



Economic and Budget Outlook

Winter 2024

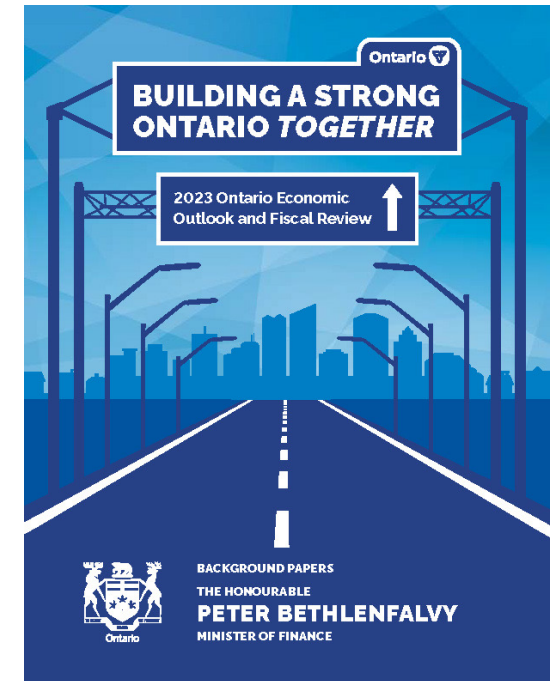
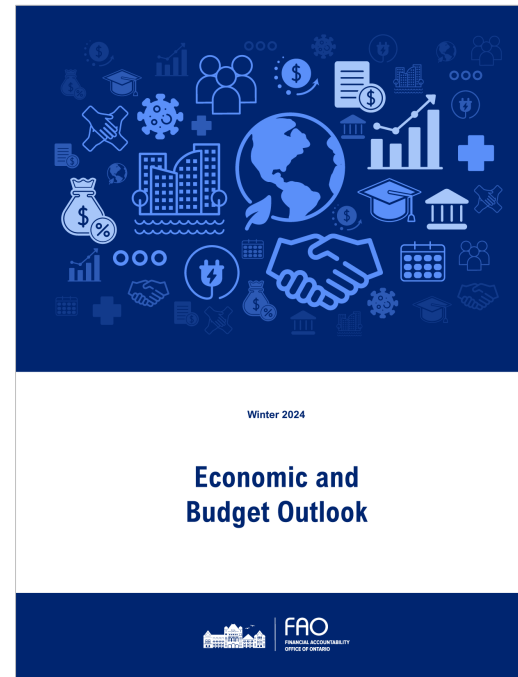
Briefing Deck



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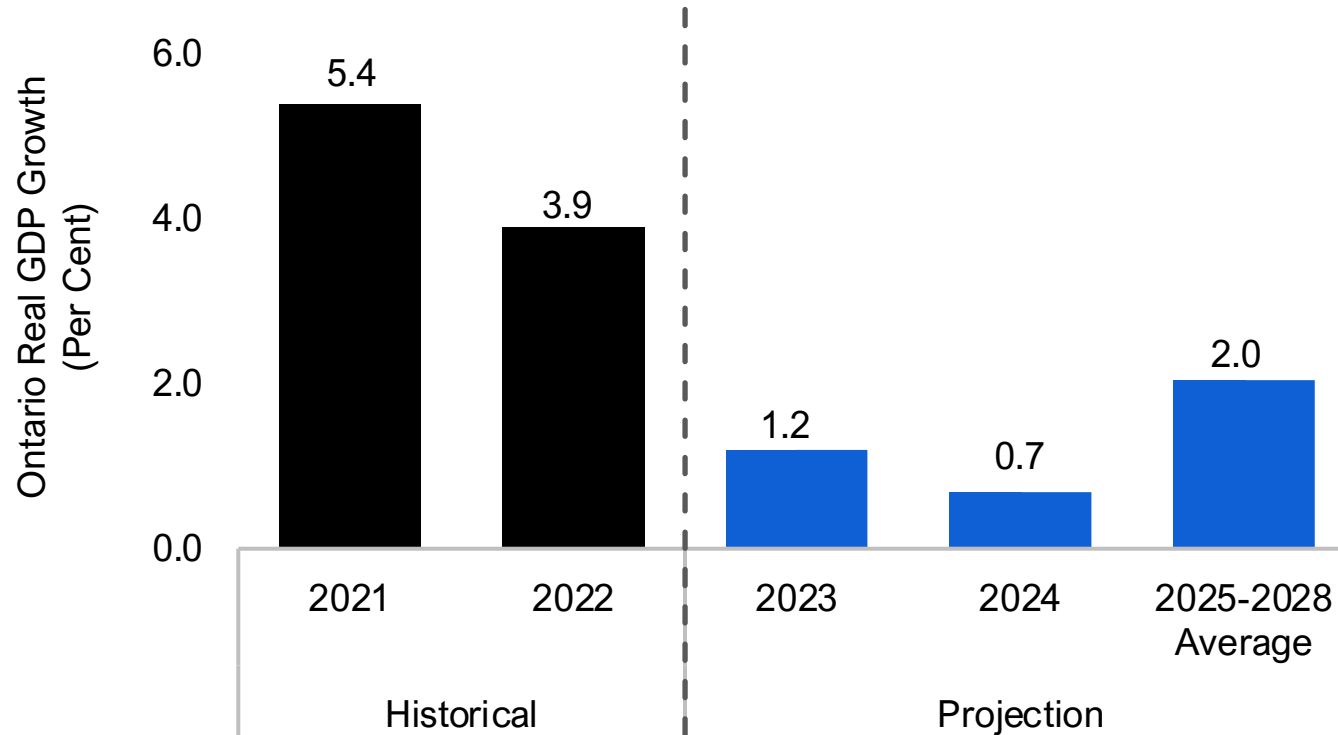
Overview

- The Economic and Budget Outlook (EBO) provides the FAO's projection for the provincial economy and the Province's finances over the 2023-24 to 2027-28 period. It also compares the FAO's latest forecast with the government's 2023 Ontario Economic Outlook and Fiscal Review (FES).
- The presentation will focus on Ontario's:
 1. Economic outlook
 2. Budget balance outlook
 3. Fiscal sustainability indicators
 4. Revenue outlook
 5. Spending outlook
 6. Risks to the economic and budget outlook



Ontario's economic growth to slow further in 2024

- Ontario's real GDP growth is projected to slow in 2024, before improving over the rest of the outlook.

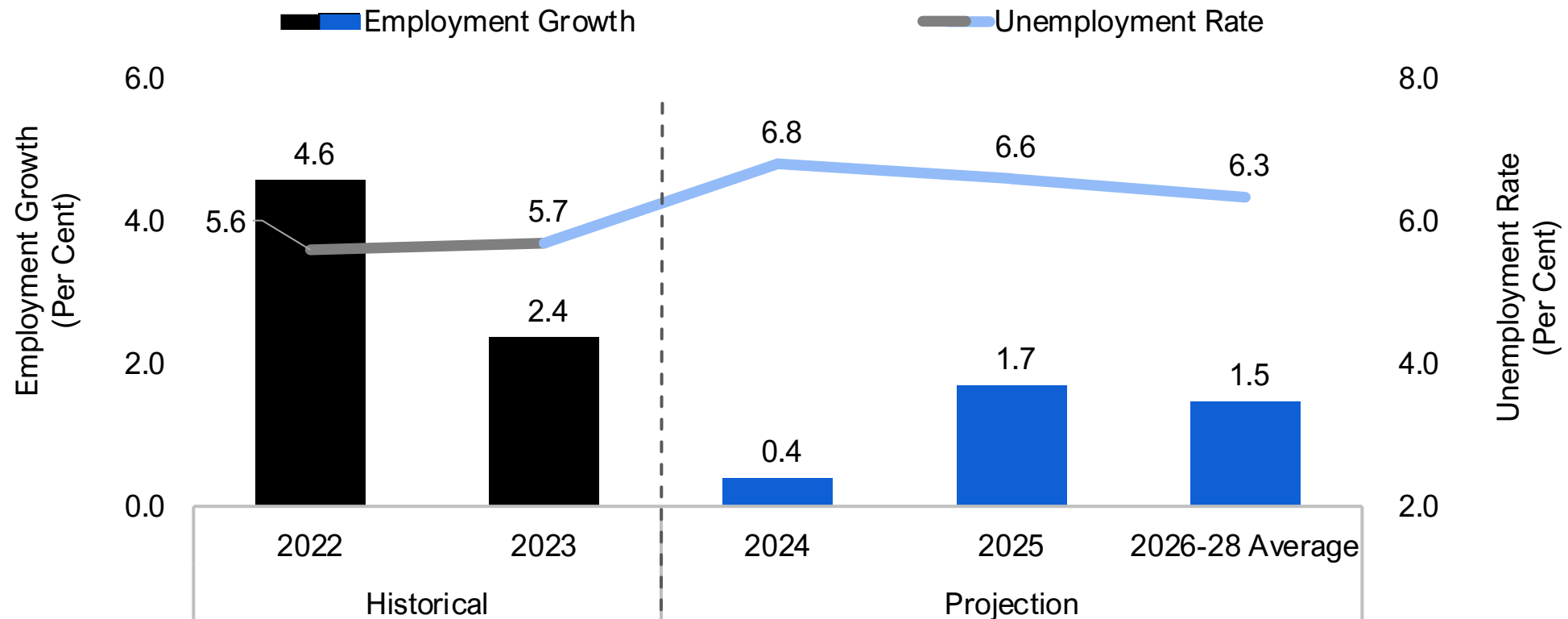


Source: Ontario Economic Accounts and FAO.



Unemployment rate expected to rise in 2024

- Employment growth is expected to slow, raising the average annual unemployment rate to 6.8 per cent in 2024, before declining over the outlook.

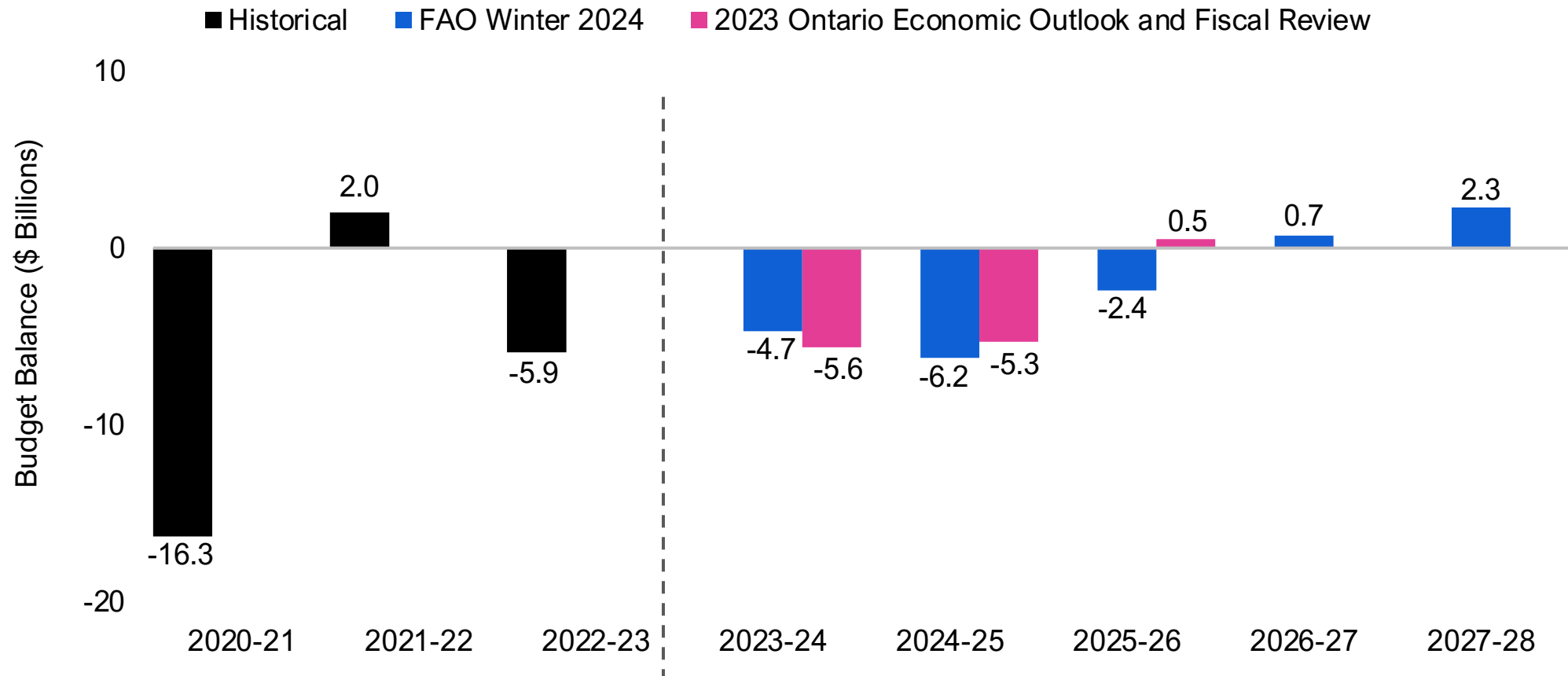


Source: Statistics Canada and FAO.



FAO projects balanced budget by 2026-27

- The FAO budget outlook is close to the government's in 2023-24 and 2024-25 but projects a more gradual return to balance.

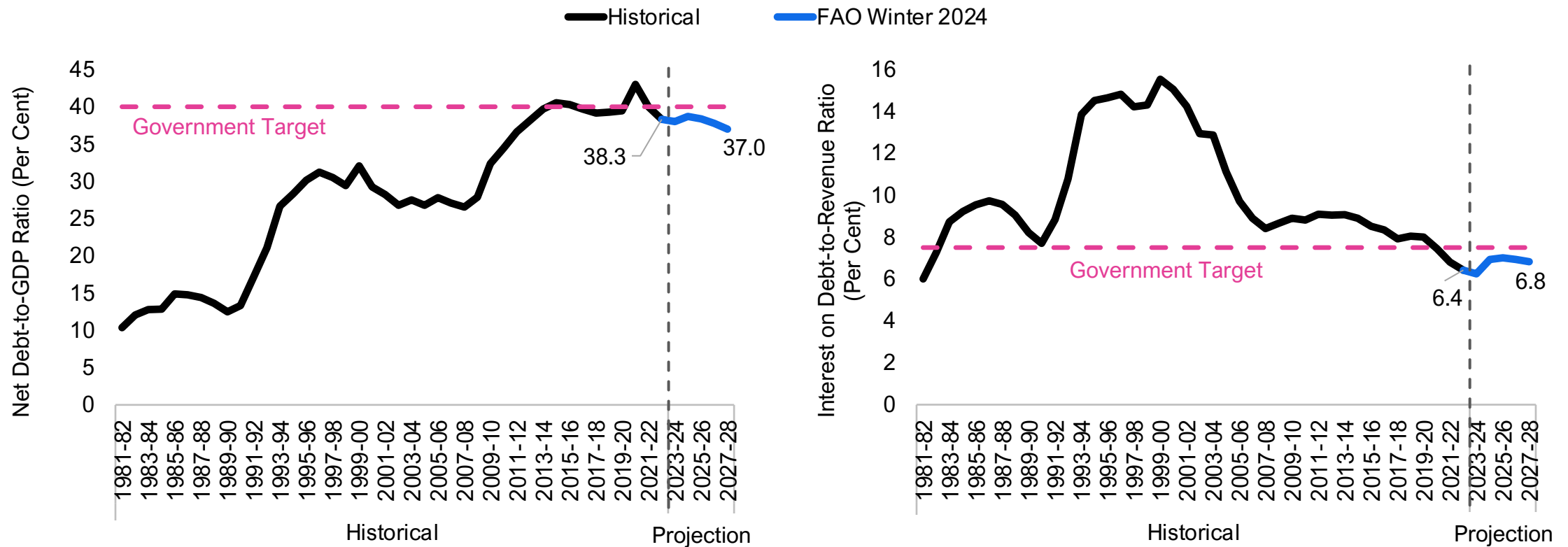


Source: Ontario Public Accounts, 2023 Ontario Economic Outlook and Fiscal Review and FAO.



Ontario's fiscal sustainability indicators to remain below the government's targets

- Ontario's net debt-to-GDP ratio and interest on debt-to-revenue ratio are projected to rise modestly before slowly declining over the projection.

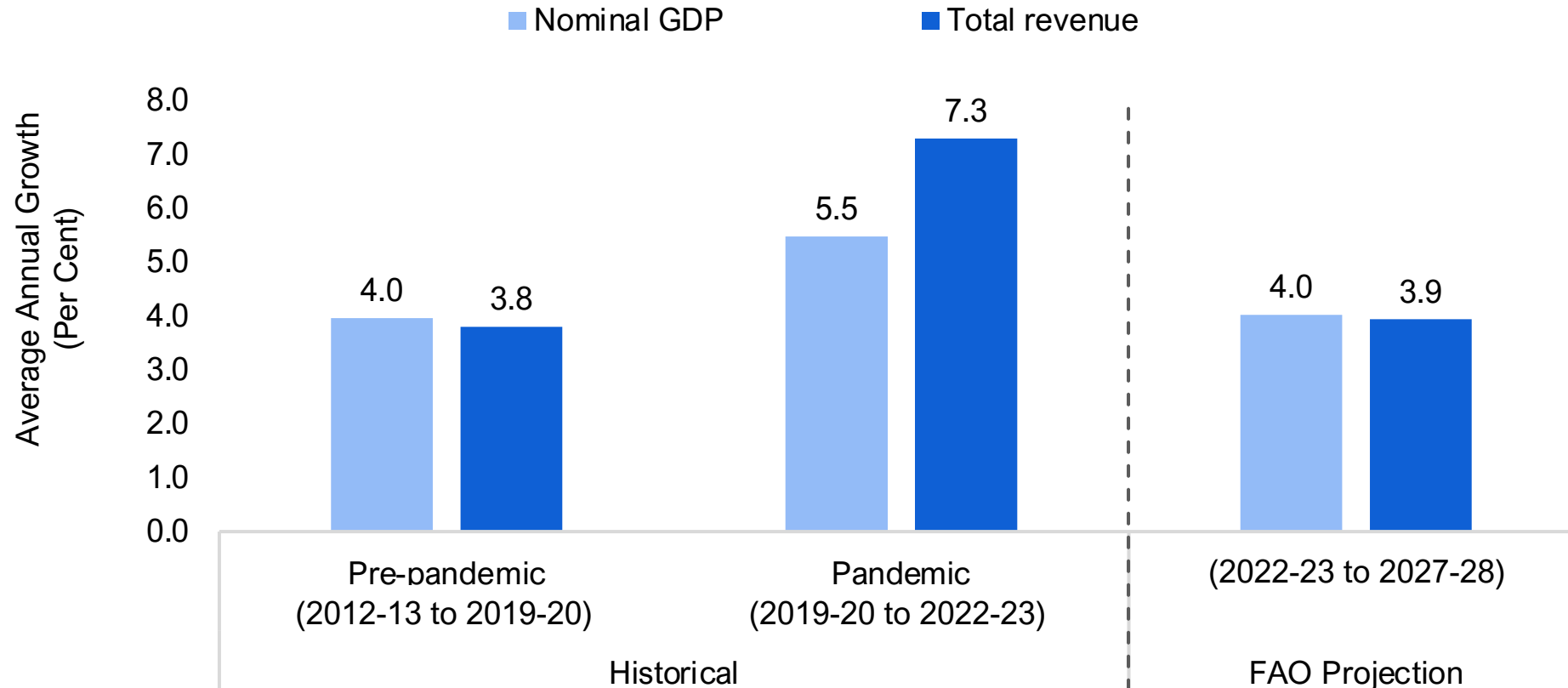


Source: Ontario Public Accounts, Ontario Economic Accounts and FAO.



Ontario's revenue growth to moderate

- Total revenues are projected to grow by an average annual rate of 3.9 per cent over the outlook, in line with economic growth and slower than recorded during the pandemic.

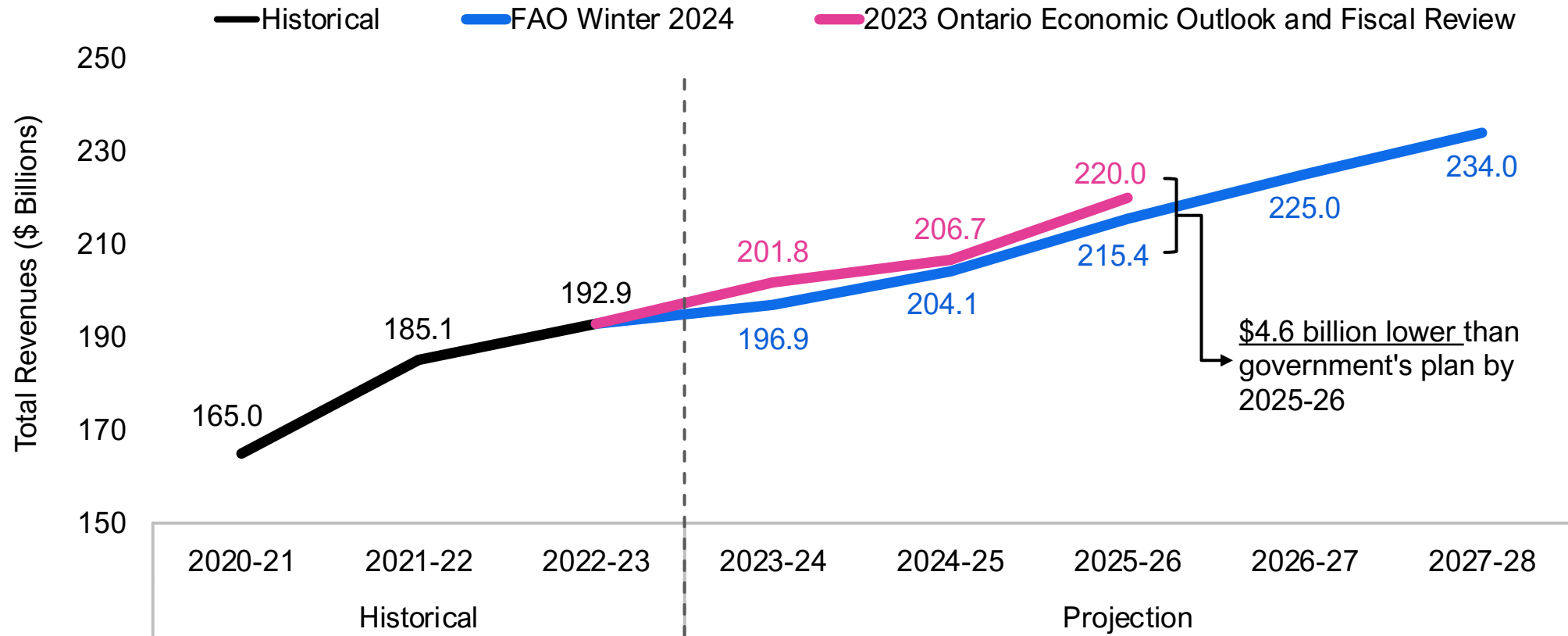


Source: Statistics Canada, Ontario Public Accounts and FAO.



FAO's revenue projection is lower than the government outlook

- The FAO's revenue projection is \$4.6 billion lower than the FES in 2025-26 largely due to the FAO's weaker projection for corporations tax and sales tax revenues.

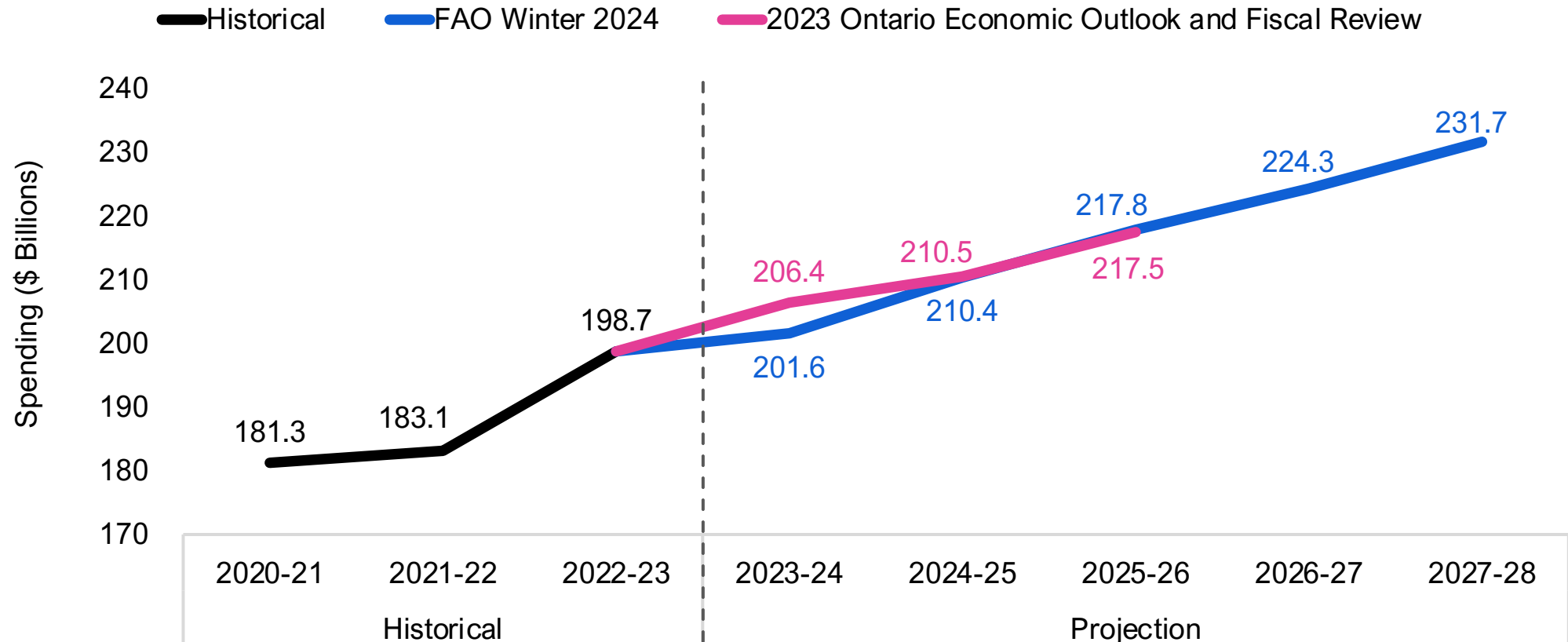


Source: Ontario Public Accounts, 2023 Ontario Economic Outlook and Fiscal Review and FAO.



FAO's spending outlook below government forecast in 2023-24

- The FAO projects that spending will be \$4.8 billion lower in 2023-24 than planned by the Province. Over the following two years, the FAO's projection is similar to the government's.



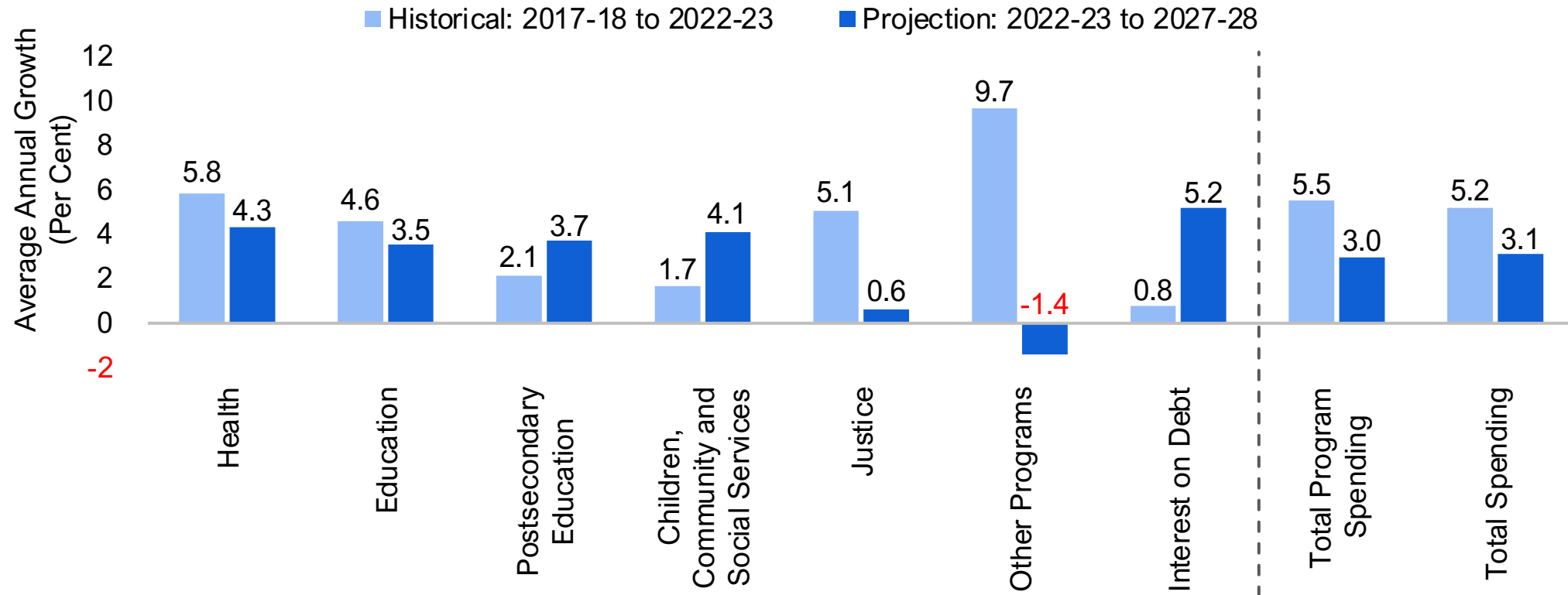
Note: Spending includes program spending and interest on debt expense.

Source: FAO analysis of the 2023 Ontario Economic Outlook and Fiscal Review and information provided by the Ministry of Finance.



Spending growth by sector

- Interest on debt; health; children, community and social services; postsecondary education; and education are expected to be the fastest growing sectors over the next five years.



Note: Growth rates are impacted by temporary spending in 2022-23, which includes \$6.3 billion for COVID-19-related supports and \$6.3 billion in one-time payments for land and land-related claims with Indigenous communities. Excluding these one-time items, the FAO estimates average annual spending growth of 3.8 per cent from 2017-18 to 2022-23 and 4.5 per cent from 2022-23 to 2027-28.

Source: FAO analysis of the 2023 Ontario Economic Outlook and Fiscal Review and information provided by the Ministry of Finance.



FAO's current budget projection is a significant deterioration from Spring 2023 EBO

- The FAO's Spring 2023 outlook expected growing budget surpluses to 2027-28. The significant downward revision in the budget balance outlook results from both lower projected revenues and higher projected spending.
 - The current revenue projection is an average of \$5.8 billion per year lower than the spring outlook, mainly due to lower projected personal income tax revenue based on new information from 2022 tax returns.
 - The current spending projection is an average of \$6.7 billion per year higher than the spring outlook, due in part to higher projected spending on public sector salaries and wages, new policy measures, and higher projected interest on debt spending.



Risks to the Economic and Budget Outlook

- Ontario's economic and revenue growth could be negatively affected by numerous geopolitical risks, or if inflation and interest rates remain higher for longer than anticipated. However, if the US economy continues to grow above expectations, that could positively affect Ontario's economic and revenue growth.
- While the FAO has adjusted its assumptions for public sector wage growth to reflect the estimated impact of Bill 124 retroactive compensation and higher wage settlements, the outcomes of upcoming wage negotiations and arbitration awards could affect the FAO's spending projection. Also, the FAO's spending projection does not yet include the costs of the Ontario Infrastructure Bank, or the upload of the Gardiner Expressway and Don Valley Parkway.
- If new revenue or spending measures are introduced in the upcoming 2024 Ontario Budget, the FAO's budget balance projection would change.

Thank you!



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