3.3 billion at March 31, 2006. A provision of $504 million based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been reflected in the 2005–06 Consolidated Financial Statements of the Province.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio.
At March 31, 2006, there were $8.6 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2006, there were 94 claims outstanding against the Crown that were for amounts over $50 million.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

SECTION II: FISCAL TABLES AND GRAPHS

The following pages provide details on Ontario's finances — both historical and projections over the medium term.

Key tables consist of:

- Medium-term Fiscal Plan and Outlook (2005–06 to 2008–09)
- 2006–07 Fiscal Outlook — In-year Change
- Details of Provincial Revenue (2002–03 to 2006–07)
- Details of Provincial Total Expense, by Ministry (2002–03 to 2006–07)
- Details of Infrastructure Expenditures (2005–06 to 2006–07)
- Ten-Year Review of Selected Financial and Economic Statistics (1997–98 to 2006–07).

Key graphs consist of:

- Composition of Revenue (2006–07)
- Composition of Total Expense (2006–07)
- Composition of Program Expense (2006–07).

Medium-term Fiscal Plan and Outlook ($ Billions) — Table 1

	Actual[1]	Outlook[2]		
	2005–06	2006–07	2007–08	2008–09
Revenue	**84.2**	**87.0**	**90.0**	**93.2**
Expense				
Programs	74.9	78.8	81.2	83.1
Interest on Debt	9.0	9.2	9.5	9.6
Total Expense	83.9	88.0	90.8	92.7
Surplus/(Deficit) Before Reserve	**0.3**	**(0.9)**	**(0.7)**	**0.5**
Reserve	–	1.0	1.5	1.5
Surplus/(Deficit)	**0.3**	**(1.9)**	**(2.2)**	**(1.0)**
Investment in Capital Assets	**2.0**	**2.6**	**2.7**	**2.7**
Net Debt[3]	**141.9**	**145.3**	**149.1**	**151.5**
Accumulated Deficit[3]	**109.2**	**111.1**	**113.3**	**114.4**
Gross Domestic Product (GDP) at Market Prices	538.4	554.5	574.8	601.6
Net Debt as a per cent of GDP	26.4	26.2	25.9	25.2
Accumulated Deficit as a per cent of GDP	20.3	20.0	19.7	19.0

[1] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation.

[2] Second-quarter fiscal forecast as at September 30, 2006.

[3] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

2006–07 Fiscal Outlook — In-year Change ($ Millions) — Table 2

	Budget Plan 2006–07	Outlook[1] 2006–07	In-Year Change
Revenue	85,730	87,044	1,314
Expense			
Programs	77,651	78,789	1,138
Interest on Debt	9,429	9,204	(225)
Total Expense	87,080	87,993	913
Surplus/(Deficit) Before Reserve	(1,350)	(949)	401
Reserve	1,000	1,000	–
Surplus/(Deficit)	(2,350)	(1,949)	401

[1] Second-quarter fiscal forecast as at September 30, 2006.

REVENUE ($ MILLIONS) — TABLE 3

	2002–03	2003–04	2004–05	Actual 2005–06	Outlook[1] 2006–07
Taxation Revenue					
Personal Income Tax	18,195	18,301	19,320	21,041	22,321
Retail Sales Tax	14,183	14,258	14,855	15,554	16,165
Corporations Tax	7,459	6,658	9,883	9,984	9,585
Employer Health Tax	3,589	3,753	3,886	4,197	4,299
Ontario Health Premium	–	–	1,737	2,350	2,541
Gasoline Tax	2,306	2,264	2,277	2,281	2,303
Fuel Tax	682	681	727	729	742
Tobacco Tax	1,183	1,350	1,453	1,379	1,405
Land Transfer Tax	814	909	1,043	1,159	1,125
Electricity Payments-In-Lieu of Taxes	711	627	511	951	790
Other Taxes	429	347	283	292	283
	49,551	49,148	55,975	59,917	61,559
Government of Canada					
Canada Health and Social Transfer (CHST)	7,346	7,345	–	–	–
Canada Health Transfer (CHT)	–	–	5,640	7,148	7,619
Canada Social Transfer (CST)[2]	–	–	2,912	3,324	3,420
CHST Supplements	191	577	775	584	–
Social Housing	525	528	522	520	530
Infrastructure Programs	97	150	209	285	359
Wait Times Reduction Fund	–	–	242	243	467
Medical Equipment Funds	–	192	387	194	–
Other Government of Canada	735	1,101	1,195	953	1,643
	8,894	9,893	11,882	13,251	14,038
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,288	2,106	1,992	2,027	1,743
Liquor Control Board of Ontario	939	1,045	1,147	1,197	1,254
Ontario Power Generation Inc. and Hydro One Inc.	717	(17)	444	1,107	919
Other Government Enterprises	(2)	(64)	(5)	(23)	4
	3,942	3,070	3,578	4,308	3,920
Other Non-Tax Revenue					
Reimbursements	1,111	1,206	1,241	1,295	1,358
Electricity Debt Retirement Charge	889	1,000	997	1,021	1,027
Vehicle and Driver Registration Fees	982	985	976	763	1,021
Power Sales	635	510	610	779	988
Other Fees and Licences	606	594	506	550	556
Liquor Licence Revenue	530	488	489	516	453
Net Reduction of Power Purchase Contract Liability	161	104	236	396	412
Sales and Rentals	560	532	352	465	969
Royalties	304	248	278	191	243
Miscellaneous Other Non-Tax Revenue	726	622	721	773	500
	6,504	6,289	6,406	6,749	7,527
Total Revenue	68,891	68,400	77,841	84,225	87,044

[1] Second-quarter fiscal forecast as at September 30, 2006.

[2] Includes 2005 federal budget additional Early Learning and Child Care revenues of $272 million in 2005–06 and $254 million in 2006–07.

TOTAL EXPENSE — TABLE 4
($ MILLIONS)

Ministry	2002–03	2003–04	2004–05	Actual 2005–06	Outlook[1] 2006–07
Agriculture, Food and Rural Affairs	666	843	799	865	880
One-Time and Extraordinary Assistance	18	64	601	282	192
Attorney General	1,103	1,231	1,209	1,291	1,301
Board of Internal Economy	146	196	145	150	169
Children and Youth Services	2,457	2,660	2,851	3,330	3,279
Citizenship and Immigration	55	55	64	93	91
Community and Social Services	5,844	5,990	6,379	6,737	7,070
Community Safety and Correctional Services	1,713	1,704	1,749	1,767	1,887
Culture	373	327	344	475	366
Democratic Renewal Secretariat	–	–	2	2	10
Economic Development and Trade	104	89	84	202	353
Education	345	352	368	418	446
School Boards[2]	8,739	9,400	10,251	10,886	11,219
Teachers' Pension Plan (TPP)	238	235	240	295	408
Energy	190	169	194	207	242
Environment	250	265	307	275	302
Executive Offices	20	24	19	19	19
Finance	1,082	1,229	1,067	1,034	1,167
Interest on Debt	9,694	9,604	9,368	9,019	9,204
Community Reinvestment Fund/Ontario Municipal Partnership Fund	622	651	626	714	731
Community Reinvestment Fund One-Time Transition Funding	–	–	233	–	–
Electricity Consumer Price Protection Fund	665	253	–	–	–
Power Purchases	786	797	840	803	988
Contingency Fund	–	–	–	–	1,292
Government Services	331	467	898	562	811
Pensions and Other Employee Future Benefits	102	309	458	729	594
Health and Long-Term Care[3]	14,758	16,232	17,572	17,722	18,687
Hospitals[2,3]	11,241	12,830	13,759	14,816	16,463
Health Promotion	175	204	241	296	363
Intergovernmental Affairs	9	6	13	10	9
Labour	123	117	129	141	150
Municipal Affairs and Housing	656	635	772	928	693
Natural Resources	526	627	563	632	806
Northern Development and Mines	302	189	320	337	347
Office of Francophone Affairs	3	3	3	4	4
Public Infrastructure Renewal[4]	93	(35)	41	107	120
Contingency Fund	–	–	–	–	169
Research and Innovation	158	194	263	370	345
Secretariat for Aboriginal Affairs	18	15	21	50	21
Tourism	155	212	167	210	161
Training, Colleges and Universities	2,473	2,834	3,316	3,529	3,876
Colleges[2]	987	1,090	1,289	1,185	1,359
Transportation	1,554	1,816	1,831	2,203	2,093
Move Ontario	–	–	–	1,232	6
Year-End Savings	–	–	–	–	(700)
Total Expense	68,774	73,883	79,396	83,927	87,993

[1] Second-quarter fiscal forecast as at September 30, 2006.
[2] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.
[3] The 2003–04 expenses for Health and Long-Term Care and Hospitals include $824 million of SARS-related and major one-time health costs. The 2006–07 figures reflect a change in the presentation of expense in the Health Sector to be consistent with the 2005–06 Public Accounts. This change in presentation does not affect total expense.
[4] Credit amounts relate to consolidation adjustments between the Ontario Realty Corporation and ministries to reflect net spending for the year.
Note: Expense amounts for 2002–03 to 2004–05 have been restated to reflect ministry restructuring that occurred during fiscal 2005–06. This restatement has no impact on total expense or the surplus/deficit.

2006–07 INFRASTRUCTURE EXPENDITURES ($ MILLIONS) — TABLE 5

	Total Infrastructure Expenditures 2005–06 Actual	2006–07 Outlook[1] Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure[2]	Total Infrastructure Expenditures
Transportation				
Transit	1,541	546	547	1,093
Highways	1,237	1,295	116	1,411
Other Transportation	494	2	60	62
Health				
Hospitals	296	305	–	305
Other Health	166	32	172	204
Education				
School Boards	949	–	1,110	1,110
Colleges	44	13	–	13
Universities	88	–	27	27
Water/Environment	342	10	226	236
Municipal and Local Infrastructure[3]	455	2	451	453
Justice	84	64	53	117
Other	468	290	232	522
Total[4]	**6,164**	**2,559**	**2,994**	**5,553**

[1] Second-quarter fiscal forecast as at September 30, 2006.

[2] Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's Total Expenses in Table 4.

[3] Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

[4] Total expenditures include $36 million in flow-throughs in Investment in Capital Assets (for provincial highways) and $208 million in flow-throughs in Transfers and Other Expenditures in Infrastructure ($31 million in Transportation, $26 million in Water/Environment, $150 million in Municipal and Local Infrastructure, and $1 million in Other Infrastructure).

TEN-YEAR REVIEW OF SELECTED FINANCIAL AND ECONOMIC STATISTICS ($ MILLIONS)

	1997–98	1998–99	1999–00
Financial Transactions			
Revenue	52,782	56,050	65,042
Expense			
Programs[3]	48,019	49,036	53,347
Interest on Debt	8,729	9,016	11,027
Total Expense[3]	56,748	58,052	64,374
Surplus/(Deficit) Before Reserve	(3,966)	(2,002)	668
Reserve	–	–	–
Surplus/(Deficit)	(3,966)	(2,002)	668
Net Debt[4]	112,735	114,737	134,398
Accumulated Deficit[4]	112,735	114,737	134,398
Gross Domestic Product (GDP) at Market Prices	359,353	377,897	409,020
Personal Income	289,537	304,652	321,702
Population — July (000s)	11,228	11,367	11,506
Net Debt per Capita (dollars)	10,041	10,094	11,681
Personal Income per Capita (dollars)	25,787	26,801	27,959
Total Expense as a per cent of GDP	15.8	15.4	15.7
Interest on Debt as a per cent of Revenue	16.5	16.1	17.0
Net Debt as a per cent of GDP	31.4	30.4	32.9
Accumulated Deficit as a per cent of GDP	31.4	30.4	32.9

[1] Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

[2] Second-quarter fiscal forecast as at September 30, 2006.

[3] Starting in 2002–03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated organizations are accounted for on a full accrual basis.

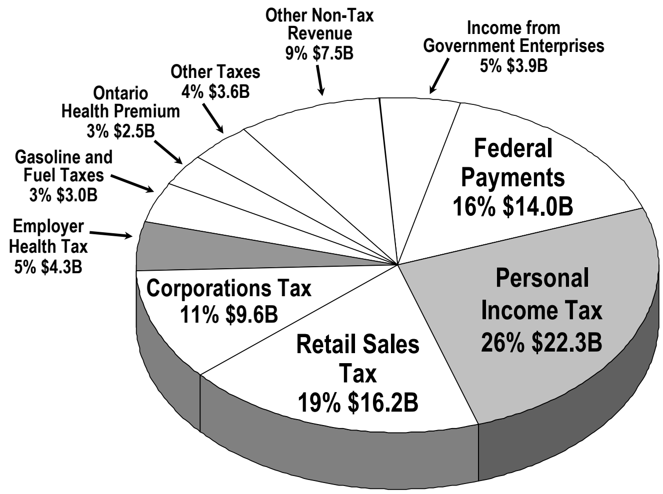
[4] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these broader public sector entities.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table 6

2000–01	2001–02	2002–03	2003–04	2004–05	Actual[1] 2005–06	Outlook[2] 2006–07
66,294	66,534	68,891	68,400	77,841	84,225	87,044
53,519	55,822	59,080	64,279	70,028	74,908	78,789
10,873	10,337	9,694	9,604	9,368	9,019	9,204
64,392	66,159	68,774	73,883	79,396	83,927	87,993
1,902	375	117	(5,483)	(1,555)	298	(949)
–	–	–	–	–	–	1,000
1,902	375	117	(5,483)	(1,555)	298	(1,949)
132,496	132,121	132,647	138,557	140,921	141,928	145,345
132,496	132,121	118,705	124,188	125,743	109,155	111,104
440,759	453,701	477,528	491,859	517,306	538,386	554,529
347,653	361,187	370,418	383,197	400,287	419,230	438,685
11,685	11,898	12,102	12,260	12,407	12,541	12,696
11,339	11,104	10,961	11,302	11,358	11,317	11,448
29,752	30,357	30,608	31,256	32,263	33,429	34,553
14.6	14.6	14.4	15.0	15.3	15.6	15.9
16.4	15.5	14.1	14.0	12.0	10.7	10.6
30.1	29.1	27.8	28.2	27.2	26.4	26.2
30.1	29.1	24.9	25.2	24.3	20.3	20.0

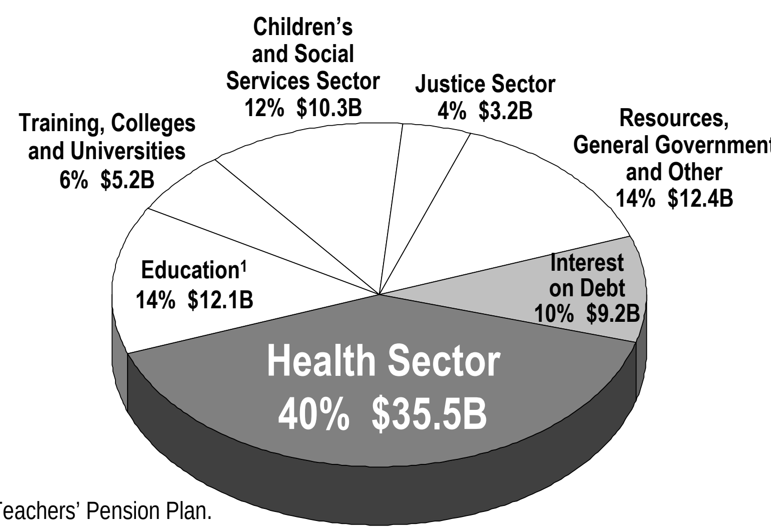
Composition of Revenue 2006–07



Note: Numbers may not add due to rounding.

Second-quarter fiscal forecast as at September 30, 2006.

Composition of Total Expense 2006–07

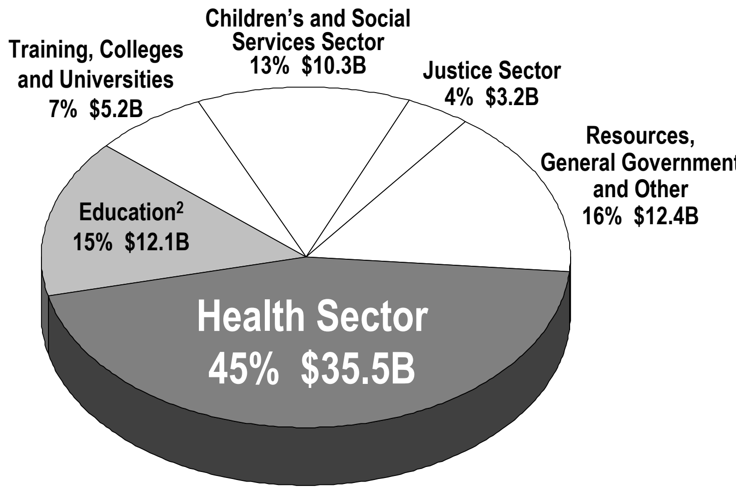


[1] Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Second-quarter fiscal forecast as at September 30, 2006.

Composition of Program Expense[1] 2006–07



[1] Program expense equals total expense minus interest on debt.
[2] Includes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.
Second-quarter fiscal forecast as at September 30, 2006.

ANNEX VIII

ECONOMIC DATA TABLES

ANNEX VIII
ECONOMIC DATA TABLES

ECONOMIC DATA TABLES (CONT'D)

(*Note*: Data in the tables may not add to totals due to rounding.)

TABLE 1: ONTARIO, GROSS DOMESTIC PRODUCT, 1992–2005

($ Billions)

	1992	1993	1994	1995	1996	1997	1998
Real GDP (chained $1997)	307.2	310.2	328.5	340.1	343.8	359.4	376.7
Consumption	175.3	177.7	183.1	186.6	190.9	200.1	207.1
Government	72.6	72.1	72.9	73.3	70.6	70.5	72.0
Residential Construction	17.1	15.6	15.9	13.7	15.0	17.2	16.8
Non-residential Construction	10.9	8.8	7.8	7.5	9.2	10.0	10.2
Machinery and Equipment	18.5	17.7	20.2	22.3	23.7	29.3	31.3
Exports	165.5	179.4	198.1	213.8	225.6	242.6	260.4
Imports	149.8	158.7	169.4	180.5	189.4	213.3	223.3
Nominal Gross Domestic Product	286.5	293.4	311.1	329.3	338.2	359.4	377.9

TABLE 1 (CONTINUED)

($ Billions)

	1999	2000	2001	2002	2003	2004	2005
Real GDP (chained $1997)	405.0	429.1	436.8	450.0	455.5	469.5	482.4
Consumption	216.6	227.2	232.9	242.1	249.7	257.4	266.4
Government	75.1	77.8	81.5	83.9	88.8	91.6	95.0
Residential Construction	18.8	20.1	22.1	24.2	25.0	25.9	26.1
Non-residential Construction	11.3	10.0	9.9	10.2	10.2	10.1	10.0
Machinery and Equipment	34.2	36.2	35.2	32.7	35.2	38.3	42.5
Exports	289.8	312.5	303.2	307.9	304.9	322.6	331.4
Imports	241.9	259.6	247.5	252.9	262.2	281.0	294.3
Nominal Gross Domestic Product	409.0	440.8	453.7	477.5	491.9	517.3	538.4

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 2: ONTARIO, GROWTH IN GROSS DOMESTIC PRODUCT, 1992–2005

(Per Cent Change)

	1992	1993	1994	1995	1996	1997	1998
Real GDP (chained $1997)	**0.9**	**1.0**	**5.9**	**3.5**	**1.1**	**4.5**	**4.8**
Consumption	1.4	1.3	3.1	1.9	2.3	4.8	3.5
Government	0.4	(0.7)	1.1	0.7	(3.7)	(0.1)	2.0
Residential Construction	4.5	(8.7)	2.0	(14.0)	9.6	14.5	(1.8)
Non-residential Construction	(12.9)	(18.7)	(12.2)	(2.7)	21.5	9.2	1.6
Machinery and Equipment	2.4	(4.4)	14.6	9.9	6.7	23.3	6.8
Exports	3.9	8.4	10.4	7.9	5.6	7.5	7.3
Imports	5.3	5.9	6.8	6.6	4.9	12.6	4.7
Nominal Gross Domestic Product	**1.2**	**2.4**	**6.0**	**5.9**	**2.7**	**6.3**	**5.2**

TABLE 2 (CONTINUED)

(Per Cent Change)

	1999	2000	2001	2002	2003	2004	2005
Real GDP (chained $1997)	**7.5**	**5.9**	**1.8**	**3.0**	**1.2**	**3.1**	**2.8**
Consumption	4.6	4.9	2.5	3.9	3.1	3.1	3.5
Government	4.4	3.6	4.8	3.0	5.8	3.1	3.7
Residential Construction	11.6	7.1	9.7	9.6	3.2	3.5	0.8
Non-residential Construction	11.4	(11.8)	(1.1)	3.4	0.2	(1.0)	(1.1)
Machinery and Equipment	9.4	5.9	(2.8)	(7.3)	7.8	8.9	11.0
Exports	11.3	7.8	(3.0)	1.6	(1.0)	5.8	2.7
Imports	8.4	7.3	(4.6)	2.2	3.7	7.2	4.7
Nominal Gross Domestic Product	**8.2**	**7.8**	**2.9**	**5.3**	**3.0**	**5.2**	**4.1**

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 3: Ontario, Selected Economic Indicators, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Retail Sales ($ Billions)	71.5	74.5	80.0	83.3	83.8	90.9	97.5
Housing Starts – Units (000s)	55.8	45.1	46.6	35.8	43.1	54.1	53.8
Personal Income ($ Billions)	253.8	256.1	260.7	271.4	276.3	289.5	304.7
Pre-tax Corporate Profits ($ Billions)	14.5	17.9	27.9	33.1	34.2	37.5	39.5
Consumer Price Index (1992 = 100)	100.0	101.8	101.8	104.3	105.9	107.9	108.9
Labour Force (000s)	5,529	5,544	5,548	5,589	5,680	5,776	5,877
Employment (000s)	4,933	4,938	5,014	5,100	5,167	5,291	5,453
Unemployment Rate (%)	10.8	10.9	9.6	8.7	9.0	8.4	7.2

Table 3 (continued)

	1999	2000	2001	2002	2003	2004	2005
Retail Sales ($ Billions)	104.6	111.5	114.3	121.0	125.1	129.1	135.2
Housing Starts – Units (000s)	67.2	71.5	73.3	83.6	85.2	85.1	78.8
Personal Income ($ Billions)	321.7	347.7	361.2	370.4	383.2	400.3	419.2
Pre-tax Corporate Profits ($ Billions)	49.7	54.4	49.3	60.6	56.9	64.7	64.4
Consumer Price Index (1992 = 100)	111.0	114.2	117.7	120.1	123.3	125.6	128.4
Labour Force (000s)	6,018	6,173	6,327	6,494	6,676	6,775	6,849
Employment (000s)	5,637	5,817	5,926	6,031	6,213	6,317	6,398
Unemployment Rate (%)	6.3	5.8	6.3	7.1	6.9	6.8	6.6

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

TABLE 4: ONTARIO, SELECTED ECONOMIC INDICATORS, ANNUAL CHANGE, 1992–2005

(Per Cent Change)

	1992	1993	1994	1995	1996	1997	1998
Retail Sales	2.7	4.2	7.5	4.0	0.7	8.5	7.2
Housing Starts	5.6	(19.1)	3.3	(23.2)	20.2	25.6	(0.4)
Personal Income	2.5	0.9	1.8	4.1	1.8	4.8	5.2
Pre-tax Corporate Profits	(0.8)	23.1	55.8	18.7	3.3	9.9	5.2
Consumer Price Index	1.0	1.8	0.0	2.5	1.5	1.9	0.9
Labour Force	(0.3)	0.3	0.1	0.7	1.6	1.7	1.7
Employment	(1.7)	0.1	1.5	1.7	1.3	2.4	3.1

TABLE 4 (CONTINUED)

(Per Cent Change)

	1999	2000	2001	2002	2003	2004	2005
Retail Sales	7.3	6.6	2.5	5.9	3.4	3.2	4.7
Housing Starts	24.9	6.4	2.5	14.1	1.9	(0.1)	(7.4)
Personal Income	5.6	8.1	3.9	2.6	3.4	4.5	4.7
Pre-tax Corporate Profits	25.9	9.3	(9.2)	22.7	(6.1)	13.7	(0.4)
Consumer Price Index	1.9	2.9	3.1	2.0	2.7	1.9	2.2
Labour Force	2.4	2.6	2.5	2.6	2.8	1.5	1.1
Employment	3.4	3.2	1.9	1.8	3.0	1.7	1.3

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

TABLE 5: ONTARIO, REAL GROSS DOMESTIC PRODUCT BY INDUSTRY AT BASIC PRICES, 2002–2005

($1997 Chained Millions)

	2002	2003	2004	2005
Goods Producing Industries	126,216	126,822	130,568	133,411
Primary	7,365	7,191	7,457	7,500
Utilities	10,208	9,891	10,031	10,297
Construction	21,362	22,326	22,331	22,659
Manufacturing[1]	87,281	87,414	90,749	92,956
Services Producing Industries	287,647	294,244	302,419	312,210
Wholesale Trade	27,286	28,554	30,035	32,213
Retail Trade	22,399	23,010	23,734	24,624
Transportation and Warehousing	16,637	16,735	17,358	17,944
Information and Cultural (incl. Telecommunications)	17,753	18,082	18,165	18,846
Finance, Insurance, Real Estate, Rental and Leasing	89,397	91,477	94,711	97,891
Professional and Administrative Services	31,911	32,796	33,313	33,854
Education	17,409	17,554	17,853	18,594
Health Care and Social Services	22,233	23,127	23,715	24,131
Arts, Entertainment and Recreation	3,834	4,010	4,018	4,010
Accommodation and Food	8,864	8,115	8,265	8,264
Other Services	9,843	9,919	10,049	10,202
Public Administration	20,222	21,006	21,396	21,844
Total Production	413,944	421,110	432,903	445,300

[1] See Table 7 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 6: ONTARIO, GROWTH IN REAL GROSS DOMESTIC PRODUCT BY INDUSTRY AT BASIC PRICES, 2002–2005

	(Per Cent Change)			
	2002	2003	2004	2005
Goods Producing Industries	**2.9**	**0.5**	**3.0**	**2.2**
Primary	(3.0)	(2.4)	3.7	0.6
Utilities	5.9	(3.1)	1.4	2.6
Construction	6.3	4.5	0.0	1.5
Manufacturing[1]	2.3	0.2	3.8	2.4
Services Producing Industries	**2.9**	**2.3**	**2.8**	**3.2**
Wholesale Trade	3.0	4.6	5.2	7.3
Retail Trade	7.3	2.7	3.1	3.8
Transportation and Warehousing	0.1	0.6	3.7	3.4
Information and Cultural (incl. Telecommunications)	2.7	1.8	0.5	3.7
Finance, Insurance, Real Estate, Rental and Leasing	2.4	2.3	3.5	3.4
Professional and Administrative Services	4.2	2.8	1.6	1.6
Education	2.0	0.8	1.7	4.2
Health Care and Social Services	2.5	4.0	2.5	1.8
Arts, Entertainment and Recreation	1.6	4.6	0.2	(0.2)
Accommodation and Food	1.0	(8.4)	1.8	0.0
Other Services	4.3	0.8	1.3	1.5
Public Administration	2.8	3.9	1.9	2.1
Total Production	**2.9**	**1.7**	**2.8**	**2.9**

[1] See Table 8 for detailed manufacturing industries.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 7: ONTARIO, REAL GROSS DOMESTIC PRODUCT AT BASIC PRICES IN SELECTED MANUFACTURING INDUSTRIES, 2002–2005

	($1997 Chained Millions)			
	2002	2003	2004	2005
Manufacturing	87,281	87,414	90,749	92,956
Food, Beverage and Tobacco Products	9,652	9,675	10,184	10,398
Textile, Clothing and Leather Products	1,865	1,726	1,616	1,445
Wood Products and Furniture	4,969	5,075	5,161	5,447
Paper Products and Printing	6,534	6,617	6,502	6,503
Chemical and Petroleum Products	8,614	8,631	9,227	8,946
Plastic and Rubber Products	6,014	6,009	6,121	6,054
Primary Metal and Fabricated Metal Products	12,961	13,072	13,471	13,634
Machinery	6,083	5,984	6,060	6,422
Electrical and Electronic Products	7,795	7,739	8,114	9,293
Transportation Equipment	18,484	18,399	19,675	20,309
Other Manufacturing	4,128	4,204	4,254	4,254

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 8: ONTARIO, GROWTH IN REAL GROSS DOMESTIC PRODUCT AT BASIC PRICES IN SELECTED MANUFACTURING INDUSTRIES, 2002–2005

(Per Cent Change)

	2002	2003	2004	2005
Manufacturing	2.3	0.2	3.8	2.4
Food, Beverage and Tobacco Products	(1.0)	0.2	5.3	2.1
Textile, Clothing and Leather Products	(8.0)	(7.4)	(6.4)	(10.6)
Wood Products and Furniture	3.2	2.1	1.7	5.5
Paper Products and Printing	0.1	1.3	(1.7)	0.0
Chemical and Petroleum Products	6.5	0.2	6.9	(3.0)
Plastic and Rubber Products	8.7	(0.1)	1.9	(1.1)
Primary Metal and Fabricated Metal Products	6.1	0.9	3.1	1.2
Machinery	1.2	(1.6)	1.3	6.0
Electrical and Electronic Products	(3.3)	(0.7)	4.8	14.5
Transportation Equipment	2.2	(0.5)	6.9	3.2
Other Manufacturing	5.1	1.8	1.2	0.0

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 9: ONTARIO, HOUSING MARKET INDICATORS, 2002–2005

	2002	2003	2004	2005
New Housing Market				
Residential Construction, Current $ Millions	28,266	30,601	33,673	35,138
Per Cent Change	14.6	8.3	10.0	4.4
Real Residential Construction ($1997 Millions)	24,220	24,999	25,868	26,070
Per Cent Change	9.6	3.2	3.5	0.8
Housing Starts (Units)	83,597	85,180	85,114	78,795
Per Cent Change	14.1	1.9	(0.1)	(7.4)
Of which: Single-detached, urban areas (Units)	44,980	40,849	41,101	33,655
Per Cent Change	29.0	(9.2)	0.6	(18.1)
Multiple, urban areas (Units)	34,635	40,082	38,795	39,522
Per Cent Change	(2.2)	15.7	(3.2)	1.9
New Housing Price Index (1997 = 100)	114.9	120.0	126.7	132.6
Per Cent Change	3.7	4.4	5.6	4.6
Resale Market				
Home Resales (Units)	178,058	184,457	197,353	197,007
Per Cent Change	9.7	3.6	7.0	(0.2)
Average Resale Price ($)	210,901	226,824	245,230	263,042
Per Cent Change	9.1	7.5	8.1	7.3

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ontario Ministry of Finance.

TABLE 10: SELECTED FINANCIAL INDICATORS, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Interest Rates							
Bank Rate	6.8	5.1	5.8	7.1	4.5	3.5	5.1
Prime Rate	7.5	5.9	6.9	8.6	6.1	5.0	6.6
10-Year Government Bonds	8.1	7.2	8.4	8.1	7.2	6.1	5.3
Three-month T-Bills	6.6	4.8	5.5	6.9	4.2	3.3	4.7
Mortgage Rates							
5-Year Rate	9.5	8.8	9.5	9.2	7.9	7.1	6.9
1-Year Rate	7.9	6.9	7.8	8.4	6.2	5.5	6.5
Canadian Household Debt Burden[1]							
Consumer	21.3	21.3	22.7	23.5	24.6	26.2	27.7
Mortgage	59.2	62.2	65.3	65.4	67.1	68.5	69.0
Total	80.5	83.5	88.0	88.9	91.8	94.7	96.6

TABLE 10 (CONTINUED)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Interest Rates							
Bank Rate	4.9	5.8	4.3	2.7	3.2	2.5	2.9
Prime Rate	6.4	7.3	5.8	4.2	4.7	4.0	4.4
10-Year Government Bonds	5.6	5.9	5.5	5.3	4.8	4.6	4.1
Three-month T-Bills	4.7	5.5	3.8	2.6	2.9	2.2	2.7
Mortgage Rates							
5-Year Rate	7.6	8.3	7.4	7.0	6.4	6.2	6.0
1-Year Rate	6.8	7.9	6.1	5.2	4.8	4.6	5.1
Canadian Household Debt Burden[1]							
Consumer	28.3	29.7	30.3	31.1	32.7	34.1	36.7
Mortgage	68.6	67.1	66.7	69.0	71.7	75.3	79.6
Total	96.9	96.8	97.0	100.1	104.4	109.4	116.3

[1] Household debt as a share of personal disposable income.
Note: All data are annual averages.
Sources: Statistics Canada, Finance Canada and Bank of Canada.

Table 11: Ontario and the G7, Real Gross Domestic Product Growth, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	0.9	1.0	5.9	3.5	1.1	4.5	4.8
Canada	0.9	2.3	4.8	2.8	1.6	4.2	4.1
France	1.9	(0.8)	1.6	2.0	1.1	2.3	3.4
Germany	1.8	(0.8)	2.7	2.0	1.0	1.9	1.8
Italy	0.6	(0.9)	2.3	2.9	0.6	2.0	1.3
Japan	1.0	0.2	1.1	1.9	2.6	1.4	(1.8)
United Kingdom	0.3	2.4	4.4	2.9	2.7	3.2	3.2
United States	3.3	2.7	4.0	2.5	3.7	4.5	4.2

Table 11 (continued)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	7.5	5.9	1.8	3.0	1.2	3.1	2.8
Canada	5.5	5.2	1.8	2.9	1.8	3.3	2.9
France	3.2	4.1	2.1	1.3	0.9	2.1	1.4
Germany	1.9	3.5	1.4	0.1	(0.2)	1.1	1.1
Italy	1.9	3.8	1.7	0.3	0.1	0.9	0.1
Japan	(0.2)	2.9	0.4	0.1	1.8	2.3	2.7
United Kingdom	3.0	4.0	2.2	2.0	2.5	3.1	1.8
United States	4.5	3.7	0.8	1.6	2.5	3.9	3.2

Sources: OECD, U.S. Bureau of Economic Analysis and Statistics Canada.

TABLE 12: ONTARIO AND THE G7, EMPLOYMENT GROWTH, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	(1.7)	0.1	1.5	1.7	1.3	2.4	3.1
Canada	(1.0)	0.5	2.1	1.8	0.9	2.1	2.5
France	(0.5)	(1.3)	0.1	1.0	0.4	0.6	1.9
Germany	(1.3)	(1.1)	(0.6)	0.1	(0.4)	(0.4)	1.6
Italy	(0.7)	(4.5)	(1.6)	(0.6)	0.5	0.4	1.1
Japan	1.1	0.2	0.0	0.1	0.4	1.1	(0.7)
United Kingdom	(2.4)	(1.4)	0.7	0.9	0.9	1.7	0.9
United States	0.7	1.5	2.3	1.5	1.4	2.2	1.5

TABLE 12 (CONTINUED)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	3.4	3.2	1.9	1.8	3.0	1.7	1.3
Canada	2.6	2.5	1.2	2.4	2.4	1.8	1.4
France	2.1	2.7	1.9	0.6	0.1	0.0	0.3
Germany	0.0	0.5	0.3	(0.9)	(1.1)	0.0	1.6
Italy	1.2	1.9	2.0	1.5	1.0	1.5	0.7
Japan	(0.8)	(0.2)	(0.5)	(1.3)	(0.2)	0.2	0.4
United Kingdom	1.1	1.4	1.0	0.6	0.8	0.5	0.6
United States	1.5	2.5	0.0	(0.3)	0.9	1.1	1.8

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

Table 13: Ontario and the G7, Unemployment Rates, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	10.8	10.9	9.6	8.7	9.0	8.4	7.2
Canada	11.2	11.4	10.4	9.5	9.6	9.1	8.3
France	10.4	11.7	12.1	11.5	12.1	12.1	11.5
Germany	5.7	6.9	7.3	7.1	7.7	8.6	8.1
Italy	8.8	9.9	10.9	11.3	11.3	11.4	11.5
Japan	2.2	2.5	2.9	3.1	3.4	3.4	4.1
United Kingdom	10.0	10.4	9.5	8.6	8.1	7.0	6.2
United States	7.5	6.9	6.1	5.6	5.4	4.9	4.5

Table 13 (continued)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	6.3	5.8	6.3	7.1	6.9	6.8	6.6
Canada	7.6	6.8	7.2	7.7	7.6	7.2	6.8
France	10.8	9.4	8.7	9.0	9.8	10.0	9.9
Germany	7.5	6.9	6.9	7.6	8.7	9.2	9.1
Italy	11.1	10.2	9.2	8.7	8.6	8.1	7.8
Japan	4.7	4.7	5.0	5.4	5.3	4.7	4.4
United Kingdom	6.0	5.5	5.1	5.2	5.0	4.7	4.8
United States	4.2	4.0	4.7	5.8	6.0	5.5	5.1

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature.

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

TABLE 14: ONTARIO AND THE G7, CPI INFLATION RATES, 1992–2005

(Per Cent)

	1992	1993	1994	1995	1996	1997	1998
Ontario	1.0	1.8	0.0	2.5	1.5	1.9	0.9
Canada	1.5	1.8	0.2	2.2	1.6	1.6	0.9
France	2.5	2.2	1.7	1.8	2.1	1.3	0.7
Germany	5.1	4.4	2.7	1.7	1.2	1.5	0.6
Italy	5.0	4.5	4.2	5.4	4.0	1.9	2.0
Japan	1.7	1.3	0.7	(0.1)	0.0	1.7	0.7
United Kingdom	4.2	2.5	2.0	2.7	2.5	1.8	1.6
United States	3.0	3.0	2.6	2.8	3.0	2.3	1.6

TABLE 14 (CONTINUED)

(Per Cent)

	1999	2000	2001	2002	2003	2004	2005
Ontario	1.9	2.9	3.1	2.0	2.7	1.9	2.2
Canada	1.7	2.7	2.6	2.2	2.8	1.9	2.2
France	0.6	1.8	1.8	1.9	2.2	2.3	1.9
Germany	0.6	1.4	1.9	1.4	1.0	1.8	1.9
Italy	1.7	2.6	2.3	2.6	2.8	2.3	2.2
Japan	(0.3)	(0.8)	(0.8)	(0.9)	(0.3)	0.0	(0.3)
United Kingdom	1.3	0.8	1.2	1.3	1.4	1.3	2.0
United States	2.2	3.4	2.8	1.6	2.3	2.7	3.4

Sources: OECD, U.S. Bureau of Labor Statistics and Statistics Canada.

TABLE 15: G7, EXCHANGE RATES, 1992–2005

(Foreign Currency per Canadian Dollar)

	1992	1993	1994	1995	1996	1997	1998
Euro[1]	–	–	–	–	–	–	–
France	4.380	4.390	4.066	3.637	3.752	4.211	3.968
Germany	1.292	1.282	1.188	1.044	1.104	1.251	1.183
Italy	1,019.6	1,219.8	1,180.7	1,186.9	1,131.6	1,228.5	1,168.2
Japan	104.8	86.2	74.8	68.5	79.8	87.3	87.8
United Kingdom	0.471	0.517	0.478	0.462	0.470	0.441	0.407
United States	0.827	0.775	0.732	0.729	0.733	0.722	0.674

TABLE 15 (CONTINUED)

(Foreign Currency per Canadian Dollar)

	1999	2000	2001	2002	2003	2004	2005
Euro[1]	0.631	0.730	0.721	0.674	0.632	0.618	0.663
France	4.139	4.787	4.730	–	–	–	–
Germany	1.234	1.427	1.410	–	–	–	–
Italy	1,222.5	1,412.4	1,396.6	–	–	–	–
Japan	76.3	72.6	78.4	79.7	82.7	83.1	90.6
United Kingdom	0.416	0.444	0.448	0.424	0.437	0.419	0.453
United States	0.673	0.673	0.646	0.637	0.714	0.768	0.825

[1] Introduced January 4, 1999.
Note: All data are annual averages.
Source: Bank of Canada.

TABLE 16: ONTARIO, INTERNATIONAL MERCHANDISE EXPORTS[1] BY MAJOR COMMODITY[2], 2005

	Value ($ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	72,769	40.4
Machinery and Mechanical Appliances	19,433	10.8
Electrical Machinery and Equipment	10,062	5.6
Non-ferrous Metals and Allied Products	8,202	4.6
Plastics and Plastic Articles	7,354	4.1
Pulp; Paper and Allied Products	5,346	3.0
Precious Metals, Stones and Coins	4,927	2.7
Prepared Foodstuffs, Beverages and Tobacco	4,822	2.7
Furniture and Fixtures, Signs, Prefabricated Buildings	4,798	2.7
Iron and Steel	3,790	2.1
Mineral Products	3,786	2.1
Other Chemical Products	3,694	2.1
Articles of Iron and Steel	3,437	1.9
Wood and Wood Products	3,032	1.7
Pharmaceutical Products	2,960	1.6
Scientific, Professional and Photo Equipment, Clocks	2,454	1.4
Rubber and Rubber Articles	2,005	1.1
Inorganic Chemicals; Chemical Elements and Compounds	1,884	1.0
Vegetable Products; Fats and Oils	1,826	1.0
Live Animals; Animal Products	1,553	0.9
Organic Chemicals	1,427	0.8
Textiles and Textile Articles	1,296	0.7
Articles of Stone, Cement, Ceramic and Glass	1,219	0.7
Aircraft, Spacecraft and Parts	1,099	0.6
Printed Matter	766	0.4
Hides, Leather, Travel Goods and Furs	359	0.2
Apparel and Clothing Accessories	341	0.2
Toys, Games and Sports Equipment	327	0.2
Railway, Rolling Stock and Parts	294	0.2
Other Textile and Clothing Articles	243	0.1
Miscellaneous Articles; Works of Art	208	0.1
Ships, Boats and Floating Structures	56	0.0
Footwear	25	0.0
Headgear, Umbrellas, Artificial Flowers	22	0.0
Other Commodities[3]	4,298	2.4
Total Exports	180,113	100.0

[1] Domestic exports exclude re-exports.

[2] Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.

[3] Other Commodities includes special transactions.

Source: Industry Canada.

Table 17: Ontario, International Merchandise Imports by Major Commodity[1], 2005

	Value ($ Millions)	Per Cent of Total
Motor Vehicles, Parts and Accessories	50,984	22.3
Machinery and Mechanical Appliances	40,415	17.7
Electrical Machinery and Equipment	24,633	10.8
Plastics and Plastic Articles	9,512	4.2
Scientific, Professional and Photo Equipment, Clocks	8,300	3.6
Other Chemical Products	8,059	3.5
Non-ferrous Metals and Allied Products	7,255	3.2
Mineral Products	7,081	3.1
Pharmaceutical Products	6,535	2.9
Prepared Foodstuffs, Beverages and Tobacco	5,970	2.6
Iron and Steel	5,358	2.3
Vegetable Products; Fats and Oils	4,484	2.0
Articles of Iron and Steel	4,346	1.9
Pulp; Paper and Allied Products	4,222	1.8
Furniture and Fixtures, Signs, Prefabricated Buildings	4,174	1.8
Organic Chemicals	3,907	1.7
Rubber and Rubber Articles	3,505	1.5
Precious Metals, Stones and Coins	3,477	1.5
Articles of Stone, Cement, Ceramic and Glass	2,927	1.3
Apparel and Clothing Accessories	2,724	1.2
Printed Matter	2,431	1.1
Textiles and Textile Articles	2,425	1.1
Toys, Games and Sports Equipment	2,313	1.0
Aircraft, Spacecraft and Parts	2,235	1.0
Live Animals; Animal Products	1,619	0.7
Wood and Wood Products	1,403	0.6
Inorganic Chemicals; Chemical Elements and Compounds	1,102	0.5
Railway, Rolling Stock and Parts	773	0.3
Hides, Leather, Travel Goods and Furs	760	0.3
Footwear	709	0.3
Miscellaneous Articles; Works of Art	694	0.3
Other Textile and Clothing Articles	542	0.2
Ships, Boats and Floating Structures	309	0.1
Headgear, Umbrellas, Artificial Flowers	158	0.1
Other Commodities[2]	3,205	1.4
Total Imports	228,549	100.0

[1] Ontario Ministry of Economic Development and Trade definition of product groupings based on two-digit Harmonized System Codes. Data are customs based.

[2] Other Commodities includes trans-shipments from one province to another through a foreign jurisdiction and special transactions.

Source: Industry Canada.

TABLE 18: ONTARIO, INTERNATIONAL MERCHANDISE TRADE[1] BY MAJOR REGION, 2005

	Exports ($ Millions)	Per Cent of Total	Imports ($ Millions)	Per Cent of Total
United States	160,148	88.9	152,973	66.9
Western Europe	10,380	5.8	19,225	8.4
Eastern Europe	578	0.3	1,194	0.5
European Union	8,594	4.8	18,256	8.0
Asia	4,143	2.3	34,531	15.1
Oceania (Pacific)	787	0.4	713	0.3
Pacific Rim	4,609	2.6	33,777	14.8
Chinese Economic Area[2]	1,556	0.9	15,493	6.8
Caribbean	334	0.2	190	0.1
Latin America	2,402	1.3	15,673	6.9
Mexico	1,471	0.8	11,564	5.1
Middle East	813	0.5	882	0.4
Africa	524	0.3	781	0.3
Re-imports (Canada)	0	0.0	2,386	1.0
Total	**180,113**	**100.0**	**228,549**	**100.0**

[1] Data are customs based and do not include re-exports.
[2] Chinese Economic Area includes China, Hong Kong and Mongolia.
Source: Industry Canada.

TABLE 19: CANADA, INTERNATIONAL MERCHANDISE TRADE[1] BY MAJOR REGION, 2005

	Exports ($ Millions)	Per Cent of Total	Imports ($ Millions)	Per Cent of Total
United States	343,287	84.1	215,136	56.5
Western Europe	24,457	6.0	52,036	13.7
Eastern Europe	1,582	0.4	4,394	1.2
European Union	22,439	5.5	45,618	12.0
Asia	24,886	6.1	65,116	17.1
Oceania (Pacific)	1,863	0.5	2,342	0.6
Pacific Rim	25,051	6.1	64,424	16.9
Chinese Economic Area[2]	7,801	1.9	30,223	7.9
Caribbean	1,042	0.3	1,489	0.4
Latin America	6,503	1.6	25,088	6.6
Mexico	3,110	0.8	14,592	3.8
Middle East	2,586	0.6	4,660	1.2
Africa	1,924	0.5	6,942	1.8
Re-imports (Canada)	0	0.0	3,544	0.9
Total	**408,133**	**100.0**	**380,748**	**100.0**

[1] Data are customs based and do not include re-exports.
[2] Chinese Economic Area includes China, Hong Kong and Mongolia.
Source: Industry Canada.

TABLE 20: ONTARIO, SELECTED DEMOGRAPHIC CHARACTERISTICS, 1986–2006[1]

	Intercensal Estimates			Postcensal Estimates[2]					
	1986	1991	1996	2001	2002	2003	2004	2005	2006
Total Population (000s)	9,438	10,428	11,083	11,898	12,102	12,263	12,417	12,559	12,687
Annual Average Growth Over Preceding Year Shown (%)	1.4	2.0	1.2	1.4	1.7	1.3	1.3	1.1	1.0
Median Age (Years)	31.9	33.3	35.0	36.7	37.0	37.4	37.7	37.9	NA
Age Group Shares (%)									
0–4	6.8	7.0	6.8	6.0	5.8	5.6	5.5	5.4	NA
5–14	13.4	13.1	13.5	13.5	13.4	13.2	13.0	12.8	NA
15–24	17.1	14.5	13.2	13.4	13.4	13.5	13.5	13.5	NA
25–44	32.1	34.2	32.9	31.5	31.3	30.9	30.6	30.3	NA
45–64	19.8	19.6	21.3	23.2	23.6	24.1	24.7	25.2	NA
65–74	6.5	7.0	7.3	7.0	6.9	6.9	6.9	6.8	NA
75+	4.2	4.6	5.0	5.6	5.7	5.8	5.9	6.0	NA
Total Fertility Rate[3]	1.6	1.7	1.6	1.5	1.5	1.5	1.5	NA	NA
Life Expectancy at Birth (Years)[3]									
Female	80.0	80.8	81.3	82.1	82.2	82.4	NA	NA	NA
Male	73.7	75.0	75.9	77.5	77.7	77.8	NA	NA	NA
Families (000s)[4]	2,445	2,727	2,933	3,191	NA	NA	NA	NA	NA
Households (000s)[4]	3,222	3,638	3,925	4,219	NA	NA	NA	NA	NA

[1] Population figures are for July 1 (Census year).
[2] Estimates by Statistics Canada based on the 2001 Census adjusted for net Census undercoverage.
[3] Calendar-year data.
[4] Families and households are Census data.
Source: Statistics Canada.

TABLE 21: ONTARIO, COMPONENTS OF POPULATION GROWTH, 1996–97 TO 2005–06[1]

(Thousands)

	1996–97	1997–98	1998–99	1999–00	2000–01
Population at Beginning of Period	11,083	11,228	11,367	11,506	11,685
Births	136	133	131	131	128
Deaths	80	80	80	81	81
Immigrants	119	106	92	117	150
Net Emigrants[2]	27	26	24	24	23
Net Change in Non-permanent Residents	(3)	(3)	6	16	21
Interprovincial Arrivals	70	75	73	79	75
Interprovincial Departures	68	66	56	57	56
Population Growth During Period	145	139	139	179	212
Population at End of Period[3]	11,228	11,367	11,506	11,685	11,898
Population Growth (%)	1.3	1.2	1.2	1.6	1.8

TABLE 21 (CONTINUED)

(Thousands)

	2001–02	2002–03	2003–04	2004–05	2005–06
Population at Beginning of Period	11,898	12,102	12,263	12,417	12,559
Births	129	129	133	133	133
Deaths	81	83	86	88	91
Immigrants	153	110	128	130	133
Net Emigrants[2]	19	18	18	18	18
Net Change in Non-permanent Residents	17	22	4	(3)	(7)
Interprovincial Arrivals	70	64	57	59	64
Interprovincial Departures	65	64	64	71	86
Population Growth During Period	204	161	154	142	128
Population at End of Period[3]	12,102	12,263	12,417	12,559	12,687
Population Growth (%)	1.7	1.3	1.3	1.1	1.0

[1] Data are from July 1 to June 30 (Census year).
[2] Net Emigrants = Emigrants plus net temporary emigrants minus returning emigrants.
[3] The sum of the components does not equal the total change in population due to residual deviation.
Source: Statistics Canada. Estimates based on the 2001 Census adjusted for net Census undercoverage.

TABLE 22: ONTARIO, LABOUR FORCE, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Labour Force (000s)	5,529	5,544	5,548	5,589	5,680	5,776	5,877
Annual Labour Force Growth (%)	(0.3)	0.3	0.1	0.7	1.6	1.7	1.7
Participation Rate (%)							
Male	75.1	74.3	73.4	72.7	72.6	72.8	72.5
Female	59.9	59.4	58.8	58.6	58.9	59.0	59.6
Share of Labour Force (%)							
Youth (15–24)	18.1	17.3	16.8	16.4	16.2	15.9	15.8
Older Workers (45+)	27.4	28.1	28.8	29.1	29.5	30.2	30.7

TABLE 22 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
Labour Force (000s)	6,018	6,173	6,327	6,494	6,676	6,775	6,849
Annual Labour Force Growth (%)	2.4	2.6	2.5	2.6	2.8	1.5	1.1
Participation Rate (%)							
Male	73.1	73.3	73.4	73.6	74.3	74.1	73.5
Female	60.3	61.0	61.4	62.0	63.0	63.0	62.7
Share of Labour Force (%)							
Youth (15–24)	16.1	16.4	16.3	16.4	16.3	16.2	15.9
Older Workers (45+)	31.4	32.0	32.6	33.4	34.7	35.4	36.1

Source: Statistics Canada.

TABLE 23: ONTARIO, EMPLOYMENT, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Total Employment (000s)	4,933	4,938	5,014	5,100	5,167	5,291	5,453
Male	2,658	2,673	2,714	2,761	2,791	2,870	2,936
Female	2,275	2,265	2,300	2,339	2,376	2,421	2,518
Annual Employment Growth (%)	(1.7)	0.1	1.5	1.7	1.3	2.4	3.1
Net Job Creation (000s)	(84)	5	76	86	67	124	162
Private-sector Employment (000s)	3,229	3,200	3,262	3,375	3,440	3,508	3,649
Public-sector Employment (000s)	1,029	1,027	1,028	1,003	977	938	938
Self-employment (000s)	676	711	724	723	750	845	867
Manufacturing Employment (% of total)	17.3	16.6	16.8	17.2	17.6	17.7	18.0
Services Employment (% of total)	72.6	73.7	73.8	73.6	73.5	73.5	73.3
Part-time (% of total)	18.5	19.5	19.0	18.7	19.2	19.2	18.7
Average Hours Worked Per Week[1]	36.7	37.2	37.6	37.3	37.6	37.8	37.8

TABLE 23 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
Total Employment (000s)	5,637	5,817	5,926	6,031	6,213	6,317	6,398
Male	3,035	3,125	3,167	3,209	3,301	3,349	3,390
Female	2,602	2,692	2,759	2,822	2,912	2,967	3,008
Annual Employment Growth (%)	3.4	3.2	1.9	1.8	3.0	1.7	1.3
Net Job Creation (000s)	183	180	109	105	182	103	81
Private-sector Employment (000s)	3,784	3,930	4,052	4,116	4,249	4,278	4,330
Public-sector Employment (000s)	962	994	1,002	1,038	1,050	1,107	1,140
Self-employment (000s)	891	894	873	878	914	932	928
Manufacturing Employment (% of total)	18.4	18.5	18.0	18.1	17.6	17.4	16.6
Services Employment (% of total)	72.8	72.9	73.4	73.4	73.8	74.1	74.4
Part-time (% of total)	18.0	18.0	17.8	18.3	18.5	18.1	18.1
Average Hours Worked Per Week[1]	38.0	38.0	37.5	37.3	36.6	37.1	37.3

[1] Average actual hours worked per week at all jobs, excluding persons not at work, in reference week.
Source: Statistics Canada.

TABLE 24: ONTARIO, UNEMPLOYMENT, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Total Unemployment (000s)	596	605	535	489	513	485	424
Unemployment Rate (%)	10.8	10.9	9.6	8.7	9.0	8.4	7.2
Male	11.9	11.5	10.0	8.9	9.0	8.1	7.2
Female	9.4	10.2	9.2	8.6	9.1	8.7	7.3
Toronto CMA[1]	11.3	11.3	10.4	8.6	9.1	7.9	7.0
Northern Ontario	12.8	12.7	11.7	10.0	10.7	10.4	11.1
Youth (15–24)	17.7	17.7	15.7	14.7	14.9	16.4	14.5
Older Workers (45+)	7.5	7.7	7.1	6.5	6.4	5.9	5.3
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	29.9	33.5	32.6	29.5	28.2	25.5	21.9
Youth (15–24)	29.6	28.1	27.5	27.7	26.8	31.0	31.6
Older Workers (45+)	19.2	19.7	21.2	21.6	20.8	21.4	22.6
Average Duration (weeks)[2]	23.4	26.9	27.7	25.9	24.8	26.5	23.2
Youth (15–24)	16.8	18.3	17.9	16.3	15.4	13.8	12.8
Older Workers (45+)	30.0	34.0	34.9	33.4	31.0	42.2	39.0

TABLE 24 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
Total Unemployment (000s)	382	356	401	462	463	459	451
Unemployment Rate (%)	6.3	5.8	6.3	7.1	6.9	6.8	6.6
Male	6.2	5.6	6.5	7.4	7.1	6.9	6.6
Female	6.5	6.0	6.2	6.8	6.8	6.6	6.5
Toronto CMA[1]	6.1	5.5	6.3	7.4	7.7	7.5	7.0
Northern Ontario	9.1	8.3	8.0	8.1	7.4	7.8	7.0
Youth (15–24)	13.2	11.9	12.5	13.9	14.4	14.1	13.9
Older Workers (45+)	4.2	4.0	4.4	4.7	4.7	4.5	4.7
Share of Total Unemployment (%)							
Long-term Unemployed (27 weeks+)	19.1	15.4	12.8	15.5	16.2	15.6	15.1
Youth (15–24)	33.7	33.7	32.2	32.1	33.9	33.9	33.5
Older Workers (45+)	20.8	22.4	22.9	22.0	23.5	23.4	25.9
Average Duration (weeks)[2]	21.3	17.7	15.3	16.3	17.0	16.1	16.1
Youth (15–24)	11.6	9.8	8.6	9.4	9.4	8.8	8.7
Older Workers (45+)	34.2	28.4	25.6	24.4	27.2	24.3	23.9

[1] CMA is Census Metropolitan Area. Toronto CMA includes the city of Toronto; the regions of York, Peel and Halton (excluding Burlington); Uxbridge, Pickering, Ajax, Mono, Orangeville, New Tecumseth and Bradford West Gwillimbury.

[2] Prior to 1997, unemployment of 100 or more weeks was recorded as 99 due to data processing limitations. This restriction was removed for data after 1996.

Source: Statistics Canada.

TABLE 25: ONTARIO, EMPLOYMENT INSURANCE (EI) AND SOCIAL ASSISTANCE, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
EI Regular Beneficiaries (000s)	322	294	228	181	180	151	131
EI Maximum Insurable Earnings ($)[1]	710	745	780	815	750	39,000	39,000
EI Maximum Weekly Entitlement ($)	426	425	429	448	413	413	413
EI Premium Rate							
Employer ($/$100 Insurable Earnings)	4.20	4.20	4.30	4.20	4.13	4.06	3.78
Employee ($/$100 Insurable Earnings)	3.00	3.00	3.07	3.00	2.95	2.90	2.70
EI Total Benefits Paid ($ millions)[2]	5,845	5,406	4,511	3,796	3,653	3,436	3,141
EI Premiums Paid ($ millions)[2]	7,353	7,567	8,067	7,929	7,582	8,173	7,679
Social Assistance Caseload (000s)[4]	608	660	673	660	599	568	529

TABLE 25 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
EI Regular Beneficiaries (000s)	110	101	122	136	142	136	132
EI Maximum Insurable Earnings ($)[1]	39,000	39,000	39,000	39,000	39,000	39,000	39,000
EI Maximum Weekly Entitlement ($)	413	413	413	413	413	413	413
EI Premium Rate							
Employer ($/$100 Insurable Earnings)	3.57	3.36	3.15	3.08	2.94	2.77	2.73
Employee ($/$100 Insurable Earnings)	2.55	2.40	2.25	2.20	2.10	1.98	1.95
EI Total Benefits Paid ($ millions)[2]	3,051	2,787	3,524	4,328	4,342	4,429	4,325
EI Premiums Paid ($ millions)[2]	7,614	7,671	7,477	7,392	7,219	6,711[3]	6,947[3]
Social Assistance Caseload (000s)[4]	479	436	408	411	413	418	431

[1] Effective January 1, 1997, the maximum weekly insurable earnings of $750 was eliminated and replaced with an annual maximum set at $39,000.

[2] Employment Insurance benefit payments are on a cash basis; premiums are paid on an accrual basis.

[3] Premiums paid in 2004 and 2005 are Ontario Ministry of Finance estimates.

[4] The number of social assistance cases from 1998 to 2005 includes recipients of the Ontario Works program, the Ontario Disability Support Program, Temporary Care Assistance and the Assistance for Children with Severe Disabilities program. The *Ontario Works Act* was proclaimed in May 1998 and replaced the *General Welfare Act*. The *Ontario Disability Support Program Act* was proclaimed in June 1998.

Sources: Statistics Canada, Human Resources and Social Development Canada, Ontario Ministry of Finance and Ontario Ministry of Community and Social Services.

TABLE 26: ONTARIO, LABOUR COMPENSATION, 1992–2005

	1992	1993	1994	1995	1996	1997	1998
Average Weekly Earnings ($)[1]	598.80	612.33	628.16	634.17	649.55	663.73	672.67
Increase (%)	3.9	2.3	2.6	1.0	2.4	2.2	1.3
CPI Inflation (%)	1.0	1.8	0.0	2.5	1.5	1.9	0.9
AWE Increase Less CPI Inflation (%)	2.9	0.5	2.6	(1.5)	0.9	0.3	0.4
AWE – Manufacturing ($)	716.55	739.20	761.95	770.80	794.09	821.28	841.78
Increase (%)	4.9	3.2	3.1	1.2	3.0	3.4	2.5
Increase Less CPI Inflation (%)	3.9	1.4	3.1	(1.3)	1.5	1.5	1.6
Wage Settlement Increases (%)[2]							
All Sectors	2.7	1.0	0.4	1.0	1.1	1.2	1.6
Public	2.6	0.5	0.1	0.2	0.3	0.7	1.3
Private	2.7	1.9	1.1	1.7	2.2	2.3	2.1
Person Days Lost Due to Strikes and Lockouts (000s)	578	371	488	477	1,915	1,904	1,061
Minimum Wage at Year-end ($/hour)	6.35	6.35	6.70	6.85	6.85	6.85	6.85

TABLE 26 (CONTINUED)

	1999	2000	2001	2002	2003	2004	2005
Average Weekly Earnings ($)[1]	683.70	700.12	712.88	726.21	734.78	748.10	768.59
Increase (%)	1.6	2.4	1.8	1.9	1.2	1.8	2.7
CPI Inflation (%)	1.9	2.9	3.1	2.0	2.7	1.9	2.2
AWE Increase Less CPI Inflation (%)	(0.3)	(0.5)	(1.3)	(0.1)	(1.5)	(0.1)	0.5
AWE – Manufacturing ($)	852.13	869.40	882.76	906.10	917.84	934.23	956.42
Increase (%)	1.2	2.0	1.5	2.6	1.3	1.8	2.4
Increase Less CPI Inflation (%)	(0.7)	(0.9)	(1.6)	0.6	(1.4)	(0.1)	0.2
Wage Settlement Increases (%)[2]							
All Sectors	2.1	2.6	3.0	3.0	3.1	2.8	2.7
Public	1.4	2.7	2.9	2.9	3.5	3.1	2.7
Private	3.1	2.4	3.0	3.0	1.9	2.6	2.4
Person Days Lost Due to Strikes and Lockouts (000s)	651	650	672	1,511	495	487	403
Minimum Wage at Year-end ($/hour)	6.85	6.85	6.85	6.85	6.85	7.15	7.45

[1] Average Weekly Earnings (AWE) includes overtime. In 2001, Statistics Canada changed its estimates of AWE from the 1980 Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS).

[2] Wage settlement increases are for collective agreements covering 200 or more employees, Ontario Ministry of Labour.

Sources: Statistics Canada, Ontario Ministry of Labour and Ontario Ministry of Finance.

TABLE 27: ONTARIO, EMPLOYMENT BY OCCUPATION, 1994–2005

(Thousands)

	1994	1995	1996	1997	1998	1999
Management	504	544	535	546	550	546
Business, Finance and Administrative	979	982	981	974	1,010	1,031
Natural and Applied Sciences	275	304	295	327	354	398
Health	261	258	253	267	264	272
Social Science, Education, Government Service and Religion	428	398	400	403	422	442
Art, Culture, Recreation and Sport	147	142	149	149	156	169
Sales and Service	1,129	1,152	1,185	1,199	1,237	1,281
Trades, Transport and Equipment Operators	737	756	769	808	825	820
Primary Industry	147	142	141	143	138	152
Processing, Manufacturing and Utilities	407	423	459	477	496	526
Total	5,014	5,100	5,167	5,291	5,453	5,637

TABLE 27 (CONTINUED)

(Thousands)

	2000	2001	2002	2003	2004	2005
Management	562	551	562	587	620	625
Business, Finance and Administrative	1,056	1,115	1,119	1,149	1,203	1,176
Natural and Applied Sciences	427	455	445	448	437	470
Health	280	291	321	332	345	346
Social Science, Education, Government Service and Religion	453	468	472	474	476	544
Art, Culture, Recreation and Sport	172	183	177	188	200	199
Sales and Service	1,342	1,359	1,393	1,457	1,435	1,448
Trades, Transport and Equipment Operators	835	850	867	890	899	910
Primary Industry	142	130	123	131	134	143
Processing, Manufacturing and Utilities	548	524	552	558	568	537
Total	5,817	5,926	6,031	6,213	6,317	6,398

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.
Source: Statistics Canada.

TABLE 28: ONTARIO, DISTRIBUTION OF EMPLOYMENT BY OCCUPATION, 1994–2005

(Per Cent)

	1994	1995	1996	1997	1998	1999
Management	10.0	10.7	10.4	10.3	10.1	9.7
Business, Finance and Administrative	19.5	19.2	19.0	18.4	18.5	18.3
Natural and Applied Sciences	5.5	6.0	5.7	6.2	6.5	7.1
Health	5.2	5.1	4.9	5.1	4.8	4.8
Social Science, Education, Government Service and Religion	8.5	7.8	7.7	7.6	7.7	7.8
Art, Culture, Recreation and Sport	2.9	2.8	2.9	2.8	2.9	3.0
Sales and Service	22.5	22.6	22.9	22.7	22.7	22.7
Trades, Transport and Equipment Operators	14.7	14.8	14.9	15.3	15.1	14.5
Primary Industry	2.9	2.8	2.7	2.7	2.5	2.7
Processing, Manufacturing and Utilities	8.1	8.3	8.9	9.0	9.1	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 28 (CONTINUED)

(Per Cent)

	2000	2001	2002	2003	2004	2005
Management	9.7	9.3	9.3	9.4	9.8	9.8
Business, Finance and Administrative	18.1	18.8	18.6	18.5	19.0	18.4
Natural and Applied Sciences	7.3	7.7	7.4	7.2	6.9	7.3
Health	4.8	4.9	5.3	5.3	5.5	5.4
Social Science, Education, Government Service and Religion	7.8	7.9	7.8	7.6	7.5	8.5
Art, Culture, Recreation and Sport	3.0	3.1	2.9	3.0	3.2	3.1
Sales and Service	23.1	22.9	23.1	23.5	22.7	22.6
Trades, Transport and Equipment Operators	14.4	14.3	14.4	14.3	14.2	14.2
Primary Industry	2.4	2.2	2.0	2.1	2.1	2.2
Processing, Manufacturing and Utilities	9.4	8.8	9.1	9.0	9.0	8.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Occupational groupings based on National Occupational Classification for Statistics (NOC-S) 2001.
Source: Statistics Canada.

TABLE 29: ONTARIO, EMPLOYMENT BY INDUSTRY, 1996–2005

					(Thousands)
	1996	1997	1998	1999	2000
Goods Producing Industries	1,368	1,404	1,457	1,533	1,576
Primary Industries	150	141	143	152	133
Agriculture	103	100	105	114	98
Manufacturing	907	935	981	1,035	1,075
Construction	261	280	285	298	323
Utilities	51	48	48	49	46
Services Producing Industries	3,799	3,887	3,996	4,103	4,241
Trade	774	791	799	838	877
Transportation and Warehousing	245	249	261	259	273
Finance, Insurance, Real Estate and Leasing	368	371	370	378	379
Professional, Scientific and Technical Services	313	347	371	393	415
Business, Building and Other Support	179	195	208	222	242
Educational Services	341	342	345	363	367
Health Care and Social Assistance	503	496	518	515	541
Information, Culture and Recreation	235	248	244	258	282
Accommodation and Food Services	311	318	335	337	337
Public Administration	288	279	284	286	281
Other Services	243	252	263	254	248
Total Employment	5,167	5,291	5,453	5,637	5,817

TABLE 29 (CONTINUED): ONTARIO, EMPLOYMENT BY INDUSTRY, 1996–2005

(Thousands)

	2001	2002	2003	2004	2005
Goods Producing Industries	1,575	1,603	1,630	1,639	1,637
Primary Industries	119	112	113	113	128
Agriculture	84	77	82	79	93
Manufacturing	1,068	1,094	1,093	1,100	1,064
Construction	336	345	369	368	395
Utilities	51	53	55	58	50
Services Producing Industries	4,352	4,428	4,584	4,678	4,761
Trade	928	923	945	970	995
Transportation and Warehousing	275	279	290	295	289
Finance, Insurance, Real Estate and Leasing	389	393	415	436	452
Professional, Scientific and Technical Services	437	436	449	441	443
Business, Building and Other Support	241	247	264	278	283
Educational Services	358	369	376	390	428
Health Care and Social Assistance	559	582	612	635	626
Information, Culture and Recreation	303	298	289	303	301
Accommodation and Food Services	331	361	370	366	364
Public Administration	283	293	310	312	322
Other Services	248	247	264	254	257
Total Employment	5,926	6,031	6,213	6,317	6,398

Note: Industrial groupings based on North American Industry Classification System (NAICS).
Source: Statistics Canada.

TABLE 30: ONTARIO, GROWTH IN EMPLOYMENT BY INDUSTRY, 1996–2005

				(Per Cent Change)	
	1996	1997	1998	1999	2000
Goods Producing Industries	**1.6**	**2.6**	**3.8**	**5.2**	**2.8**
Primary Industries	0.0	(5.9)	1.6	5.9	(12.5)
Agriculture	(1.2)	(3.0)	5.0	8.1	(13.6)
Manufacturing	3.2	3.1	4.8	5.6	3.8
Construction	(2.8)	7.4	1.9	4.3	8.4
Utilities	1.6	(5.0)	0.2	1.9	(5.7)
Services Producing Industries	**1.2**	**2.3**	**2.8**	**2.7**	**3.4**
Trade	2.1	2.1	1.1	4.8	4.7
Transportation and Warehousing	1.3	1.6	4.8	(0.5)	5.2
Finance, Insurance, Real Estate and Leasing	2.1	0.7	(0.2)	2.2	0.2
Professional, Scientific and Technical Services	4.3	11.1	6.7	5.9	5.6
Business, Building and Other Support	4.8	9.0	6.7	7.1	8.8
Educational Services	(4.3)	0.4	0.8	5.2	1.0
Health Care and Social Assistance	(0.5)	(1.4)	4.5	(0.7)	5.1
Information, Culture and Recreation	1.2	5.6	(1.8)	5.9	9.2
Accommodation and Food Services	7.1	2.3	5.1	0.7	0.1
Public Administration	(4.5)	(3.2)	1.6	0.9	(1.8)
Other Services	2.6	3.3	4.6	(3.3)	(2.4)
Total Employment	**1.3**	**2.4**	**3.1**	**3.4**	**3.2**

TABLE 30 (CONTINUED): ONTARIO, GROWTH IN EMPLOYMENT BY INDUSTRY, 1996–2005

	(Per Cent Change)				
	2001	2002	2003	2004	2005
Goods Producing Industries	**(0.1)**	**1.8**	**1.7**	**0.6**	**(0.1)**
Primary Industries	(10.0)	(6.4)	1.0	0.2	13.2
Agriculture	(14.7)	(8.4)	6.3	(3.2)	18.0
Manufacturing	(0.6)	2.5	(0.1)	0.6	(3.3)
Construction	4.2	2.4	7.1	(0.4)	7.4
Utilities	11.0	3.1	3.0	7.2	(14.6)
Services Producing Industries	**2.6**	**1.8**	**3.5**	**2.1**	**1.8**
Trade	5.9	(0.6)	2.4	2.6	2.6
Transportation and Warehousing	0.7	1.4	4.1	1.5	(1.8)
Finance, Insurance, Real Estate and Leasing	2.6	1.1	5.6	5.0	3.8
Professional, Scientific and Technical Services	5.5	(0.2)	2.8	(1.6)	0.5
Business, Building and Other Support	(0.4)	2.5	7.0	5.0	1.8
Educational Services	(2.4)	3.2	1.8	3.7	9.8
Health Care and Social Assistance	3.4	4.0	5.1	3.8	(1.4)
Information, Culture and Recreation	7.3	(1.5)	(3.0)	4.7	(0.8)
Accommodation and Food Services	(1.9)	9.2	2.4	(1.1)	(0.4)
Public Administration	0.9	3.5	5.6	0.9	3.3
Other Services	(0.3)	(0.3)	7.1	(4.1)	1.3
Total Employment	**1.9**	**1.8**	**3.0**	**1.7**	**1.3**

Note: Industrial groupings based on North American Industry Classification System (NAICS).
Source: Statistics Canada.

TABLE 31: ONTARIO, EMPLOYMENT LEVEL BY ECONOMIC REGIONS, 1995–2005

(Thousands)

	1995	1996	1997	1998	1999	2000
Ontario	5,100	5,167	5,291	5,453	5,637	5,817
Region:*						
East	673	675	686	723	749	758
Ottawa (510)	498	506	513	539	552	572
Kingston-Pembroke (515)	176	169	173	184	197	186
Greater Toronto Area (530)[1]	2,202	2,237	2,336	2,407	2,481	2,581
Central	1,182	1,202	1,222	1,267	1,311	1,358
Muskoka-Kawarthas (520)	144	146	147	148	156	159
Kitchener-Waterloo-Barrie (540)	466	475	493	512	541	550
Hamilton-Niagara Peninsula (550)	571	580	582	607	614	649
Southwest	683	697	702	711	741	760
London (560)	283	278	282	285	298	307
Windsor-Sarnia (570)	270	278	276	284	293	302
Stratford-Bruce Peninsula (580)	129	141	144	142	149	152
North	360	356	345	345	356	360
Northeast (590)	247	246	240	241	246	249
Northwest (595)	114	110	105	104	110	111

TABLE 31 (CONTINUED)

(Thousands)

	2001	2002	2003	2004	2005
Ontario	5,926	6,031	6,213	6,317	6,398
Region:*					
East	784	793	816	818	830
Ottawa (510)	593	595	617	614	624
Kingston-Pembroke (515)	192	199	199	204	205
Greater Toronto Area (530)[1]	2,665	2,721	2,799	2,854	2,912
Central	1,363	1,387	1,451	1,476	1,494
Muskoka-Kawarthas (520)	152	155	175	180	170
Kitchener-Waterloo-Barrie (540)	559	579	597	611	637
Hamilton-Niagara Peninsula (550)	651	653	680	686	687
Southwest	755	765	775	801	797
London (560)	305	307	317	330	328
Windsor-Sarnia (570)	302	306	307	307	315
Stratford-Bruce Peninsula (580)	148	151	150	164	155
North	359	365	371	367	364
Northeast (590)	251	251	254	255	256
Northwest (595)	107	113	117	112	108

* Standard deviations vary significantly across regions, decreasing as the size of the region increases.

[1] Economic Region 530 closely matches the GTA, except that it excludes the city of Burlington.

Note: All figures are average annual employment levels.

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 32: ONTARIO, EMPLOYMENT LEVEL BY INDUSTRY FOR ECONOMIC REGIONS, 2005

(Thousands)

	All Industries	Agriculture	Resources[1]	Manufacturing
Ontario	6,398	93	35	1,064
Region:				
East	830	12	2	78
Ottawa (510)	624	7	–	54
Kingston-Pembroke (515)	205	5	–	24
Greater Toronto Area (530)	2,912	9	3	487
Central	1,494	33	5	293
Muskoka-Kawarthas (520)	170	4	–	24
Kitchener-Waterloo-Barrie (540)	637	13	2	142
Hamilton-Niagara Peninsula (550)	687	16	2	127
Southwest	797	35	3	170
London (560)	328	12	–	60
Windsor-Sarnia (570)	315	9	–	81
Stratford-Bruce Peninsula (580)	155	14	2	30
North	364	4	20	36
Northeast (590)	256	3	15	24
Northwest (595)	108	–	5	12

TABLE 32 (CONTINUED)

(Thousands)

	Construction	Distributive[2]	Finance, Prof. & Mgmt.[3]	Info. Culture & Recreation[4]
Ontario	395	588	1,178	301
Region:				
East	47	57	143	34
Ottawa (510)	33	38	117	28
Kingston-Pembroke (515)	14	19	26	7
Greater Toronto Area (530)	172	291	679	157
Central	108	134	213	63
Muskoka-Kawarthas (520)	16	15	21	7
Kitchener-Waterloo-Barrie (540)	49	57	89	23
Hamilton-Niagara Peninsula (550)	43	62	103	33
Southwest	47	72	102	32
London (560)	20	29	54	11
Windsor-Sarnia (570)	18	24	33	15
Stratford-Bruce Peninsula (580)	10	19	15	5
North	20	33	41	15
Northeast (590)	15	22	31	11
Northwest (595)	4	12	10	5

TABLE 32 (CONTINUED)

(Thousands)

	Retail Trade	Personal Services[5]	Education
Ontario	747	621	428
Region:			
East	**97**	**84**	**63**
Ottawa (510)	73	61	45
Kingston-Pembroke (515)	25	23	18
Greater Toronto Area (530)	**333**	**264**	**178**
Central	**175**	**161**	**104**
Muskoka-Kawarthas (520)	25	18	13
Kitchener-Waterloo-Barrie (540)	72	66	45
Hamilton-Niagara Peninsula (550)	78	78	47
Southwest	**91**	**74**	**53**
London (560)	37	28	24
Windsor-Sarnia (570)	36	31	21
Stratford-Bruce Peninsula (580)	18	14	8
North	**50**	**39**	**30**
Northeast (590)	35	27	21
Northwest (595)	15	12	9

TABLE 32 (CONTINUED)

(Thousands)

	Health & Soc. Assistance	Public Administration
Ontario	626	322
Region:		
East	**93**	**120**
Ottawa (510)	64	104
Kingston-Pembroke (515)	29	16
Greater Toronto Area (530)	**238**	**100**
Central	**150**	**54**
Muskoka-Kawarthas (520)	20	7
Kitchener-Waterloo-Barrie (540)	56	23
Hamilton-Niagara Peninsula (550)	75	25
Southwest	**92**	**25**
London (560)	42	10
Windsor-Sarnia (570)	35	10
Stratford-Bruce Peninsula (580)	15	4
North	**53**	**23**
Northeast (590)	37	16
Northwest (595)	16	7

All figures are average annual employment levels.
Sub-regional figures may not add up to regional totals due to rounding.
Employment numbers under 1,500 are suppressed because they are statistically unreliable.
See standard deviation and GTA note for Table 31.
Industrial groupings based on North American Industry Classification System (NAICS).

[1] Includes Forestry, Fishing, Mining, Oil and Gas.
[2] Includes Transportation and Warehousing, Utilities and Wholesale Trade.
[3] Includes Finance, Insurance, Real Estate and Leasing; Management of Companies, Administrative and Support Services; and Professional, Scientific and Technical Services.
[4] Includes industries such as Publishing, Motion Picture and Sound Recording, Broadcasting and Telecommunications, Information Services and Data Processing Services, Performing Arts, Spectator Sports and Related Industries, Heritage Institutions and Amusement, Gambling and Recreation.
[5] Includes Accommodation and Food Services and Other Services (such as Repair and Maintenance, Personal and Laundry, Religious, Grant-making, Civic, Professional and Similar Organizations).

Sources: Statistics Canada and Ontario Ministry of Finance.

TABLE 33: ONTARIO ECONOMIC REGIONS[1]

East	
Ottawa (510)	The united counties of Stormont, Dundas and Glengarry, Prescott and Russell, Leeds and Grenville, the county of Lanark and the Ottawa Division
Kingston-Pembroke (515)	The counties of Lennox and Addington, Hastings, Renfrew and Frontenac and the Prince Edward Division
Central	
Muskoka-Kawarthas (520)	The counties of Northumberland, Peterborough, Haliburton, the Muskoka District Municipality and the Kawartha Lakes Division
Kitchener-Waterloo-Barrie (540)	The counties of Dufferin, Wellington and Simcoe and the Waterloo Regional Municipality
Hamilton-Niagara Peninsula (550)	The counties of Brant, Haldimand and Norfolk, the Niagara Regional Municipality, the Hamilton Division and the city of Burlington in the Halton Regional Municipality
Greater Toronto Area[2]	
Toronto (530)	Toronto Division, the regional municipalities of Durham, York, Peel and Halton (excluding the city of Burlington)
Southwest	
London (560)	The counties of Oxford, Elgin and Middlesex
Windsor-Sarnia (570)	The counties of Lambton and Essex and the Chatham-Kent Division
Stratford-Bruce Peninsula (580)	The counties of Perth, Huron, Bruce and Grey
North	
Northeast (590)	The districts of Nipissing, Parry Sound, Manitoulin, Sudbury, Timiskaming, Cochrane, Algoma and the Greater Sudbury Division
Northwest (595)	The districts of Thunder Bay, Rainy River and Kenora

[1] As defined by Statistics Canada, Standard Geographical Classification SGC 2001.
[2] Economic Region 530 closely matches the GTA, except that it excludes the city of Burlington.

ANNEX IX

HOW TO PARTICIPATE IN THE 2007 PRE-BUDGET CONSULTATIONS

How to Participate in the 2007 Pre-Budget Consultations

The Minister of Finance will be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province as part of the government's ongoing dialogue with the citizens of Ontario.

In particular, the Minister of Finance is interested in hearing Ontarians' views on what more the government can do to ensure a productive economy and better services for people, while eliminating the deficit.

Information identifying the communities and locations that the Minister plans to visit will be posted at www.fin.gov.on.ca in November 2006. Individuals wishing to attend one of these consultations can call toll-free 1-800-263-7965 or 1-800-263-7776 TTY.

Below you will find additional information on how to participate in the 2007 pre-budget consultations.

Written Submissions

Individuals and organizations can mail, e-mail or fax submissions directly to the Minister of Finance.

Mailing Address
The Honourable Greg Sorbara, Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

E-mail Address: submissions@fin.gov.on.ca

Facsimile: 416-325-0969

Online Submissions

Individuals can also submit ideas for the 2007 Budget by completing a form on the Ministry of Finance website at www.fin.gov.on.ca. Click on the "Tell Us What You Think" item in the Hot Topics menu.