TD Economics

February 27, 2015

Data Release: Solid federal revenue gains in Q4 could be the calm before the storm

- In the first three quarters of the 2014-15 fiscal year, federal revenues posted a 3.8% advance over the same period a year earlier. While revenue gains were broad based, reflecting the solid performance in the Canadian economy over this period, the strength can largely be chalked up to corporate income tax (+10.6%) and personal income tax revenues (+2.1%).
- In contrast, program expenses fell 1.9% over the same period (to $177.8 billion), with increased spending on transfers to persons (+2.8%) and other levels of government (+4.2%) being more than offset by lower direct program expenses (-8.5%). Public debt charges (-2.1%) also fell relative to the prior fiscal year.
- The budget deficit posted in the first three quarter of fiscal 2014-15 was about $0.9 billion, a dramatic improvement over the $12.2 billion deficit incurred over the same period in the prior fiscal year.

Key Implications

- All told, the federal government's numbers looked very healthy in the first three quarters of the 2014-15 fiscal year. This puts the shortfall in the current fiscal year on track to come in better than the $2.9 billion deficit projected in the Fall Update.
- What has yet to be seen is how big a drag falling oil prices will be on revenues in final fiscal quarter of 2014-15 and beyond, when the negative impact on nominal GDP – the broadest measure of the tax base – is expected to be particularly vivid. Weaker-than-expected revenue growth through 2015 (relative to the Fall Update) is likely, as lower oil prices put downward pressure on revenues through weaker corporate profits, business investment, employment, and incomes (see January 2015 Canadian Economic Forecast Update). Indeed, it is the uncertainty around these impacts that led the federal government to delay the release of Budget 2015 until at least April.
- Despite this uncertainty, we continue to expect that the federal government will meet its commitment to return to surplus in the 2015-16 fiscal year.

Randall Bartlett, CFA, Senior Economist
416-944-5729