



Ontario's Financial Accountability Office

Presentation to the
Strategic Labour Relations and Compensation Conference

September 19, 2018

David West
Chief Economist



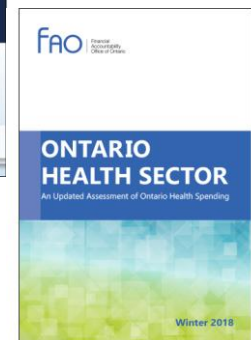
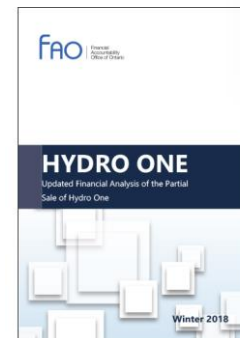
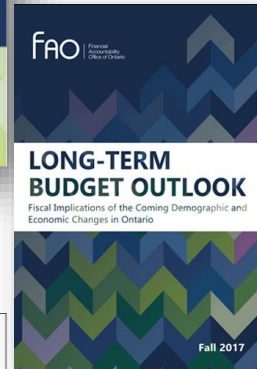
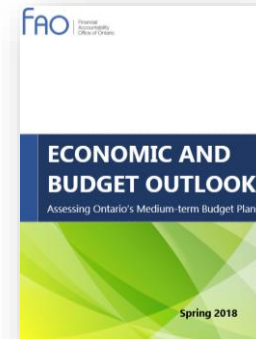
Financial
Accountability
Office of Ontario

Origins and Mandate of the FAO

- FAO formally created in September 2013, modelled on the federal Parliamentary Budget Office.
- An independent, non-partisan office that supports the Legislative Assembly by providing MPPs with balanced, timely and accurate economic and financial analysis.
- FAO's mandate is to provide an independent assessment of the Province's finances and trends in the provincial economy.
- Peter Weltman appointed as the Financial Accountability Officer in May 2018.

The FAO's Work

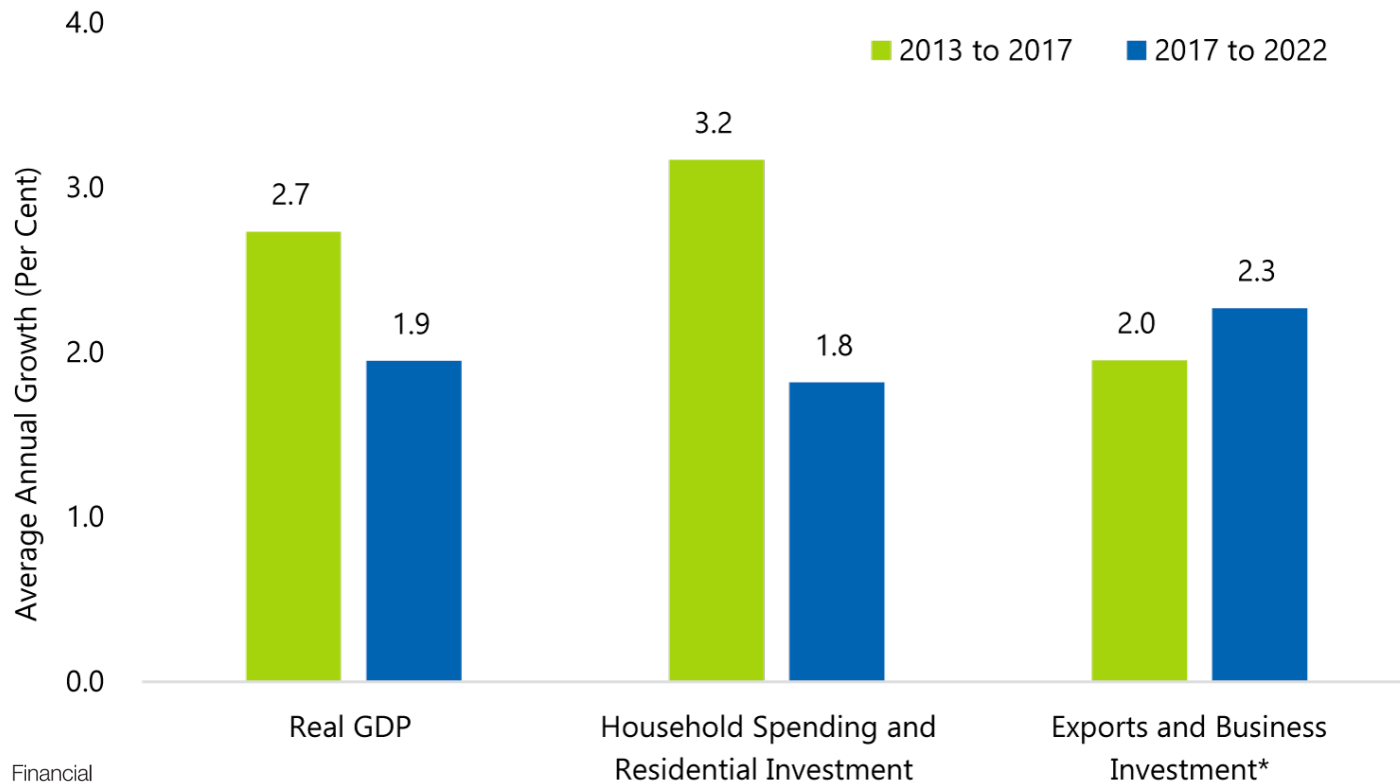
- The FAO releases semi-annual medium term assessments of Ontario's economic and fiscal outlook, as well as a long-term (35-year) budget outlook report every two years.
- The FAO provides financial assessments of key government policies such as the partial sale of Hydro One or the government's projections for health sector spending.
- The FAO also releases regular, shorter commentaries on a broad range of other economic and fiscal policy issues.



The FAO's Spring 2018 **Economic and Budget Outlook**

Economic Growth to Moderate

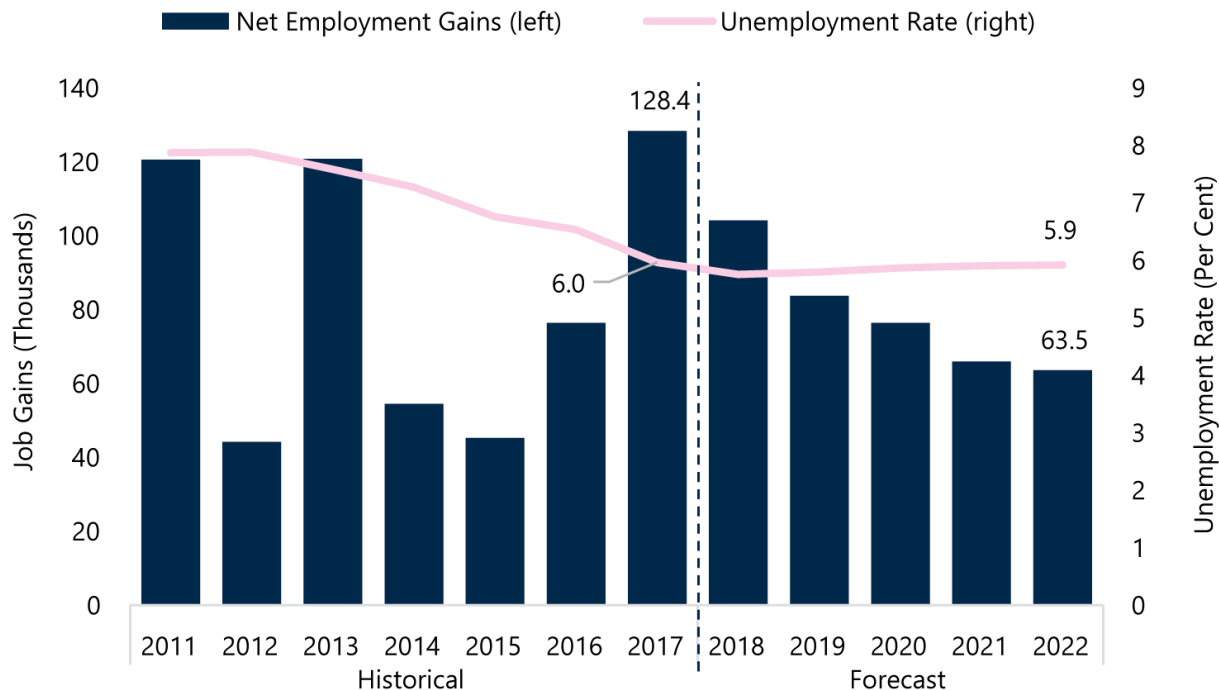
- Over the past four years, the economy has posted strong growth driven by gains in household spending and residential investment.
- Going forward, economic growth expected to ease as consumer spending and housing investment moderate.



Strong Labour Market Gains

- Ontario created 128,000 net new jobs in 2017, pushing the unemployment rate down to 6.0%.
 - Strong job gains have continued into 2018.
- FAO projecting continued, solid job gains over the outlook.

Steady Employment Gains Over Outlook



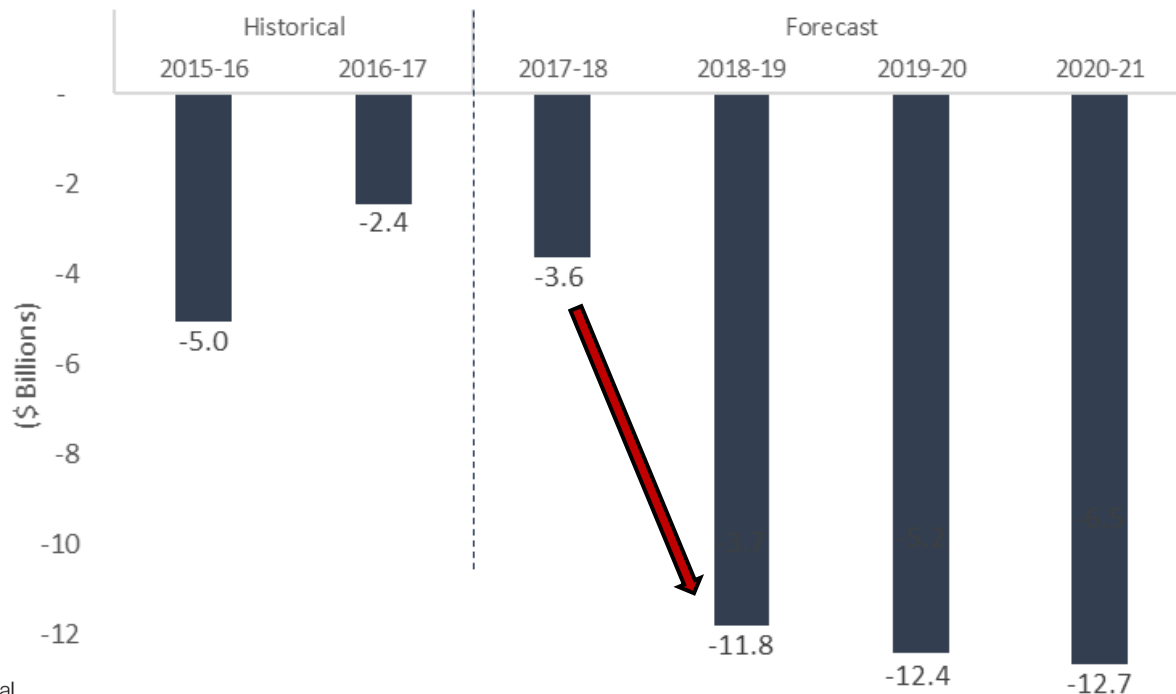
Significant downside risks to the economic outlook...

- Uncertain outlook for Ontario business investment and exports, given current situation with U.S. trade policy
- Household debt burden could lead to weaker growth in household spending
- But ... strength of U.S. economy could continue to surprise on the upside

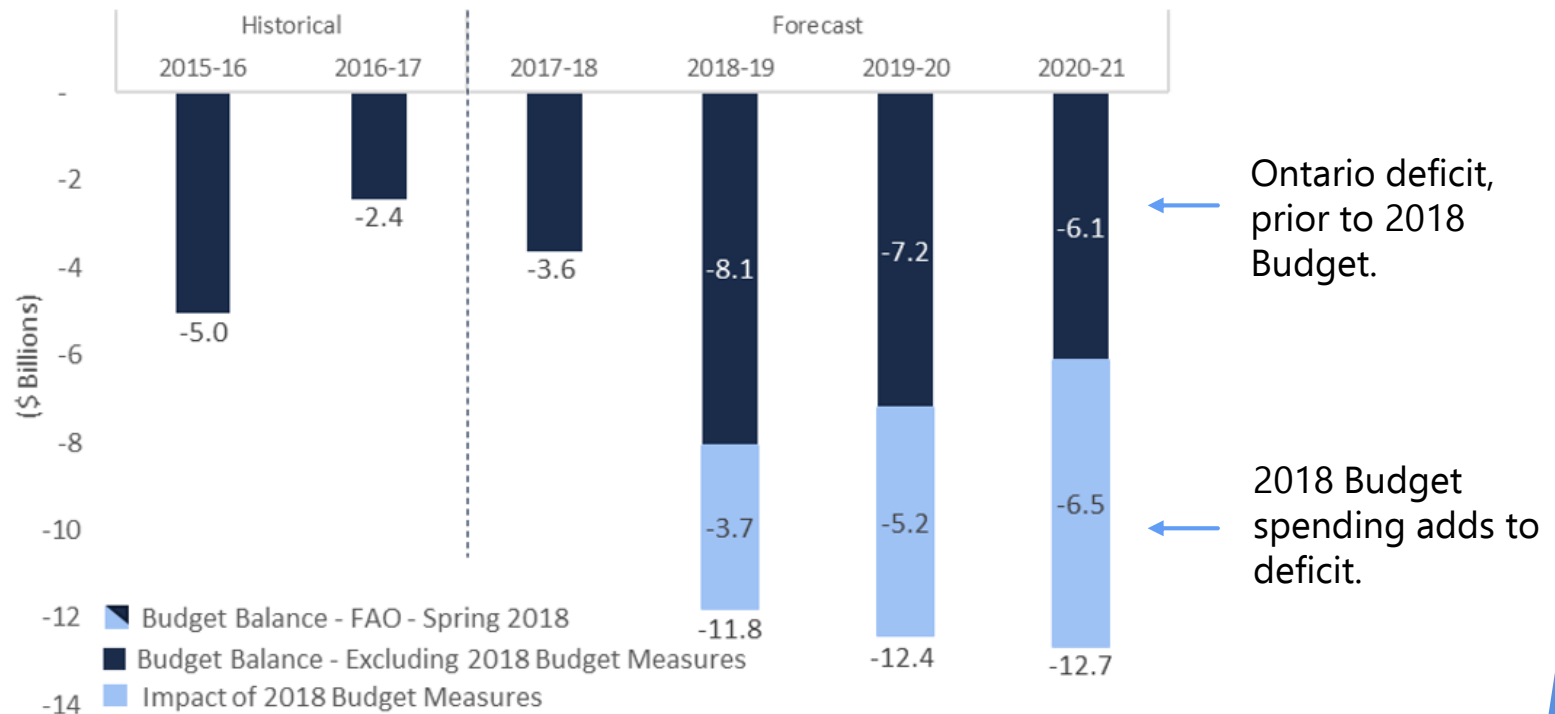
FAO Projected Sharp Increase in Deficit

- ▶ Despite outlook for steady economic growth, Ontario's budget deficit expected to increase sharply to \$12 billion.
- ▶ Rise in deficit reflects higher spending from 2018 Budget combined with weaker revenue growth.

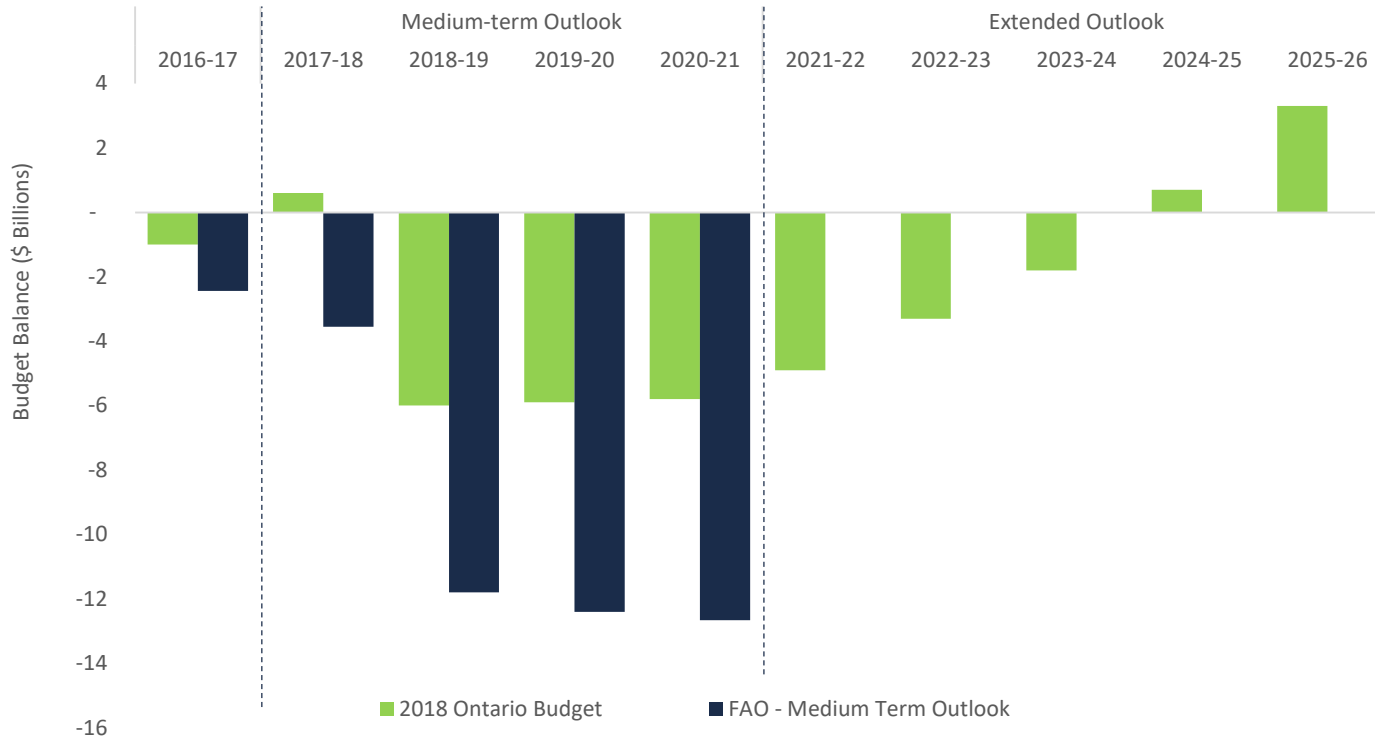
Ontario Budget Balance Expected to Deteriorate Significantly



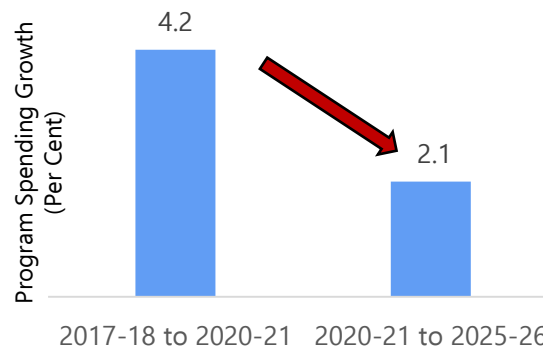
2018 Budget Measures Added to an Existing Deficit



Previous government's plan projected a balanced budget by mid-2020s.

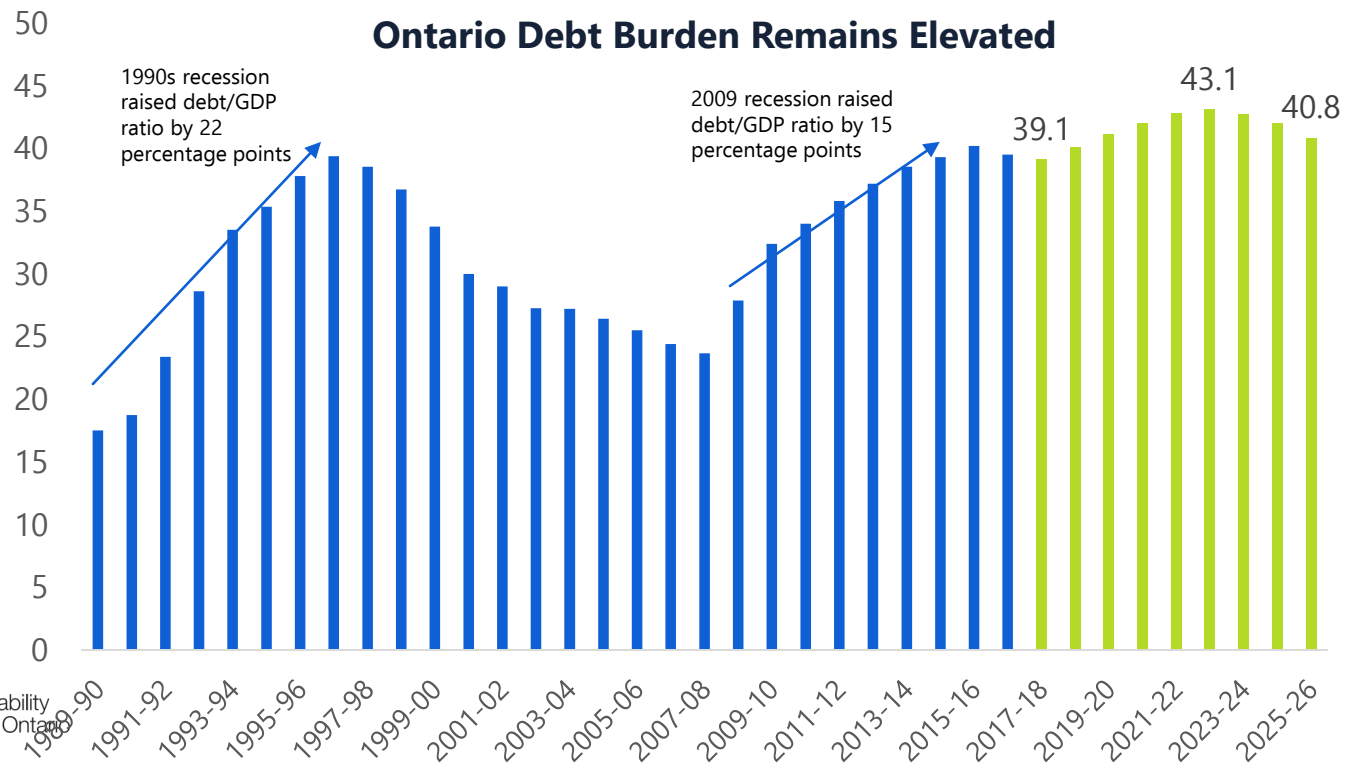


But plan relied on severely limiting program spending



Elevated debt burden reduces government's fiscal flexibility

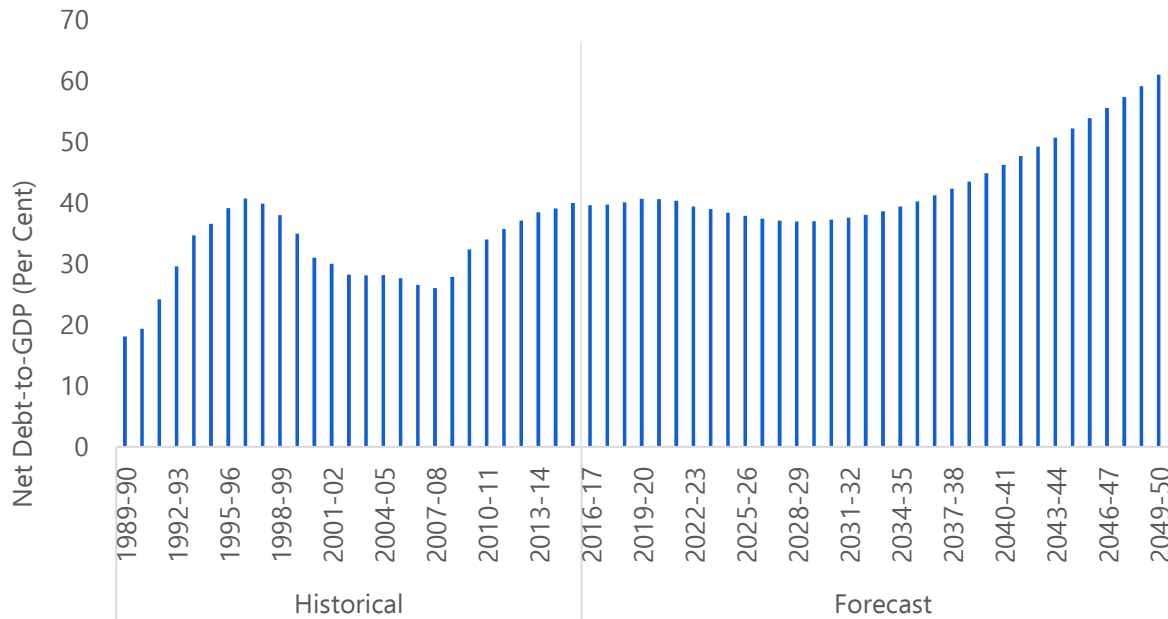
- ▶ Ontario's net debt-to-GDP ratio projected to rise to 43% in 2022-23.
 - ▶ Elevated levels of public debt reduce the government's ability to respond to unforeseen future events or the expected budget pressures of an aging population.



Aging population Will Put Pressure on Government Finances

- Without fiscal policy changes, the rising share of seniors in the population will lead to a steady rise in Ontario's debt burden.

Aging Population Projected to Push Up Net Debt to GDP Ratio



The FAO's Commentary on

Ontario Public Sector Employment & Wage Expense

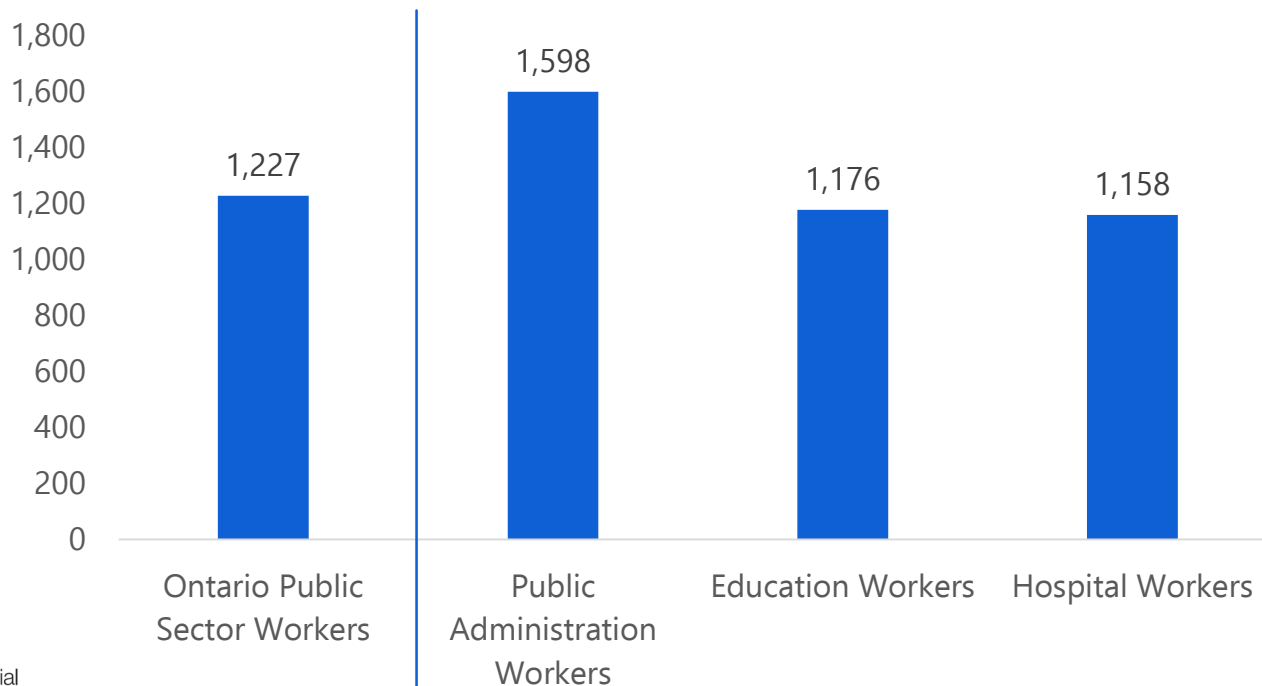
Provincial Government is a Major Employer in Ontario

- ▶ Based on FAO estimates, Ontario employs 650,000 public sector workers, accounting for roughly one-in-ten jobs in the province.
 - ▶ Includes 88,000 in public administration, 341,000 in education and 221,000 in hospitals.
- ▶ Depending on the definition, the number of public sector employees can range from 88,000 to 1.3 million.
 - ▶ The FAO's estimate is based on public sector organizations consolidated in Ontario's Public Accounts.

Earnings of Ontario Public Sector Workers

- ▶ Average earnings for an Ontario public sector worker is about \$1,230 per week, or roughly \$64,000 annually in 2018.
- ▶ Ontario public administration workers are the highest paid, followed by education and hospital workers.

Average Weekly Pay of Public Sector Employees (2018)

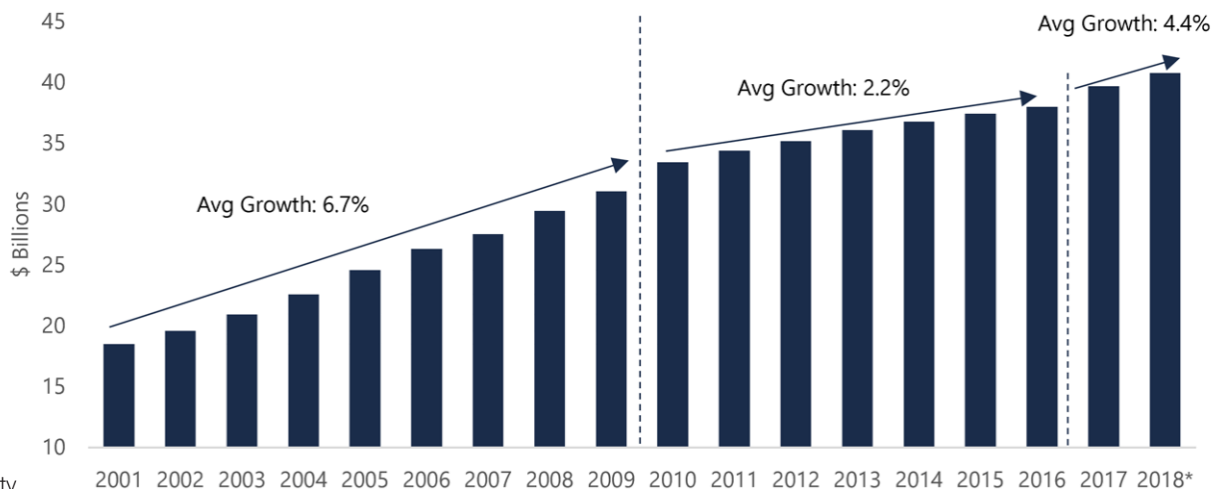


Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

Following a Period of Restraint, Growth in Compensation Expense Has Accelerated

- ▶ Ontario will spend approximately \$41 billion on employee compensation in 2018 – accounting for roughly one-third of program spending.
- ▶ From 2010 to 2016, the previous Ontario government implemented measures restraining growth in employee compensation.
 - ▶ Employee compensation grew 2.2% annually over 2010-2016 period, well below 6.7% growth recorded from 2001-2009.
- ▶ Over past two years, growth in employee compensation has accelerated sharply, averaging 4.4%.

Growth of Compensation Expense Slowed Dramatically After 2010

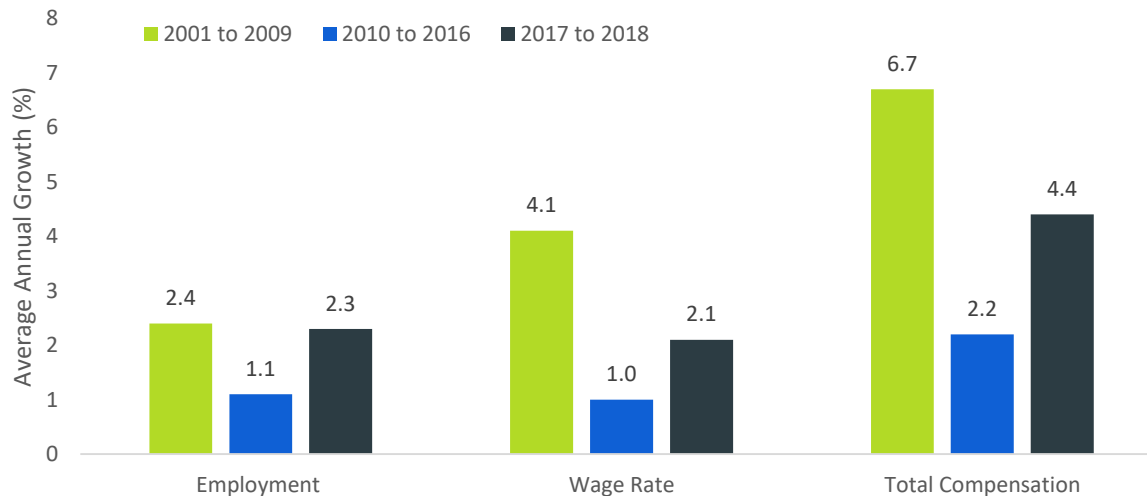


Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

Growth in both Wages and Employment Have Contributed to Recent Acceleration

- ▶ During the restraint period, public sector:
 - ▶ wage growth fell to 1.0% per year from 4.1% before the recession;
 - ▶ employment grew by 1.1% per year, less than half the 2.4% rate prior to the recession.
- ▶ Recently, wage growth has doubled to 2.1% while employment growth picked up to 2.3%.

Growth of Public Sector Employment, Wage Rates and Total Compensation

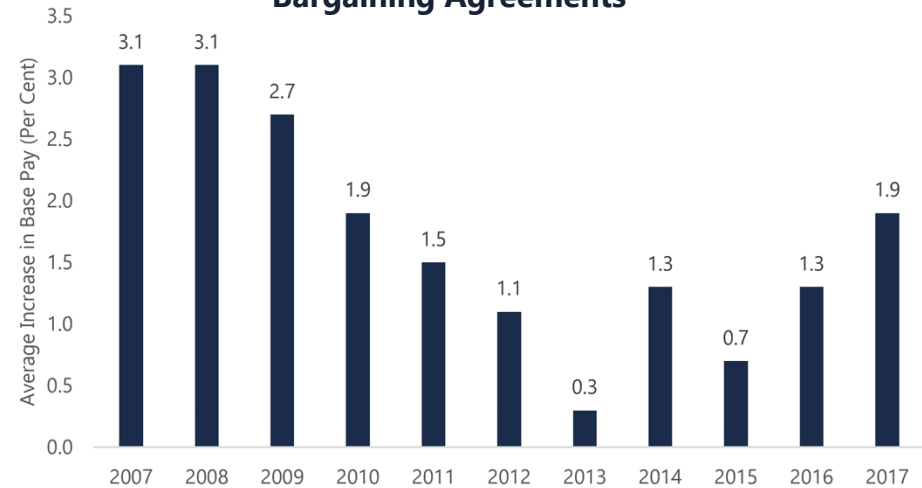


Source: Statistics Canada's Survey of Employee, Payroll and Hours (SEPH), and FAO.

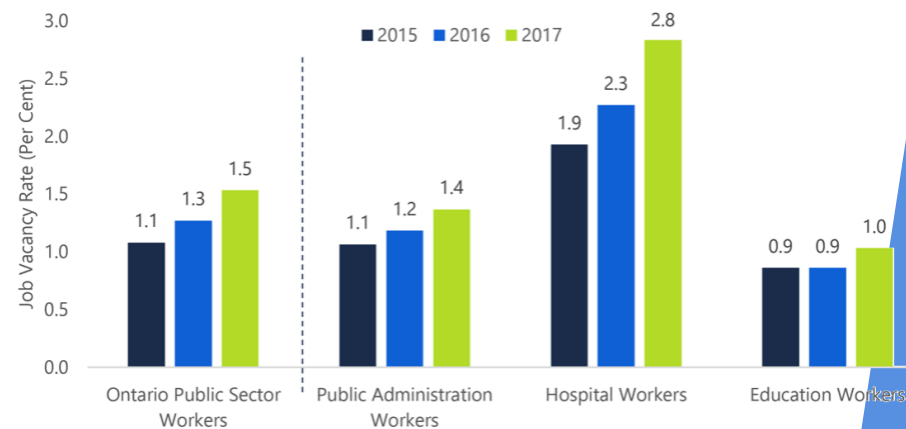
Going Forward, Public Sector Wage Pressures Increasing

- Collective agreements reached in 2017 provided for wage increases of 1.9% over next 2 to 4 years.
- Public sector job vacancies on the rise, putting pressure on government for higher wage increases going forward.

Wage Increases Included in Ontario Public Sector Collective Bargaining Agreements



Public Sector Job Vacancy Rates on the Rise



To Sum Up...

▶ **The economic and fiscal environment:**

- ▶ Economic growth to moderate, and risks for even weaker growth remain substantial.
- ▶ Wage pressures will increase due to tightening labour markets
- ▶ An aging population will place increasing demands on public services adding to fiscal pressures for provincial governments (in particular).

▶ **The key take-away:**

- ▶ Governments will need to navigate between the demands for higher wages from skilled workers and the need to restrain compensation growth to address persistent budget deficits

Thank you

fAO

Financial
Accountability
Office of Ontario

2 Bloor Street West
Suite 900
Toronto, Ontario
M4W 3E2
416.325.7470
fao-on.org
info@fao-on.org

