
FALL 2015 FEDERAL FISCAL AND ECONOMIC UPDATE

TD Economics



November 20, 2015

SLOWING GROWTH TO HIT FEDERAL COFFERS

Highlights

- Federal Finance Minister Bill Morneau provided an update this morning of the government's view on the economic and fiscal outlook for Canada.
- The near-term outlook for both growth and commodity prices have deteriorated markedly since the previous government presented its budget in April of this year.
- Real output growth is expected to come in at 1.2% this year, and 2.0% next, a downward revision of 0.8 and 0.2 percentage points respectively, relative to the April budget. More importantly for government revenues, nominal growth has been revised down by approximately 0.8 percentage points for both 2016 and 2017.
- Partially offsetting weaker growth, financing costs have also dropped, and are expected to remain lower over the full course of the current government's mandate.
- Still, the weaker economic outlook is expected to result in a deterioration in future budget balances of about \$6.0 billion (0.4% of GDP). This translates into a \$3.0 billion deficit for fiscal year 2015-16, and a \$3.9 billion deficit in 2017-18 (0.2% of GDP). A modest surplus of \$1.7 billion (about 0.1% of GDP) is expected for fiscal 2019-20, four years later than expected in the April budget.
- As a precautionary measure, and consistent with the previous government's approach, nominal GDP assumptions have been marked down by \$10 billion in 2015 and \$20 billion thereafter, relative to the private sector forecasts used in the outlook. This creates a 'buffer' for planning purposes to help account for the uncertainty inherent in forecasting.
- The figures reported today reflect the impact of the economic outlook on 'business as usual' government revenue and spending; in other words, election promises including infrastructure spending and tax reform are not included in these budget projections.

Key Implications

- With the deterioration in the economic outlook since the spring, it was to be expected that the new government would want to provide an update to how they see growth evolving, and how the outlook feeds through to government finances.
- There were no major surprises to be found in the updated economic outlook. The government's view of near-term growth is roughly in line with our own. From 2017 on however, the growth estimates used appear somewhat optimistic compared with our outlook, as growth remains above our estimate of potential through 2019.
- With a weaker economic outlook comes a weaker budget balance. Unsurprisingly, deficits are now considered the 'baseline' over which the government will lay its new fiscal plans. That said, in the context of a nearly \$2 trillion economy, these deficits are extremely small. Assuming that budget deficits of \$10 billion (as promised in the Liberal platform) will be completely additional to today's starting point, near-term deficits of between \$13 billion and \$14 billion can be expected when Budget 2016 is announced. At approximately 0.7% of GDP, these deficits appear manageable.
- Although firm numbers will not be available until Budget 2016 is released, Liberal platform promises, particularly for infrastructure spending, should help to boost near-term growth, reducing the fiscal impact of budgets somewhat. Based on currently available information, we expect this spending to boost 2016 and 2017 GDP growth by as much as 0.1 and 0.3 percentage points respectively.

Table 1: Economic Assumptions for Canada					
Annual, percent change (unless otherwise indicated)					
Calendar Year	2015	2016	2017	2018	2019
Real GDP					
April 2015 Budget	2.0	2.2	2.3	2.2	2.0
November 2015 Update	1.2	2.0	2.2	2.2	2.0
TD Economics Nov 2015	1.2	2.0	1.9	1.9	1.8
Nominal GDP					
April 2015 Budget	1.6	4.9	4.7	4.3	4.2
November 2015 Update	0.9	4.1	4.6	4.4	4.2
TD Economics Nov 2015	0.5	4.5	4.2	3.9	4.4
Nominal GDP (\$ billion)					
April 2015 Budget	2,007	2,105	2,203	2,298	2,395
November 2015 Update	1,993	2,091	2,171	2,266	2,362
TD Economics Nov 2015	1,986	2,075	2,162	2,247	2,346
3-Month T-Bill Rate					
April 2015 Budget	0.6	1.0	2.0	2.7	3.0
November 2015 Update	0.5	0.6	1.3	2.1	2.7
TD Economics Nov 2015	0.5	0.5	0.9	2.0	2.8
10-Year Gov't Bond Yield					
April 2015 Budget	1.7	2.5	3.2	3.7	3.9
November 2015 Update	1.5	2.1	2.8	3.3	3.6
TD Economics Nov 2015	1.6	2.0	2.4	2.9	3.2

Sources: Department of Finance Canada, Statistics Canada, Bank of Canada.

Table 2: November 2015 Federal Fiscal Update Forecast Summary					
(C\$ billion, unless otherwise specified)					
	2015-16	2016-17	2017-18	2018-19	2019-20
Budgetary Revenues	288.4	298.2	309.0	322.6	336.8
Program Expenses	265.5	276.3	284.3	294.4	303.4
Public Debt Charges	25.9	25.9	27.2	29.6	31.7
Total Expenses	291.4	302.2	311.4	324.0	335.0
Budgetary Balance	-3.0	-3.9	-2.4	-1.4	1.7
Federal Debt	616.5	620.4	622.8	624.2	622.5
Per cent of GDP					
Budgetary Revenues	14.5	14.5	14.4	14.4	14.4
Program Expenses	13.4	13.4	13.2	13.1	13.0
Public Debt Charges	1.3	1.3	1.3	1.3	1.4
Budgetary Balance	-0.2	-0.2	-0.1	-0.1	0.1
Federal Debt	31.1	30.2	29.0	27.8	26.6

Source: Department of Finance Canada.

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