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ONTARIO FALL ECONOMIC STATEMENT - ANALYSIS
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2013 Fall Economic Statement: Deficit-reduction takes back seat to job creation initiatives

This afternoon, Finance Minister Charles Sousa delivered the government's Fall Economic Statement (FES). The overarching message is that while projections remain on track to balance the budget in 2017, "jobs are job one" for the government – meaning that should the economic situation worsen, the economy, and not short-term deficit targets, will be the priority.

Major announcements

The projected deficit for 2013-14 is \$11.7 billion, on track with the numbers in the 2013 Budget forecast. The government is maintaining its target of balancing the budget in 2017/18.

The economic growth forecasts, however, have seen a slight reduction from projections in the 2013 Budget. Real GDP growth is projected to be 1.3 per cent in 2013, 2.1 per cent in 2014 and 2.5 per cent in both 2015 and 2016. This compares with forecasts of 1.5 per cent in 2013, 2.3 per cent in 2014 and 2.4 per cent in both 2015 and 2016 from the 2013 Budget. These represent conservative assumptions relative to the range of private sector estimates, but any shock to the fragile global economic recovery could significantly impact these projections.

The government has previously identified the major pillars of its economic plan: investing in people, investing in infrastructure, and supporting a dynamic and innovative business climate. In FES, further details were announced under each of these pillars:

Investing in People

- A dedicated grants program for keeping seniors active and healthy.
- Commitment to advocate for an enhanced CPP, or find a "made-in-Ontario" solution if the federal government does not agree
- Continued roll-out of the 30% Off Tuition Grant, the Youth Jobs Strategy, and the implementation of Full-Day Kindergarten

Investing in Infrastructure

- The Trillium Trust, a dedicated (and segregated) fund that puts the money earned from asset sales, such as from the sale of the Province's interest in GM shares or the LCBO headquarters, towards financing key public infrastructure priorities
- Green Bonds to fund public infrastructure projects, a first among Canadian provinces
- Legislation requiring the government to table a 10-year infrastructure plan

Supporting a Dynamic and Innovative Business Climate

- Consideration of implementing "pay or play" approaches to encourage greater business investment, including:
 - Replacing R&D tax credits with an incremental incentive
 - A special corporate tax that could be offset through investments in new equipment
 - A payroll tax that could be offset through funding employee training programs
- Increases in the Employer Health Tax exemption (legislation has been introduced but not passed)
- Targeted investments in specific sectors, including automotive, aerospace, agri-food, entrepreneurship, forestry, mining, music, and financial services. *(Further details from the government's backgrounder are included below)*

Political analysis

The FES is a deliberate and carefully choreographed shift by the Wynne Government from Dalton McGuinty's austerity agenda to an agenda which is focused on making investments in job creation, even if it comes at the expense of deficit reduction. Strategically, this positioning is designed to force a contrast with Tim Hudak and the PCs, who remained focused on deficit reduction, while leaving Horwath with little room to manoeuvre.

While it is generally believed that the public would support job-creation over aggressive deficit-fighting, the reaction of credit rating agencies and the business community could change public sentiment on these issues.

There are no new tax or budgetary measures in the FES itself which would require a confidence vote. The Statement commits to a direction on certain files, such as the R&D credits and Green Bonds, but these proposals will not actually be implemented until a spring Budget. The announcements contained in the FES allow the Liberals to stake out ground in debates leading up to the Budget and for the election to follow when, presumably, the Budget is defeated.

The Full Fall Economic Statement and Backgrounders are available from:

<http://www.fin.gov.on.ca/en/budget/fallstatement/2013/>

From the Government's Backgrounder on Investing in Business:

Leveraging Partnerships with Ontario's Diverse Industries

Ontario's industries are well positioned to take advantage of opportunities in the global economy. The government will work with these industries to develop successful strategies for increased jobs and growth:

- **Aerospace and Manufacturing** - Establish Ontario as a top supplier to next-generation aerospace programs
 - Supporting Centennial College as it partners with the private sector to train the next generation of aerospace workers that will help create the jobs of tomorrow.
 - Support a permanent Industry Innovation Centre at Niagara College that will allow Ontario-based manufacturers to access services and expertise provided by the faculty and students at Niagara College.
- **Agri-Food** - Support Ontario's large food sector and work to increase overall exports
 - The government recently issued a challenge to the agri-food industry to double its exports and create 120,000 jobs by 2020.
- **Auto** - Enhance Ontario as a true global leader in the manufacturing sector
 - Ford Motor Company recently announced an investment of more than \$700 million in its Oakville facility to upgrade the assembly plant. The investment, supported by a grant of up to \$70.9 million from the government, will help to secure more than 2,800 jobs and will anchor new R&D activities.
 - General Motors announced that it is keeping its Consolidated Line assembly plant in Oshawa open until 2016.
- **Financial Services** - Enhance an engine of growth for Ontario, the economy's second-largest sector based on output
 - Toronto is the second-largest financial services cluster by employment in North America.

- Ontario is working with other levels of government to create a common securities regulator. Ontario, British Columbia and Canada have reached an agreement in principle to establish a cooperative capital markets regulatory system.
- **Forestry** - Support the transformation of the forest sector toward production of higher value-added products to preserve and create jobs through existing funding programs.
- **Mining** - Provide incentives and special deductions through the mining tax system to encourage investment.
- **Film and Music** - Establish the Ontario Music Fund, with funding of \$45 million in grants over three years, which launched in October 2013.
- **Information and Communications Technologies (ICT)** - Grow Ontario's ICT sector
 - Supporting Ericsson, a Swedish-based multinational corporation, to expand its R&D centre in Ottawa.