



TD Economics

Special Report

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DOWNWARD REVISIONS TO TD'S ECONOMIC FORECAST IMPLY LARGER FEDERAL BUDGET DEFICITS

Last Thursday, TD Economics released an updated Quarterly Economic Forecast, which featured significantly lower nominal GDP and real GDP than the assumptions used by the Department of Finance in the January 27th budget. We have not carried out a detailed forecast. Nevertheless, one can get an idea of the impact on federal coffers that our economic assumptions might make over the next two years by carrying out some simple calculations.

First, we took the difference in nominal GDP and multiplied it by the average effective tax rate (i.e., the federal revenue to GDP ratio). This ratio currently sits at around 14.5%. Then we added to the count an estimate of the impact of higher Employment Insurance (EI) costs. Keep in mind that the federal government froze EI premiums in 2009 and 2010, so we did not offset this expenditure by a higher program intake.

Finally, we added these impacts to the deficits projected in the January 2009 budget. The result is all-time high deficit of \$39.2 billion in fiscal 2009-10 and \$42.3 billion in fiscal 2010-11, well above the red ink of \$33.7 billion and \$29.8 billion shown in the budget. Still, as a share of GDP, the budget shortfalls will be considerably lower than the 5-8% levels recorded during the 1980s and early 1990s. In addition, while the debt-to-GDP ratio will rise more steeply

BUDGETARY IMPACT OF REVISED TD FORECAST		
	2009	2010
Real GDP Growth		
TD Economics	-2.4	1.3
Budget	-0.8	2.4
Nominal GDP Growth		
TD Economics	-4.5	1.7
Budget	-2.7	4.3
Level of Nominal GDP (\$bn)		
TD Economics	1,529	1,555
Budget	1,560	1,627
Difference	-31	-72
Impact on Revenue ¹ (\$bn)	-4.5	-10.5
E.I. Cost Increase (\$bn)	-1.0	-2.0
Total Impact on FY Balance (\$bn)	-5.5	-12.5
¹ Calculated at 14.5% effective tax rate		
Source: TD Economics, Dept. of Finance Canada		

than the 32.1% projection for fiscal 2010-11 presented in the budget, it will remain well below the peak of close to 70% reached in 1995-96.

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IMPACT OF TD ECONOMICS ASSUMPTIONS ON THE FEDERAL GOVERNMENT FISCAL POSITION

(C\$ billions, unless otherwise indicated)

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est.	TD Projection	
Fiscal Year	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11
Budgetary balance	19.9	8.0	6.6	9.1	1.5	13.2	13.8	9.6	-1.1	-39.2	-42.3
% of GDP	1.8	0.7	0.6	0.8	0.1	1.0	0.9	0.6	-0.1	-2.6	-2.7
Federal debt*	520.0	511.9	505.3	496.2	494.7	481.5	467.3	457.6	458.7	497.9	540.2
% of GDP	48.3	46.2	43.8	40.9	38.3	35.1	32.2	29.8	28.6	32.6	34.7

* Accumulated deficits. Source: Department of Finance Canada; Forecast for 09-10 and 10-11 is based on TD Economics assumptions

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