

# OBSERVATION

## TD Economics



May 6, 2015

### ALBERTA CATCHES THE ORANGE WAVE

- The Alberta New Democratic Party (NDP), led by Rachel Notley, won 53 seats – representing a majority of the 87 seats in the legislative assembly. The Wildrose Party will form the official opposition party, with 21 seats. The Progressive Conservative Party (PC) won 10 seats. The Alberta Liberal Party and Alberta Party will complete the legislative assembly with one seat each. One riding remained tied at the time of writing.
- The NDP will table a new budget in the coming months. While much can change before the budget is tabled, the NDP election platform does provide a good sense of the key elements. The NDP's platform differs from the recently released 2015 Budget of the former governing PCs, with modestly higher spending and revenue intake over the next five years. Furthermore, it envisages a balanced budget one year later than the previous government's plan (See Tables 1 and 2).
- The platform highlights that total expenditures will be boosted by a cumulative \$12 billion over the next five fiscal years relative to Budget 2015. This includes \$8.7 billion in increased funding under the health care envelope. Investments will also be targeted to reduce class sizes and address the growing K-12 system. The NDP will phase-in \$25-a-day child care "as Alberta's finances permit" and plan to introduce a Job Creator's Tax Credit.
- The health care levy introduced in Budget 2015 will be reversed. The levy was estimated to generate a cumulative \$2.6 billion in revenues over the next five years. This negative impact on revenues will be more than made up by other tax changes. The platform calls for income taxes to become more

**Table 1: NDP Election Platform**

\$ billions	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Revenue</b>	44.742	46.643	50.64	53.228	55.481
<i>% change</i>	-8.6	4.2	8.6	5.1	4.2
<b>Expenditure</b>	50.139	50.965	51.81	53.203	54.895
<i>% change</i>	2.9	1.6	1.7	2.7	3.2
<b>Surplus/Deficit</b>	-5.397	-4.322	-1.17	0.025	0.586

Source: NDP Election Platform 2015 and TD Economics.

Note: Fiscal 2014-15 estimates are assumed to match Budget 2015.

**Table 2: Budget 2015**

\$ billions	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Revenue</b>	43.397	45.828	49.827	52.394	54.407
<i>% change</i>	-11.4	5.6	8.7	5.2	3.8
<b>Expenditure</b>	48.388	48.875	49.118	50.684	51.919
<i>% change</i>	-0.7	1.0	0.5	3.2	2.4
<b>Surplus/Deficit</b>	-4.991	-3.047	0.709	1.71	2.488

Source: 2015 Alberta Budget

progressive, with the top 10% of tax filers contributing more to fiscal coffers. Corporate income taxes will also be raised by 2 percentage points to 12%. While this would no longer make Alberta's corporate income tax rate the lowest in Canada, it would still keep it in line with the other Prairie provinces (see Table 3). The small business tax rate will be retained and there will be no provincial sales tax.

- The NDP have also committed to increase the minimum wage to \$15 per hour, from the current \$10.20 per hour by 2018.
- The NDP will establish a Resource Owners' Rights Commission to research measures to promote greater processing/upgrading of Alberta's energy resources and ensure royalty rates are "realistic and competitive". The Commission will report back to legislature regarding its findings within six months and act on recommendations within the first year of the next term in Legislature. The platform also commits to ensuring that 100% of incremental royalty revenue above the sums earned under the current regime will be invested into the Heritage Fund.

Table 3: General Corporation Income Tax Rate by Province	
British Columbia	11.0
Alberta*	12.0
Saskatchewan	12.0
Manitoba	12.0
Ontario	11.5
Quebec	11.9
New Brunswick	12.0
Nova Scotia	16.0
Prince Edward Island	16.0
Newfoundland and Labrador	14.0
*As per the NDP platform.	
Source: KPMG March 31, 2015 and NDP Election Platform.	

#### Bottom line

- TD Economics currently forecasts economic activity to grind to a virtual standstill this year, as the impact of last fall's plunge in oil prices ripples through the economy. Real GDP growth in Alberta is expected to advance by a tepid 0.5% in 2015, before a moderate oil price recovery yields somewhat more respectable economic growth of 1.8% in 2016.
- There will continue to be concerns surrounding the impact of higher corporate income tax rates, boost in the minimum wage and other policies on Alberta's economy. However, we are not inclined to change our economic forecast based on yesterday's election result. The most important driver of Alberta's prospects remains the price of oil. And, with WTI prices likely to gradually strengthen over the course of 2015-16, Alberta's economic fortunes are expected to follow suit. Furthermore, despite changes to the balanced budget path, the projected trajectory of revenues and spending are not dramatically different from the Budget 2015 forecast over the course of the 5-year fiscal plan.
- That said, much will depend on the ultimate mix of policies undertaken and the speed to which uncertainty is addressed. In addition to higher corporate tax rates, uncertainty surrounding the proposed oil and gas royalty drove the energy sub-index of the TSX down by about 2% in knee-jerk fashion in today's trading. Indeed, a change in royalty rates could impact investment decisions by firms in the oil sands. In that vein, it should be noted that the NDP has acknowledged that one outcome from the review could be that the current system is competitive and requires no changes.

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.