

## 2012 Budget Breakfast

March 30, 2012



## Some Macro-Level Economic Trends Affecting Canada

Continued rise of emerging markets in the world economy (they will soon account for half of global output)

Increased importance of Asia – in terms of production, as an import market, and as a source of investment, innovation and global-scale companies

Expectation of a period of subdued economic growth for most advanced economies, weighed down by debt, unfavorable demographics and skills mismatches

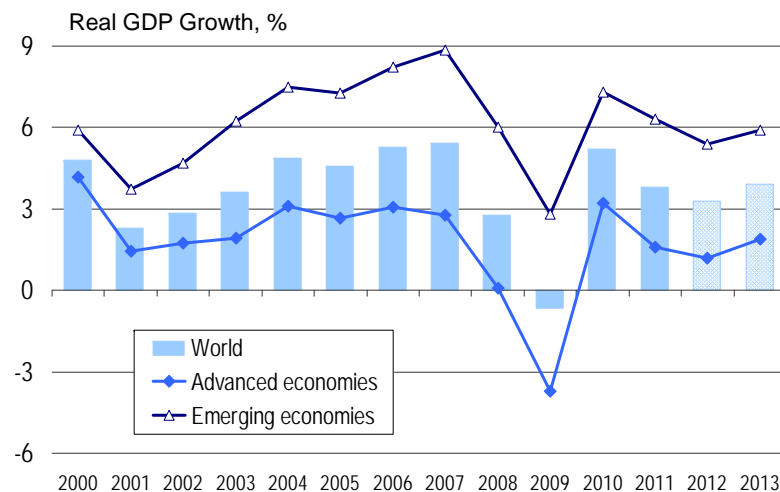
A long global up-cycle for many commodities and resource-based goods

*McKinsey Global Institute\**: "...the rise of 3 billion more middle class consumers [by 2030] will strain natural resources. The race is on to boost resource supplies, overhaul their management, and change the game with new technologies."

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## Global Growth Slowing



Source: IMF.

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## World Economic Forecast – Downgraded (per cent change in real GDP)

	2010	2011	2012f	2013f
US	3.0	1.7	<b>2.2</b>	2.4
Euro area	1.9	1.7	<b>-0.5</b>	1.2
Japan	4.4	-0.7	<b>1.6</b>	1.8
China	10.3	9.3	<b>7.7</b>	7.8
<i>World</i>	<i>5.0</i>	<i>3.7</i>	<i><b>3.1</b></i>	<i>3.6</i>

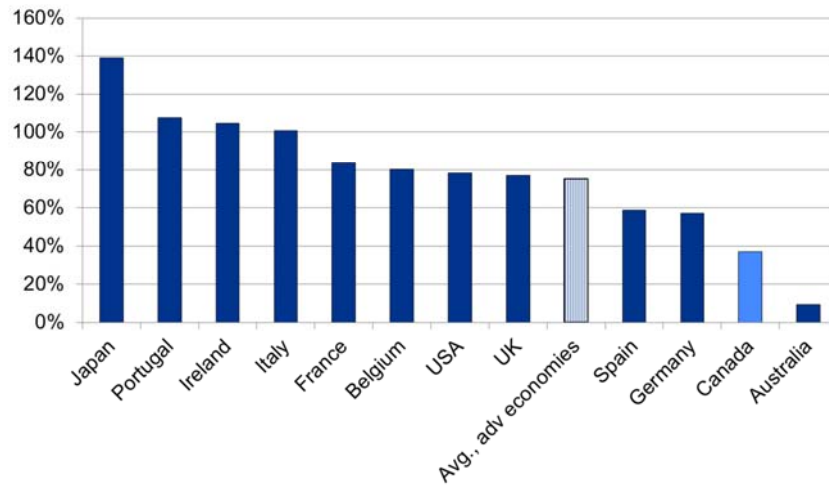
Source: TD Economics (March 19, 2012)

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f = forecast

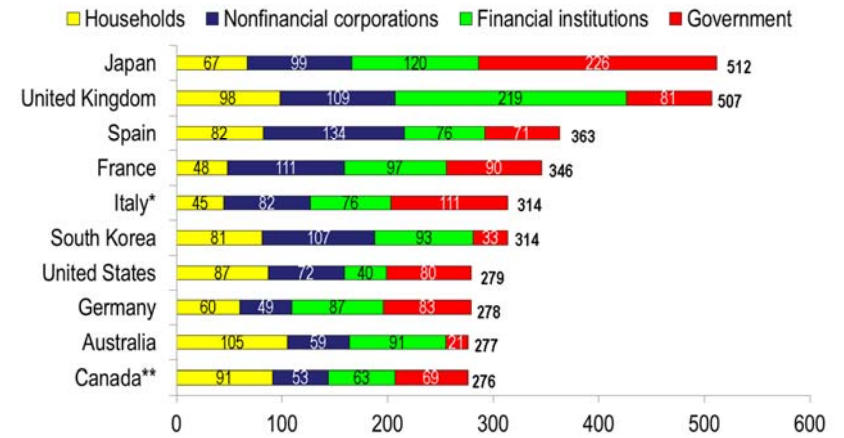
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## Comparing Government Debt Burdens: Canada's Advantage (total public sector net debt as % of gross domestic product, 2011-12 estimates)



Source: IMF, 2011.

## Composition of Economy-Wide Debt Varies Across Countries (total debt of largest mature economies, 2011 estimates, % of GDP)



\* Q1 2011 data. \*\* According to Canada's national accounts, "household" sector includes nonfinancial, non-corporate business.

Source: McKinsey Global Institute.

## The Budget's Economic Assumptions for Canada

	2011	2012	2013	2014
Real GDP Growth	2.5%	2.1%	2.4%	2.4%
Nominal GDP Growth	5.8%	4.6%	4.4%	4.6%
CPI Inflation rate	2.9%	2.1%	2.0%	2.0%
Unemployment rate	7.4%	7.5%	7.2%	6.9%
3-month T-bill rate	0.9%	0.9%	1.3%	2.2%
10-yr gov't bond rate	2.8%	2.2%	2.8%	3.6%
Exchange rate (US cents/C\$)	101.1	99.6	101.8	101.1

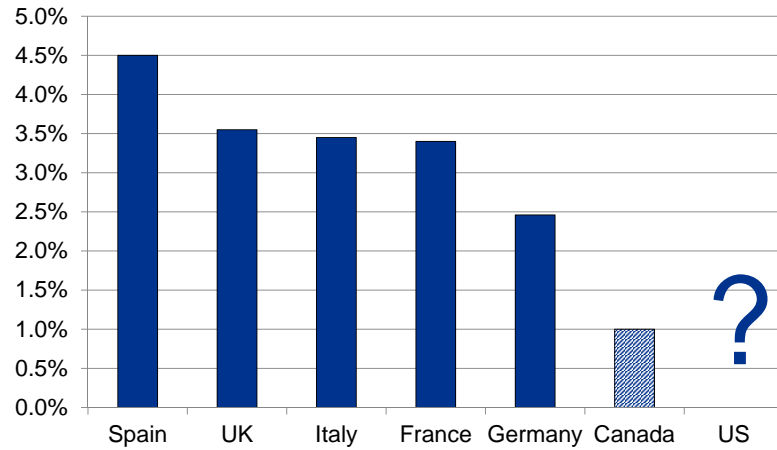
Source: Federal Budget 2012, p. 43.

## Updated Federal Fiscal Outlook (C\$ billions)

	2011/12	2012/13	2013/14	2014/15
Revenues	248	255	270.4	285.6
Expenditures	272.9	276.1	280.6	286.9
Program Spending	241.9	245.3	249.5	253.9
Public Debt Charges	31	30.8	31.1	33.0
Budgetary Balance	- 24.9	- 21.1	- 10.2	- 1.3
Net Federal Debt	581	602	612	614

Source: Budget 2012, p. 238.

## A Very Modest Decline in Program Spending is Planned (change in program spending as share of GDP, 2011-2015)



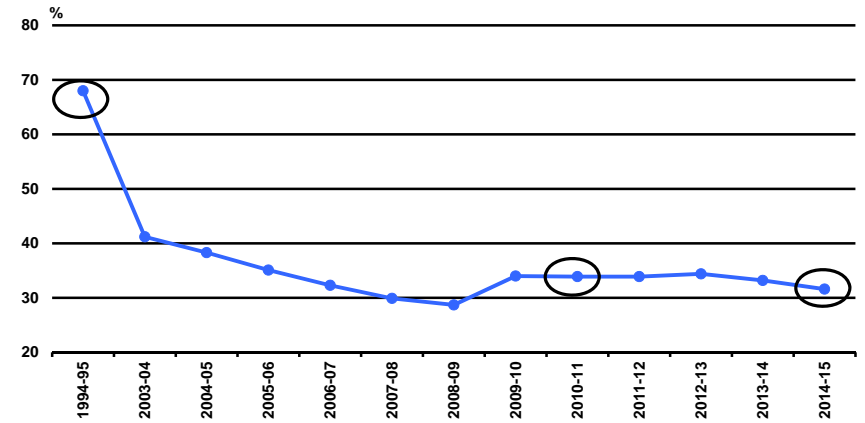
Source: Federal Budget 2012, p. 215.

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## Federal Debt Remains Low as a Share of GDP

Federal Debt as a Share of GDP



Source: Department of Finance.

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## Economic Policy: Some Key Budget Themes

**Maintain *fiscal prudence*; slowly *shrink government* following the recent recession-driven expansion**

**Focus on *natural resource development* – streamline/overhaul federal environmental laws and approval processes (few details provided), reinforce role of Major Projects Management Office**

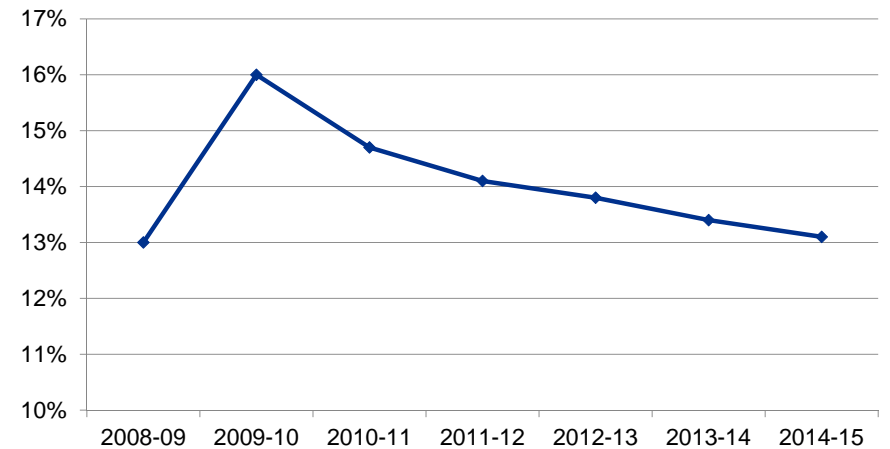
### Enhance *competitiveness*

- Maintain low corporate tax rates
- No tax rate increases
- Pursue new trade agreements
- Canada-US "Beyond the Border" initiative
- Red Tape Commission recommendations

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## Federal Program Spending as Share of GDP



Source: TD Economics.

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## Economic Policy: Some Key Budget Themes

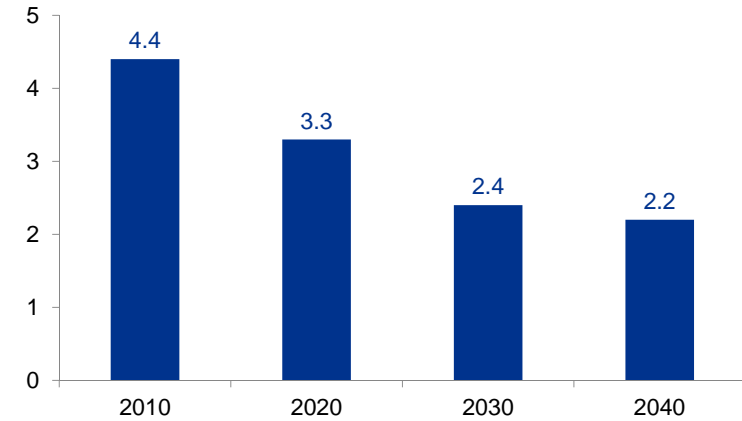
**Jobs and human capital** – extend hiring tax credit for small business; limit future increases in EI premiums; better align immigration policy with labour market needs and reduce delays

### **Innovation, productivity and research**

- Revamp Ottawa's support for business research/commercialization – a significant shift from “indirect” to “direct” programs
- Boost venture capital for innovative early-stage firms (\$500 million)
- Increase funding for Canada Foundation for Innovation (infrastructure)
- Extend/expand Canadian Innovation Commercialization Program
- Selectively increase funding for research granting councils

**Preparing for population aging** – (very) gradual increase in OAS eligibility age to 67; optional deferred take-up of OAS benefits; modify federal employee pension plans

## Number of Workers per Canadian Senior Set to Fall



Source: Federal Budget 2012, p. 195.

## Budget Items of Particular Note for British Columbia

**Modernize regulatory system for resource project reviews**

**Extend mineral exploration tax credit for one year**

**Immigration policy changes affecting skilled workers and temporary foreign workers**

**Renew Canadian Coast Guard Fleet. Modernize Esquimalt Graving Dock (\$100 million)**

**Western Economic Diversification – new regional innovation program**

**\$330 million over two years to build/renovate water infrastructure on aboriginal reserves**

**Additional support for forest sector innovation and market development**

## BC Economy

**Modest growth in store for 2012, similar to last year**

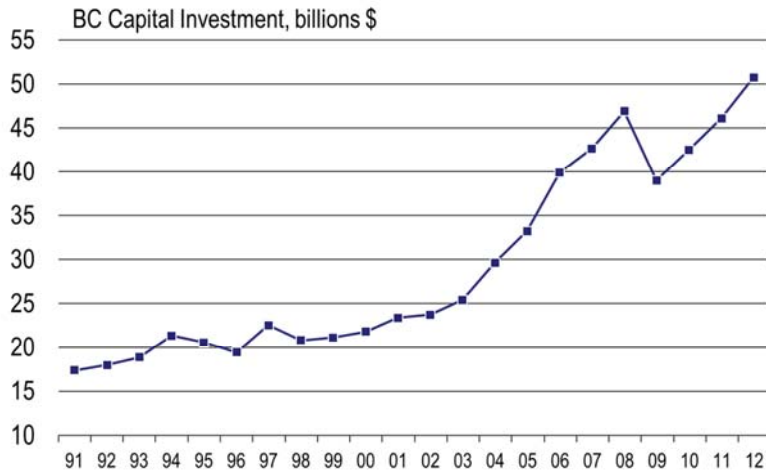
**Exports relatively buoyant; domestic spending somewhat weaker**

**Solid gains in investment expected going forward**

**Northern economic renaissance**

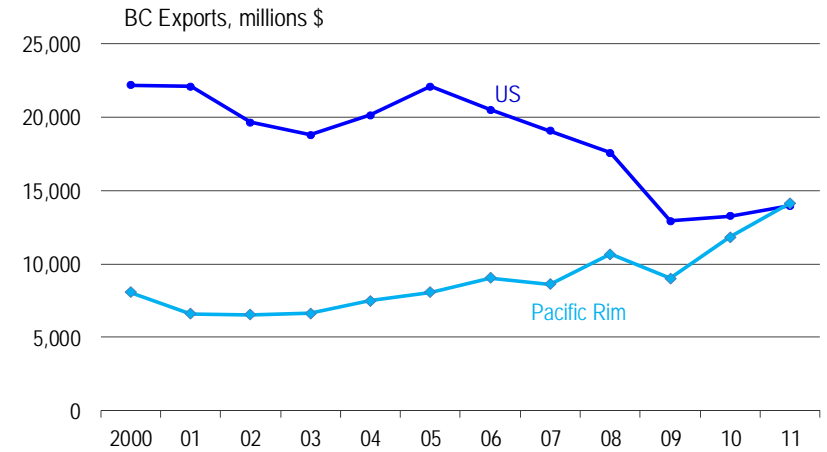
**Note: nothing in the 2012 federal budget that causes us to change our BC forecast**

## Total BC Capital Spending to Exceed \$50 billion



Source: Statistics Canada, Public and Private Investment Intentions.

## BC Exports to Pacific Rim Now Equal to US



Source: BC Stats.

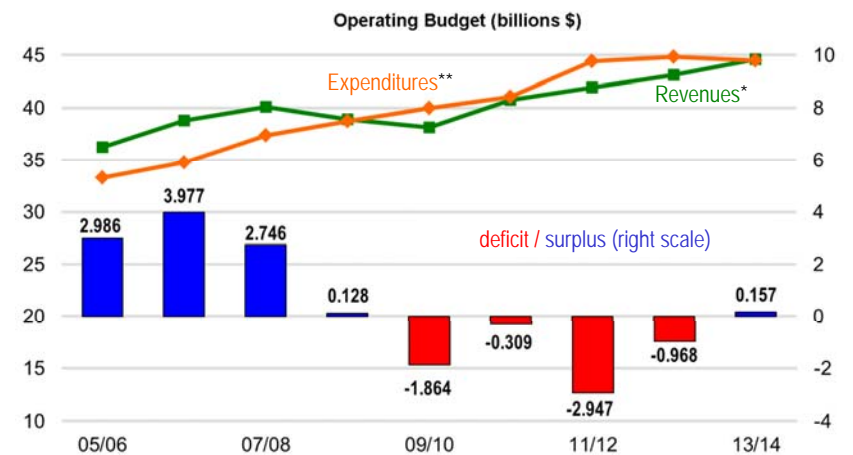
## BC Economic Outlook (annual per cent change unless otherwise indicated)

	2011a	2012f	2013f
Real GDP	2.0e	2.0	2.6
Employment	0.8	1.4	1.6
Unemployment rate (%)	7.5	7.4	6.6
Housing starts (000s units)	25.5	25.0	25.0
Retail sales	2.1	3.5	4.5
BC CPI	2.3	2.0	2.1

a – actual f – forecast e – estimate

Source: Statistics Canada and BC Stats; Business Council for forecasts.

## Updated BC Fiscal Picture

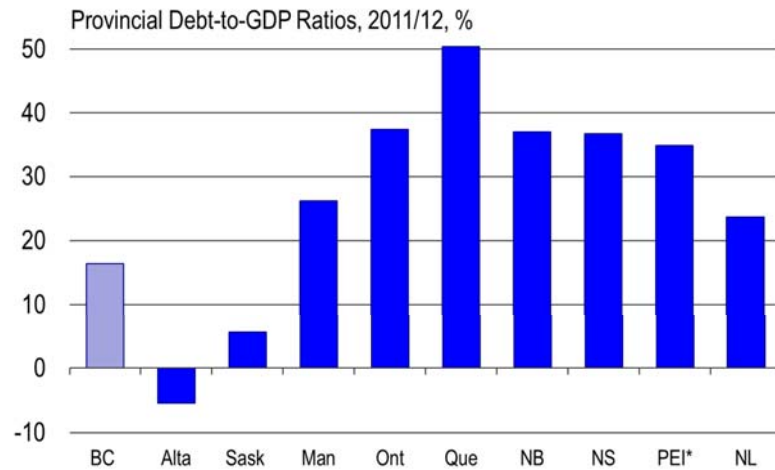


\* Revenues include net earnings of Crown corporations

\*\* Includes forecast allowance, negotiating incentive payments and (in 2011-12) return of HST transition funding.

Source: 2012 BC Budget.

## Comparatively Low Provincial Net Debt in BC



Source: RBC Fiscal Reference Tables.

\*PEI 2010/11 ratio

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## Keeping BC Competitive in a Post-HST World

Maintain low corporate tax rates

Streamline/simplify PST administration – to reduce compliance costs

As fiscal circumstances allow, expand PST exemptions for business inputs, with a focus on inputs that drive investment and productivity (M&E in all industries, transport., structures, software, ICT services)

Examine scope to deploy new tax incentives aimed at boosting productivity-enhancing investments

Assess proposed government policies and regulations through a competitiveness lens, to ensure that provincial decision-makers have good information and to better control 'public sector cost creep'

Overhaul the regime governing municipal property taxation to improve equity between residential/business property owners

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# Thank you

Presentation by

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