

## Ontario Economic Outlook

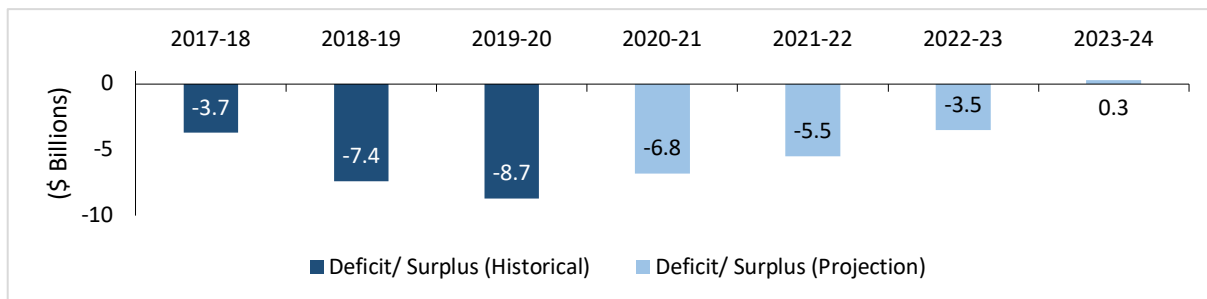


### Budget and Debt Outlook

Prior to the COVID-19 pandemic, Ontario’s budgetary deficit grew from \$3.7 billion in 2017-18, to \$8.7 billion in 2019-20. As indicated by the Financial Accountability Office (FAO)<sup>1</sup>, the overall growth in the deficit was in part the result of several policy decisions made by the previous Liberal government and the newly elected Progressive Conservative (PC) government, which included the “partial sale of Hydro One, the cancellation of the cap-and-trade program, and numerous tax changes”, as well as the removal of the debt retirement charge from non-residential electricity bills, and the year-over-year reduction to Ontario’s equalization payments in 2018-19<sup>2</sup>.

As shown in Figure 1, in its first Budget, which was tabled April 19, 2019 (less than one year before the pandemic), the PC Government of Ontario projected a deficit of \$6.8 billion in 2020-21 and a budgetary surplus of \$300 million beginning in 2023-24. As a result of the pandemic, Ontario’s deficit grew to \$16.4 billion in 2020-21, almost \$10 billion more than originally planned (Figure 2).

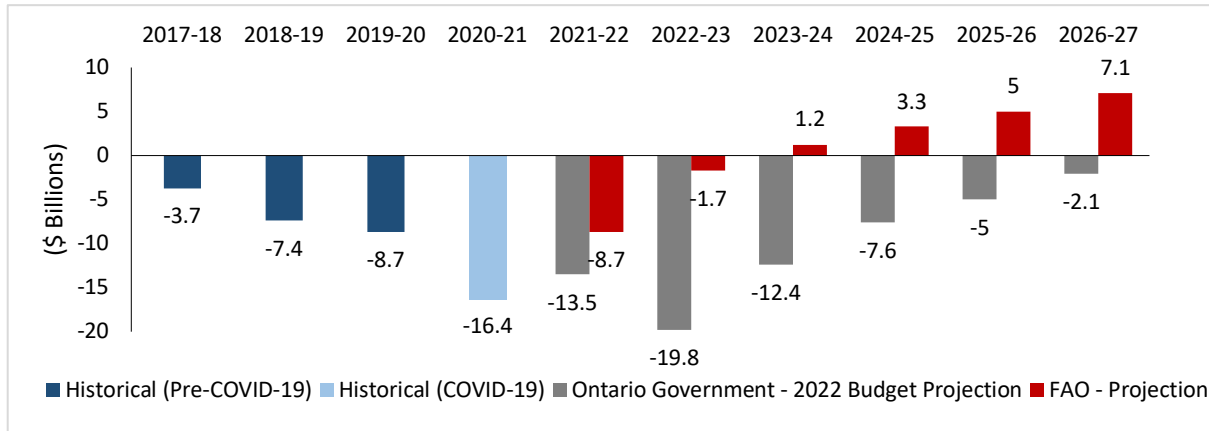
In the 2022 Ontario Budget, which is the most recent budgetary revenue and spending plan, strong revenue growth is projected but it is not expected to outpace the rate of increase in program spending, leading to an estimated deficit of \$13.5 billion in 2021-22 and \$19.8 billion in 2022-23, before reducing to \$2.1 billion in 2026-27 (Figure 2). In comparison, the FAO, in its Spring 2022 Economic and Budget Outlook, projected that Ontario would have a budgetary surplus of \$1.2 billion beginning in 2023-24, growing to \$7.1 billion in 2026-27. The difference in fiscal forecasts is largely due to variances in projected program spending. Compared to the FAO, from 2022-23 to 2024-25, the government is projecting to spend \$34.2 billion more than what the FAO has estimated (Table 1).



**Figure 1.** Government of Ontario Pre-COVID-19 Deficit/ Surplus Projection from Budget 2019  
Source: 2019 Ontario Budget (April 19, 2019)

<sup>1</sup> Established under the Financial Accountability Officer Act, 2013, the Financial Accountability Office (FAO) provides independent analysis on the state of Ontario’s finances, including budget.

<sup>2</sup> Financial Accountability Office. 2022. *Spring 2022 Economic and Budget Outlook*. Toronto. Released April 12, 2022. <https://www.fao.on.org/en/Blog/Publications/EBO-SP2022>.



**Figure 2.** Deficit/ Surplus Projection, Government of Ontario vs. Financial Accountability Office

Source: Government of Ontario, 2022 Ontario Budget (April 28, 2022)  
 Financial Accountability Office, Spring 2022 Economic and Budget Outlook (April 12, 2022)

**Table 1.** Revenue and Spending Projections, Government of Ontario (2022 Budget) vs. FAO

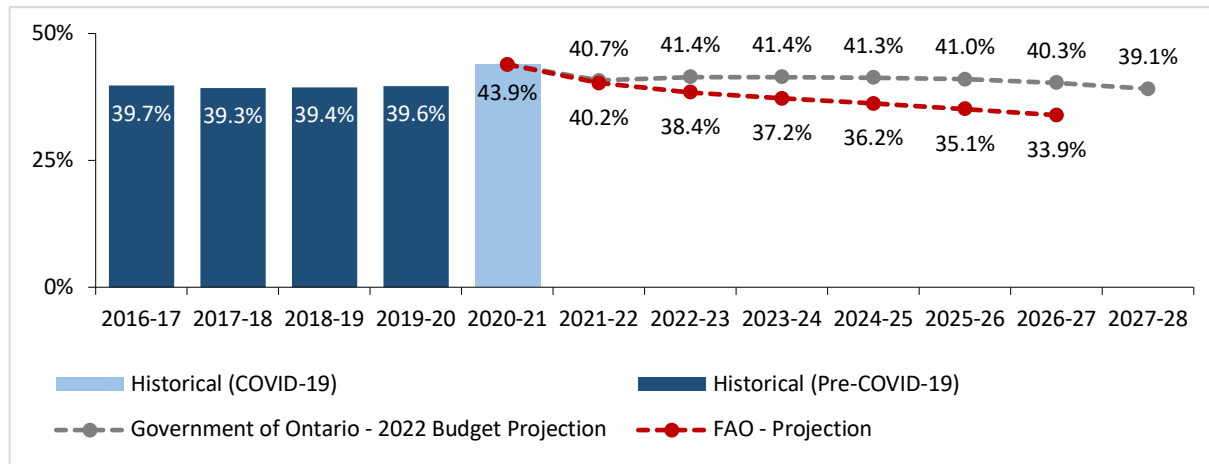
	Projections	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Budget 2022	Revenues	173.6	179.8	188.2	196.9	204.6	212.6
	Expenditures	-187.1	-199.6	-200.6	-204.5	-209.6	-214.7
	Deficit/ Surplus	-13.5	-19.8	-12.4	-7.6	-5.0	-2.1
FAO	Revenues	176.2	182.4	190.7	200.2	209.1	216.1
	Expenditures	-184.9	-184.1	-189.5	-196.9	-204.1	-209.0
	Deficit/ Surplus	-8.7	-1.7	1.2	3.3	5.0	7.1

Source: Government of Ontario, 2022 Ontario Budget (April 28, 2022)  
 Financial Accountability Office, Spring 2022 Economic and Budget Outlook (April 12, 2022)

### Debt-to-GDP ratio

As outlined in the 2022 Budget, Ontario’s medium-term target (until 2024-25) is for the province’s net debt-to-GDP ratio to be less than 42.0%. As shown in Figure 3, over the next three years, from 2022-23 to 2024-25, the government estimates that Ontario’s net debt-to-GDP will be slightly above 41%, which is under the medium-term target but still above pre-pandemic levels. Additionally, according to the government’s own estimates, Ontario’s net debt-to-GDP ratio is expected to remain above pre-pandemic levels until 2027-28. In comparison, the FAO forecasts the province’s net debt-to-GDP ratio to decline below pre-pandemic levels beginning in 2022-23, further reducing to 36.2% in 2024-25.

The FAO’s lower Net Debt-to-GDP Ratio is primarily due to its lower spending estimates and associated lower net debt outlook. Specifically, due lower expected program spending, the FAO estimates Ontario’s net debt will be \$409.7 billion in 2024-25, whereas the government is projecting a net debt value of \$468.8 billion.



**Figure 3. Net Debt-to-GDP Ratio, Government of Ontario vs. Financial Accountability Office**

Source: Government of Ontario, 2022 Ontario Budget (April 28, 2022)

Financial Accountability Office, Spring 2022 Economic and Budget Outlook (April 12, 2022)

## Revenue and Program Spending Outlook until 2024-25

### Revenues

Total annual revenues are projected to increase from \$173.6 billion in 2021-22 to \$196.9 billion in 2024-25. Three sources of revenue combine to account for almost 70% of the governments total forecasted growth over the next three-years: personal income tax (31%), sales tax revenue (23%), and federal transfer revenue (16%). As reported in Table 2, while the annual revenues are estimated to increase by \$23.3 billion by 2024-25, the overall distribution of revenues in 2024-25 is relatively similar compared to the pre-pandemic levels in 2019-20.

**Table 2. Government of Ontario, Planned Revenues until 2024-25**

Revenues	Actual		Estimates (Budget 2022)				2019-20 Spending (%)	2024-25 Spending (%)
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25		
Total Taxable Revenues	108.3	110.9	124.2	126.4	133.2	139.1		
Personal Income Tax	37.7	40.3	42.3	44.6	47.0	49.6	24.2%	25.2%
Sales Tax	28.6	26.6	30.4	32.3	34.2	35.7	18.3%	18.1%
Corporations Tax	15.4	17.8	22.2	19.7	20.4	21.1	9.9%	10.7%
Ontario Health Premium	4.1	4.3	4.5	4.7	4.9	5.1	2.6%	2.6%
Education Property Tax	6.2	6.0	5.7	5.7	5.6	5.6	4.0%	2.8%
All Other Taxes	16.3	15.8	19.1	19.4	21.0	21.9	10.4%	11.1%
Government of Canada	25.4	33.9	29.7	31.0	31.8	33.4	16.3%	17.0%
Income from Government Business	5.9	5.0	5.6	6.3	6.7	7.5	3.8%	3.8%
Other Non-Tax Revenue	16.5	15.1	14.1	16.1	16.5	16.9	10.6%	8.6%
<b>Total Revenue</b>	<b>156.1</b>	<b>164.9</b>	<b>173.6</b>	<b>179.8</b>	<b>188.2</b>	<b>196.9</b>	<b>100%</b>	<b>100%</b>

Source: Government of Ontario, 2022 Ontario Budget (April 28, 2022)

## Program Spending

The 2022 Ontario Budget projected total program spending to increase by \$26.1 billion annually over the next three years, from \$162.1 billion in 2021-22 to \$188.2 billion in 2024-25. This represents an overall increase of 16%, however, total program spending is forecasted to increase by almost 10% in 2022-23, lowering to 3.6% and 1.8% in 2023-24 and 2024-25, respectively (Table 3). While it appears that almost 50% of additional funding (\$12.9 billion) will be allocated to health and education, when the distribution of the planned program spending for 2024-25 is compared to distribution of program spending in 2019-20 (i.e., pre-COVID-19), the government is planning to spend proportionately less on health, education, post-secondary education, and justice, then was spent pre-pandemic.

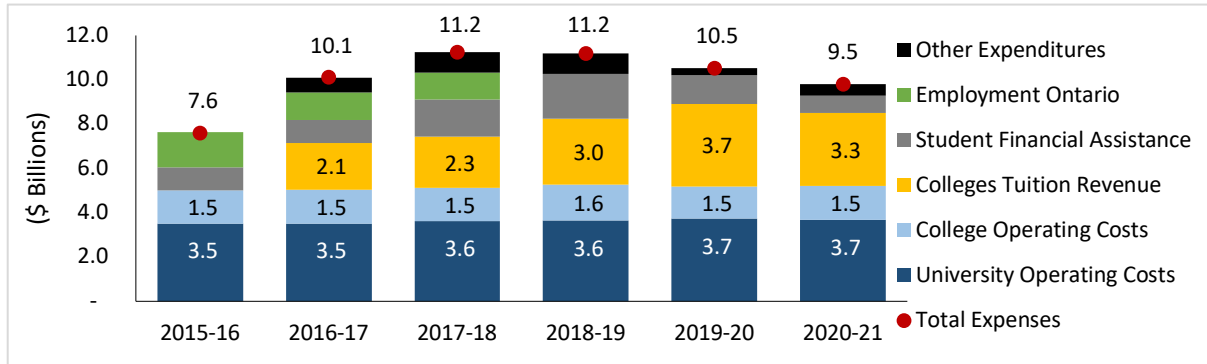
With regards to planned post-secondary education spending, it is important to note that even though the Ontario government is projecting annual sector spending to increase by \$1.4 billion in the medium term, from \$10 billion in 2021-22 to \$11.4 billion in 2024-25, this does not mean that base operating funding for Ontario's universities is expected to grow. It is more likely for the reason that the Government is projecting increases in college tuition revenue combined with higher expenditures in student financial assistance.

Beginning in 2016-17, the government began to include the third-party revenues of colleges in Ministry of Colleges and University expenses. These third-party revenues reflect the income colleges generate from tuition fees charged to students. Operating expenses for universities and colleges have not significantly changed since 2015-16 while pre-pandemic consolidated tuition revenue for colleges grew by \$1.6 billion over four years (Figure 4). When comparing pre-COVID-19 expenditures in 2019-20 to 2020-21, it appears the \$1 billion decrease the postsecondary expenditures during the first year of the pandemic was the result of reduced student aid expenditures and lower college tuition revenues, which combined decreased by \$900 million over the previous year.

**Table 3.** Government of Ontario, Planned Program Spending until 2024-25

Expenditures	Actual		Estimates (Budget 2022)				2019-20 Spending (%)	2024-25 Spending (%)
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25		
Health	63.7	64.4	71.0	75.2	77.6	78.3	41.8%	38.3%
Education	30.2	28.4	29.5	32.4	34.2	35.1	19.8%	17.2%
Postsecondary	10.5	9.5	10.0	10.8	11.1	11.4	6.9%	5.6%
Children's and Social Services	17.1	17.0	17.2	18.3	18.4	18.6	11.2%	9.1%
Justice	4.7	4.6	4.8	5.3	5.2	5.1	3.1%	2.5%
Other Programs	26.1	26.0	29.6	36.3	38.3	39.7	17.1%	19.4%
<b>Total Program Expenditures</b>	<b>152.3</b>	<b>149.9</b>	<b>162.1</b>	<b>178.3</b>	<b>184.8</b>	<b>188.2</b>		
COVID-19 Time-Limited Funding	0	19.1	12.0	6.9	-	-		
Interest on Debt	12.5	12.3	13.0	13.5	14.3	14.9	7.6%	7.3%
Reserve		-	-	1.0	1.5	1.5	0.0%	0.7%
Total Expenses (Include. COVID-19 TLF)	164.8	181.3	187.1	199.7	200.6	204.6		
<b>Total Expenses (Exclud. COVID-19 TLF)</b>	<b>164.8</b>	<b>162.2</b>	<b>175.1</b>	<b>192.8</b>	<b>200.6</b>	<b>204.6</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Government of Ontario, 2022 Ontario Budget (April 28, 2022)



**Figure 4.** Actual Postsecondary Expenditures, 2015-16 to 2020-21

Source: Ontario Public Accounts.

Note: Prior to 2018-19 Employment Ontario program spending was included in postsecondary education expenditures.

### Economic Outlook

Although global growth is expected to continue, there are downside risks to Ontario’s economic outlook from the probability of new COVID-19 variants, ongoing inflationary price pressures and supply chain issues, and geopolitical conflicts.

Both the Government of Ontario and the FAO project that Ontario’s real GDP will grow between 3.7% and 4.0% in 2022<sup>3</sup>. Overall, growth is expected to continue, but at a slower pace for the remainder of the outlook (see Table 4).

It is important note that the Ontario government and the FAO’s fiscal projections are subject to a number of risks and uncertainties that could result in lower than forecasted economic growth over the next several years. As a result, Ontario’s forecasted growth in real GDP could be slower than expected, impacting the government’s revenues and program spending (Table 5).

**Table 4.** Nominal and Real GDP Estimates, Government of Ontario vs. FAO

		Historical (Pre-COVID-19)	Historical (COVID-19)		Projected			
		2019	2020	2021	2022	2023	2024	2025
Budget 2022	Nominal GDP (%)	3.7	-2.8	12.0	6.7	5.1	4.2	4.1
	Real GDP (%)	2.0	-5.1	4.3	3.7	3.1	2.0	1.9
FAO	Nominal GDP (%)	3.7	-2.8	12.0	6.7	5.1	4.2	4.1
	Real GDP (%)	2.0	-5.1	4.4	4.0	2.9	1.9	1.9

<sup>3</sup> Real GDP is the gross domestic product adjusted for inflationary price changes and reflects the value of all goods and services produced by an economy each year, whereas nominal GDP is a measure of the value of all goods and services produced by an economy each year at current prices, unadjusted for inflation.

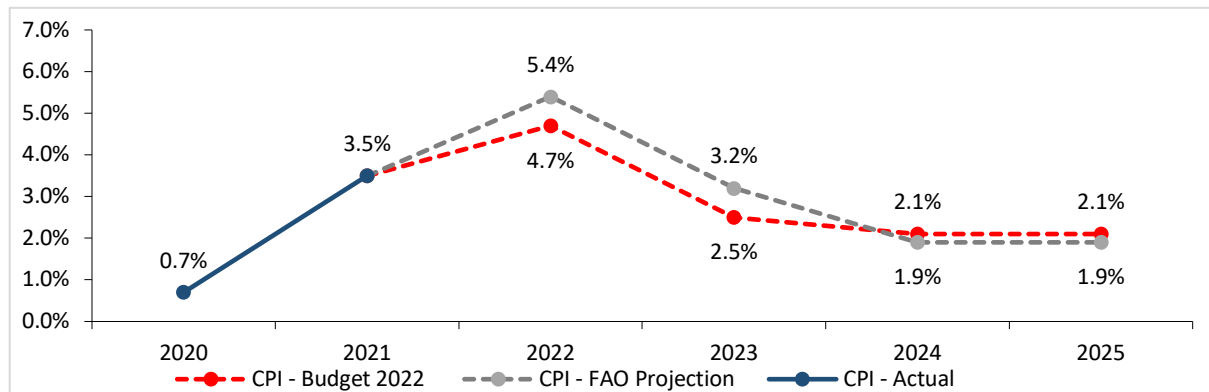
**Table 5. Government of Ontario, Nominal and Real GDP Growth Scenarios, 2022 Ontario Budget**

	2022	2023	2024	2025
<b>Nominal GDP Growth</b>				
Planned Scenario (%)	6.7	5.1	4.2	4.1
Faster Growth Scenario (%)	9.8	5.9	4.7	4.6
Slower Growth Scenario (%)	4.8	4.5	3.9	3.8
<b>Real GDP Growth</b>				
Planned Scenario (%)	3.7	3.1	2.0	1.9
Faster Growth Scenario (%)	5.2	3.8	2.3	2.2
Slower Growth Scenario (%)	3.0	2.6	1.9	1.8

### Inflation is expected to remain high

In the 2022 Ontario Budget, which is the most recent budgetary revenue and spending plan, the government forecasted the province’s annual inflation rate to peak at 4.7% in 2022, reducing to pre-pandemic benchmark of close to 2.0% by 2024. In comparison, as shown in Figure 5, the FAO projected that Ontario’s inflation would peak at 5.4% in 2022, but similarly to the provincial government, forecasted a return to the 2.0% benchmark by 2024.

High inflation represents one of the biggest areas of risk to the province’s economic outlook. What was first believed to be a temporary period of elevated inflation, due to supply chain disruptions resulting from the COVID-19 pandemic, has now lasted for over a year, and has been made worse as the result of the ongoing war in the Ukraine<sup>4</sup>. Many of the aforementioned factors currently pushing inflationary challenges cannot be directly addressed solely through higher borrowing costs. If inflation is elevated for longer than is forecasted by the Government of Ontario, it will slow the province’s economic growth and further increase the burden on households and businesses.



**Figure 5. Forecasted Inflation, Government of Ontario vs. FAO**

Sources: Actual data - Statistics Canada. [Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted.](#)

Government of Ontario CPI projection: 2022 Ontario Budget (April 28, 2022)

FAO Projection: Spring 2022 Economic and Budget Outlook (April 12, 2022)

<sup>4</sup> Statistics Canada. [Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted](#)

## Employment and Job Creation

In 2021, the second year of the COVID-19 pandemic, Ontario's labour market grew by 345,000 new jobs, increasing the province's total employment estimate to 7.366 million, which was only 10,000 jobs below pre-pandemic levels. Both the Government of Ontario, in its 2022 budget, and the FAO forecast that the province is on track to record strong job growth over the next four years (Table 6). Furthermore, the unemployment rate, which peaked at 9.6% in 2020, is estimated to return to pre-pandemic levels in either 2022 or 2023, at which point it is projected to remain stable over the remainder of the forecast. While this appears positive (see Figure 6), due to the impact of the pandemic, Ontario is still below the pre-pandemic employment growth trend. By 2025, there could be as much as 390,000 fewer people employed compared to what was forecasted pre-pandemic.

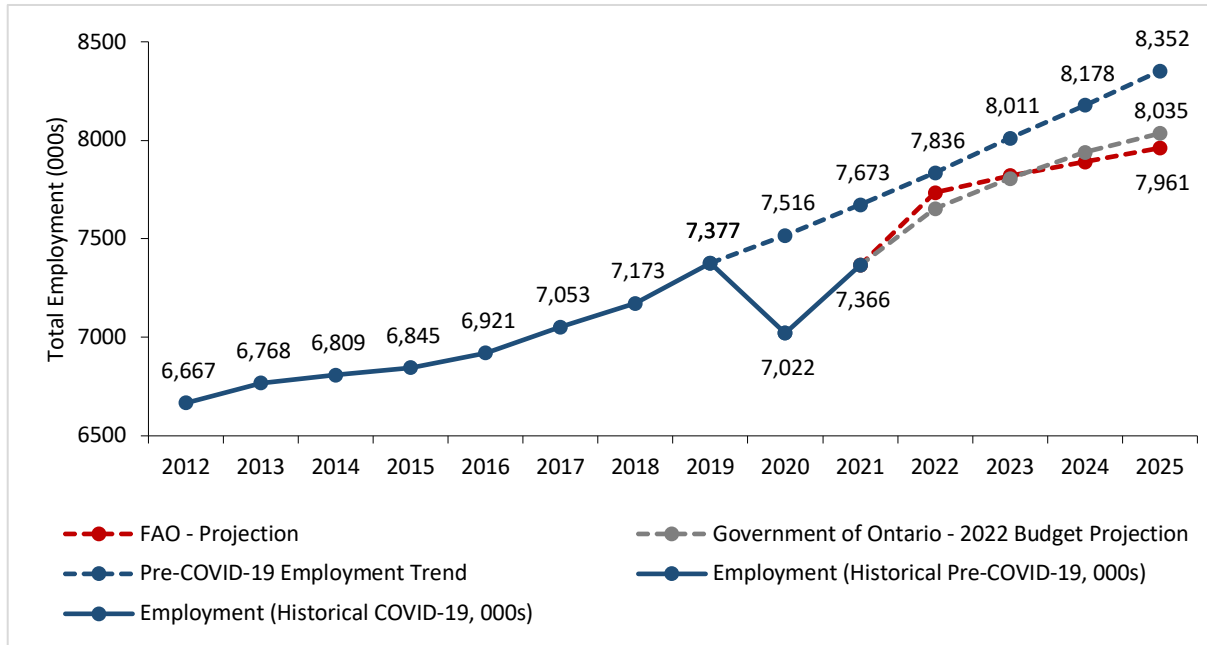
**Table 6.** Ontario Employment and Job Creation Forecast, Government of Ontario vs. FAO

		Historical (Pre-COVID-19)		Historical (COVID-19)		Projection			
		2018	2019	2020	2021	2022	2023	2024	2025
Total Employment (000s)	Budget 2022	7,173	7,377	7,022	7,366	7,653	7,806	7,939	8,035
	FAO	7,173	7,377	7,022	7,366	7,735	7,820	7,890	7,961
	Variance					-81	-13	49	74
Job Creation (000s)	Budget 2022		204	-355	345	287	153	133	95
	FAO		204	-355	345	368	85	70	71
	Variance					-81	68	63	24
Employment Growth (%)	Budget 2022		2.8	-4.8	4.9	3.9	2.0	1.7	1.2
	FAO		2.8	-4.8	4.9	5.0	1.1	0.9	0.9
	Variance					-1.1	0.9	0.8	0.3
Unemployment Rate (%)	Budget 2022	5.7	5.6	9.6	8	6.1	5.7	5.6	5.5
	FAO	5.7	5.6	9.6	8	5.7	5.6	5.6	5.6
	Variance					0.4	0.1		-0.1

Sources: Historical data: Statistics Canada. [Table 14-10-0023-01 Labour force characteristics by industry, annual.](#)

Government of Ontario: 2022 Ontario Budget (April 28, 2022)

FAP Projection: Spring 2022 Economic and Budget Outlook (April 12, 2022)



**Figure 6. Pre-Pandemic Employment Growth vs. Current Government of Ontario and FAO Forecasts**

Sources: Historical data: Statistics Canada. [Table 14-10-0023-01 Labour force characteristics by industry, annual.](#)

Government of Ontario: 2022 Ontario Budget (April 28, 2022)

FAP Projection: Spring 2022 Economic and Budget Outlook (April 12, 2022)

### Thinking Questions

1. What can the university do to leverage the funding available for manufacturing and agri-food processing?
2. How can the university play an integral role in the development of enhanced hospital infrastructure in our region?