

# HIGHLIGHTS OF ONTARIO'S 2023 FALL ECONOMIC STATEMENT

NOVEMBER 2023



## INTRODUCTION

On Thursday, November 2, 2023, Finance Minister Peter Bethlenfalvy presented the 2023 Ontario Economic Outlook and Fiscal Review: Building a Strong Ontario Together. Despite ongoing economic uncertainty and risk, the Ontario government has reaffirmed its longstanding commitment to balancing the provincial budget. The outlook projects a deficit of \$5.6 billion in 2023-24, a deficit of \$5.3 billion in 2024-25 and a surplus of \$0.5 billion in 2025-26. The net debt-to-gross domestic product (GDP) ratio is projected to be 38.4 percent in 2023-24, 0.1 percent higher than in 2022-23.

The fall economic outlook reinforced the government's commitment to infrastructure and economic resilience with two themes outlined in the 2023 budget: "Building Ontario" and "Working for You". "Building Ontario" emphasized investment in critical infrastructure projects and job creation. "Working for You" underscored commitments to ensuring support for families, workers, students, and seniors.

In addition, among the new policy announcements, the government is launching an Ontario Infrastructure Bank with an initial \$3 billion investment.

## GLOBAL ECONOMIC OUTLOOK

Global economic forecasts for 2024 show growth moderating as rising inflation has prompted key central banks in advanced economies to further tighten monetary policy. The International

Monetary Fund projects global real GDP growth of 3 percent in 2023 and 2.9 percent in 2024. This is a slight revision from January's forecast, which predicted 2.9 percent growth for 2023 and 3.1 percent for 2024.

International trade growth has slowed following a recovery after the COVID-19 pandemic. Data from the World Trade Monitor suggests that the volume of global trade peaked towards the end of 2022 and has been trending downwards due to higher interest rates around the world, which has put a strain on global demand.

## ONTARIO'S ECONOMIC OUTLOOK

The fall economic statement highlighted ongoing macroeconomic challenges and uncertainty, such as geopolitical uncertainty due to the war in Ukraine and conflict in the Middle East, inflation, high interest rates, and continued supply chain disruptions. These challenges have contributed to risks and financial pressures faced by people and businesses across Ontario.

### GDP Growth

Although Ontario's economy grew in the first half of 2023, recent months have shown signs of slowing in response to higher interest rates. Real GDP growth increased by 0.2 percent in the second quarter, following the 0.8 percent increase in the first quarter. Furthermore, employment growth was strong in the first half 2023 and slowed in the second half.

Table 1: Summary of Ontario's Economic Outlook

(Per Cent)					
	2022	2023p	2024p	2025p	2026p
Real GDP Growth	3.7	1.1	0.5	2.0	2.8
Nominal GDP Growth	9.2	3.6	2.9	4.2	4.8
Employment Growth	4.6	2.3	0.8	1.5	1.9
CPI Inflation	6.8	3.7	2.5	2.1	2.0

p = Ontario Ministry of Finance planning projection based on external sources as of September 29, 2023.

Sources: Statistics Canada and Ontario Ministry of Finance.

Table 2: Real GDP Growth Scenarios

(Per Cent)				
	2023p	2024p	2025p	2026p
Faster Growth Scenario	1.7	2.1	2.3	3.1
<b>Planning Projection</b>	<b>1.1</b>	<b>0.5</b>	<b>2.0</b>	<b>2.8</b>
Slower Growth Scenario	0.7	(0.9)	1.9	2.7

p = Ontario Ministry of Finance planning projection based on external sources and alternative scenarios.

Source: Ontario Ministry of Finance.

Table 3: Nominal GDP Growth Scenarios

(Per Cent)				
	2023p	2024p	2025p	2026p
Faster Growth Scenario	4.5	5.3	4.7	5.3
<b>Planning Projection</b>	<b>3.6</b>	<b>2.9</b>	<b>4.2</b>	<b>4.8</b>
Slower Growth Scenario	2.9	0.7	3.9	4.5

p = Ontario Ministry of Finance planning projection based on external sources and alternative scenarios.

Source: Ontario Ministry of Finance.

The Ontario government is projecting that the province's nominal GDP will rise by 3.6 percent in 2023 and by 2.9 per cent in 2024, reflecting a moderation in both real GDP growth and GDP inflation. Nominal GDP growth is projected to accelerate to 4.2 percent in 2025 and 4.8 percent in 2026, largely due to stronger growth in real GDP.

## Inflation

The Ontario Consumer Price Index had significantly eased since reaching a year-over-year rate of 7.9 percent in June 2022. However, after reaching a two-year low of 2.6 percent in June 2023, inflation began to pick up again, rising to 3.6 percent by September. Ontario's core inflation, which excludes volatile food and energy prices, was 3.2 percent in September.

## Key Changes Since 2023 Budget

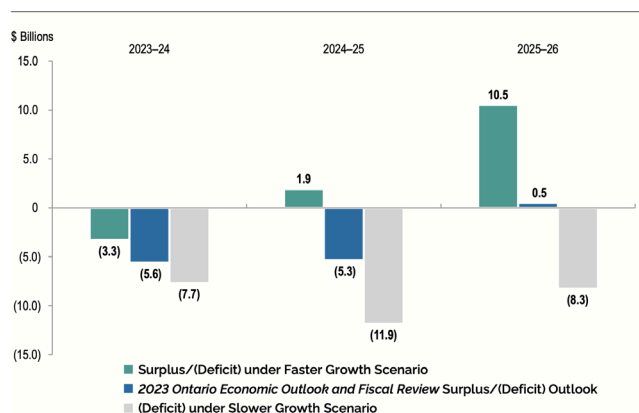
- Stronger growth is projected for both real and nominal GDP in 2023, followed by slower growth in 2024 and 2025, with a return to stronger growth in 2026.
- Forecast anticipates stronger employment growth in 2023, followed by slower job creation in 2024 and 2025.
- Downward revisions are expected for the net operating surplus of corporate growth in all years.
- Higher projections for housing starts in all years, with weaker home resales expected in 2023 and 2024, followed by a strong rebound in 2025.

## ONTARIO'S FISCAL OUTLOOK

### Key Changes in Fiscal Outlook Since 2023 Budget

- Projected deficit for 2023-24 is \$5.6 billion, a \$4.3 billion deterioration from the 2023 budget forecast.
- Revenues for 2023-24 are expected to be \$201.8 billion, \$2.6 billion lower than the 2023 budget forecast, mainly due to lower taxation revenue.
- Fiscal program expenses for 2023-24 are projected to be \$193 billion, which is \$2.3 billion higher than the 2023 budget forecast, primarily due to replenishing the contingency fund.
- \$1 billion reserve is maintained in the 2023-24 fall economic outlook to protect the fiscal plan against unforeseen changes.
- Total revenue outlook for 2023-24 is \$201.8 billion, \$2.6 billion lower than the 2023 budget forecast and the 2023-2024 First Quarter Finances forecast, with lower taxation revenues partially offset by higher Government of Canada transfers and net income from government business enterprises.

Figure 1: Ontario Fiscal Outlook Scenarios



Source: Ontario Ministry of Finance.

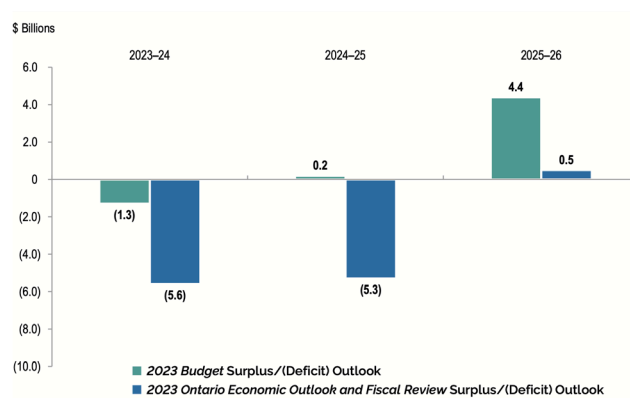
## HIGHLIGHTS ON INFRASTRUCTURE

In the 2023 budget, the Ontario government dedicated a substantial \$185 billion to infrastructure over the next 10 years with, \$20.7 billion allocated in the year 2023-24 alone. This investment represents a key component of Ontario's ambitious capital plan, aimed at developing infrastructure, including highways, roads, transit systems, hospitals, long-term care facilities, schools, childcare facilities, broadband, and more.

### Launch of Ontario Infrastructure Bank

Most notably, the province plans to launch the Ontario Infrastructure Bank, with the government proposing initial funding of \$3 billion for this initiative. The bank will be an independent agency that leverages investments by public sector pension plans and other trusted Canadian institutional investors to help fund large-scale infrastructure projects across Ontario. The project that will be financed through this agency will focus on long-term care homes, energy infrastructure, affordable housing, municipal and community infrastructure and transportation. Furthermore, this form of institutional support will help the government build more infrastructure and create opportunities for Canadian pension funds to make local investments.

Figure 2: Surplus/Deficit Outlook Compared to Budget 2023



Source: Ontario Ministry of Finance.

## Local Investments

In the 2023 budget the province announced a Made in Ontario Investment Tax Credit that provides up to \$2 million per year to qualifying Canadian-controlled private corporations. The province reiterated its plan to attract and encourage business investments needed to create jobs in Ontario's manufacturing sector. The Ontario Made Manufacturing Investment Tax Credit provide an estimated \$780 million in income tax support to help Ontario's manufacturers reduce costs, innovate, and become more competitive. The tax credit will be available over three years beginning in 2023-2024.

Additionally, the government plans to allocate another \$100 million to the Invest Ontario Fund, bringing the total to \$500 million. This investment will enable Invest Ontario, the government's investment attraction agency, to attract more leading companies to the province, support established businesses, and create well-paying jobs in communities throughout Ontario.

## Healthcare

The government is allocating over \$48 billion for healthcare infrastructure over the next decade. This investment will facilitate the implementation of more than 50 hospital projects, with the aim of adding 3,000 new beds within the same period. The overarching objective is to enhance access to dependable, high-quality healthcare services.

## Clean Energy and Supply Chains

The province is strengthening its position as a global leader in the electric vehicle (EV) supply chain. Ontario is emerging as a North American hub for building cars and has attracted more than \$26 billion over the last three years in transformative automotive and EV battery-related investments from global automakers, parts suppliers, and EV battery and materials manufacturers.

The government plans to boost critical mineral exploration by proposing an additional \$12 million per year in tax credit support for the critical minerals mining industry. The government intends to expand the eligibility of the Ontario Focused Flow-Through Share Tax Credit to include critical minerals qualifying for the federal Critical Mineral Exploration Tax Credit. This tax credit will be implemented in the 2023 tax year.

## HIGHLIGHTS ON ECONOMIC RESILIENCE

### Financial Services

The Ontario government is actively endorsing federal initiatives in the financial markets sector, with a specific focus on:

- Collaborating with the Royal Canadian Mounted Police to combat financial crimes throughout Canada.
- Establishing a Canada-based open banking framework to bolster the nation's ever-expanding digital economy.
- Modernizing digital payment systems, such as The Real-Time Rail, a national payment processing system designed to facilitate swift, data-rich transactions.

The Ontario government has been working closely with the Ontario Securities Commission (OSC) to foster more competitive capital markets. This collaboration aims to strengthen competition and encourage innovation and capital formation, while ensuring investors are protected.

The province is proposing to amend securities legislation, making it easier for well-known seasoned issuers in Ontario to access capital. Additionally, the government is working with the OSC on further modernization initiatives to improve early-stage financing for Ontario startups and small and medium-sized companies.



## Tax Credits

The province plans to extend the current gas and fuel tax rate cuts through to June 30, 2024. Coupled with existing gas and fuel tax rate cuts, these changes would save households an average of \$260 over the entire course of the price reduction. The general minimum wage will increase to \$16.55 per hour. This 6.8 percent increase aims to help workers and their families keep up with rising costs. Additionally, transportation subsidies like double fares for local transit will be eliminated, while Presto discounts for youth and postsecondary students will increase, all in an effort to cope with rising living expenses.

## Pension Plan Consultation

The government plans to begin consulting on a permanent framework for target benefit pension plans that provide a monthly income for workers in their retirement. The framework would support the sustainability of these pension plans and help provide workers, including those in the skilled trades, with retirement security.

## Immigration and Labour

Through the 2023 budget, the government pledged to invest \$25 million over three years in the Ontario Immigrant Nominee Program. The government intends to enhance the Ontario Bridge Training Program with a \$3 million investment in 2023-24. This investment aims to expedite the entry of skilled newcomers into their respective fields by eliminating Canadian work experience prerequisites for specific regulated professions, thus simplifying the process for newcomers to work in the occupations for which they have trained.

## Housing

To encourage the construction of new purpose-built rental housing, steps will be taken to remove the full 8 percent provincial portion of the Ontario Harmonized Sales Tax (HST) on qualifying projects. Coupled with federal-level enhancements, this would eliminate the full 13 percent HST on qualifying new rental buildings.

The government plans to facilitate the construction of 1.5 million homes by 2031 through targeted incentives to municipalities. These initiatives include the Building Faster Fund, granting mayors increased authority; the Streamline Development Approval Fund; and the enhancement of housing accessibility through an increase in the Non-Resident Speculation Tax rate.

## FINAL THOUGHTS

The 2023 fall economic statement reaffirms the Ontario government's commitment to prioritizing infrastructure development and economic resilience, aligning with the goals set in the 2023 budget. The government's focus continues to be on investments in vital infrastructure, attracting capital inflows, fostering employment opportunities, and enhancing services for Ontario's residents.

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