

Ontario's Economy
Jobs and Growth

THE ONTARIO ECONOMY

Ontario Economy at a Glance				
(Per Cent)				
	1995	1996	1997	1998
Real GDP Growth	2.5	1.9	2.8	3.0
CPI Inflation	2.4	1.4	1.6	1.8
Job Growth	1.4	1.5	1.9	2.0

Source: Ontario Ministry of Finance projections

ONTARIO ECONOMY 1996-1998

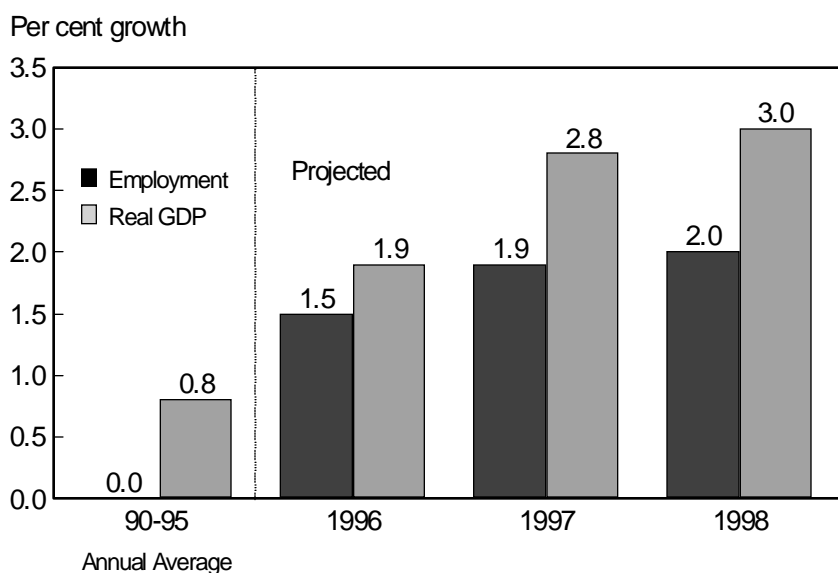
Highlights

To ensure that the deficit and other fiscal targets set out in this Budget are realistic and achievable, prudent assumptions have been used to develop a cautious economic forecast. Ontario's real Gross Domestic Product (GDP) is projected to grow by 1.9 per cent in 1996, 2.8 per cent in 1997 and 3.0 per cent in 1998.

- ◆ Consumer spending will strengthen as income tax cuts boost consumer confidence and put money back into the pockets of the people of Ontario.
- ◆ Small business is expected to create the lion's share of new jobs, spurred by income tax cuts, the elimination of the Employer Health payroll tax on the first \$400,000 of payroll, and a much improved business climate.
- ◆ The housing market is reviving with improved affordability and renewed confidence.
- ◆ Export-oriented sectors will continue to lead growth, reflecting Ontario's improved competitive position.
- ◆ Investment spending, particularly for machinery and equipment, will remain strong as firms reinvest profits to improve their global competitiveness.

***Steady, solid
growth
projected***

Steady, Solid Growth



Sources: Statistics Canada and Ontario Ministry of Finance.

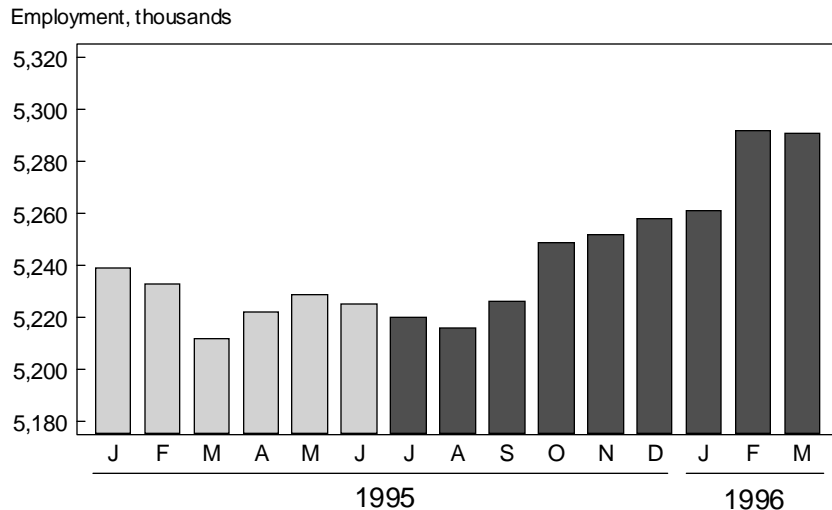
Private sector has created nearly four new jobs for every job lost in the public sector

More Growth and Jobs

Ontario's economy is beginning to reflect a renewed level of confidence. Ontario's economy rebounded sharply in the second half of 1995, with real GDP up 5.0 per cent in the third quarter, and 2.7 per cent in the fourth quarter of 1995. GDP growth in the second half of 1995 was more than three times the growth in Canada. Recent data show continued economic growth in Ontario in 1996.

- ◆ Between June 1995 and March 1996, the private sector created 90,000 jobs. In other words, the private sector has created nearly four new jobs for every job lost in the public sector.
- ◆ Ontario consumer confidence rose 3.1 per cent in the first quarter of 1996. Toronto-area home sales rose 70 per cent in March from last year's low level.
- ◆ Ontario's merchandise exports were up 3.8 per cent in January and February from a year ago, despite temporary auto plant closures for inventory correction. Machinery and equipment export sales accounted for most of the gain, increasing by 8.0 per cent.
- ◆ Canadian business confidence rose 1.7 per cent in the first quarter of 1996. According to the Conference Board business confidence survey, 53.9 per cent of Canadian businesses consider Ontario the best province in which to invest.

Job Creation Accelerating



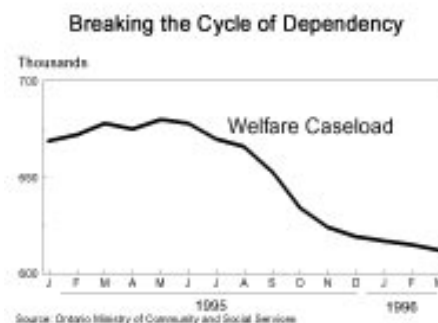
Source: Statistics Canada.

A Framework for Economic Growth

Cutting taxes, balancing the budget and making government more efficient and effective will restore consumer and business confidence and pave the way for further private-sector job creation.

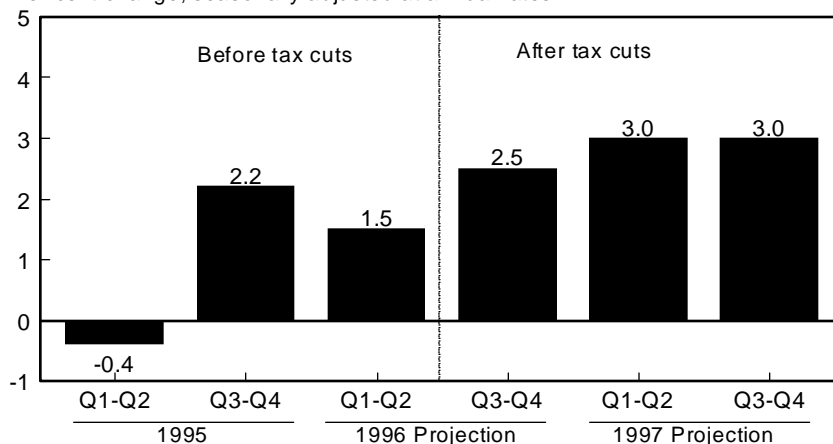
- ◆ Lower personal income taxes will encourage more investment and job creation, especially in Ontario's small business sector. A survey from the Canadian Federation of Independent Business found that the tax cut is key to increased hiring. When the tax cut is fully implemented, Ontario's top marginal personal income tax rate will be the second lowest in Canada. Budget Paper D discusses the link between tax cuts and job creation.
- ◆ Freezing the minimum wage, exempting the first \$400,000 of payroll from the Employer Health payroll tax and reducing workers' compensation premiums will cut mandatory payroll costs and create jobs.
- ◆ Reform of the social assistance system is helping people break the cycle of dependency, leading to more jobs and higher levels of income. The number of people on social assistance declined by 129,700 between June 1995 and March 1996, or 9.6 per cent. The welfare caseload dropped by 9.8 per cent during this period.
- ◆ With 90,000 new jobs created in the private sector from June to March, Ontarians who had stopped looking for work are resuming their job search. As a result, the participation rate has risen 0.7 percentage points since September 1995.

***Tax cuts
create jobs
and spur
growth***



Tax Cuts Will Spur Economic Growth

Real GDP Growth
Per cent change, seasonally adjusted at annual rates



Sources: Statistics Canada and Ontario Ministry of Finance.

Low interest rates reflect low inflation and declining government deficits

Interest Rates, Inflation and the Dollar

Declining government deficits and low inflation are leading to lower interest rates. Ontario's economy has contributed significantly to Canada's strong trade performance and this, coupled with low inflation, has allowed the dollar to strengthen.

- ◆ During the spring, short-term interest rates fell below U.S. rates. This was the first time that Canadian rates have been below U.S. rates on a sustained basis in more than a decade. However, to be prudent, the economic forecast included in this Budget assumes average Canadian short-term rates will be above U.S. rates.
- ◆ As investors become more confident in Canada's ability to maintain low inflation and in the durability of Canada's dramatically improved fiscal position, long-term interest rates should fall. However, to reflect prudence, both short- and long-term interest rates are assumed to be significantly higher than expected by the average private-sector forecast through the remainder of 1996 and all of 1997.
- ◆ Inflation in Ontario is projected to remain low, falling from 2.4 per cent in 1995 to 1.4 per cent in 1996 and averaging 1.7 per cent over the 1997 to 1998 period.
- ◆ Continued improvement in Canada's current account balance combined with low inflation should support a stronger dollar over the medium term.

Cautious Interest Rate Assumptions (per cent)

	1995a	1996	1997
3-month Canadian treasury bill rate			
Private-sector survey average	6.9	5.0	5.7
Ontario's prudent assumption	6.9	5.6	6.4
10-year government of Canada bond rate			
Private-sector survey average	8.1	7.6	7.7
Ontario's prudent assumption	8.1	8.2	8.6

a=actual

Sources: Bank of Canada, Ontario Ministry of Finance Survey of Financial Market Dealers April 30, and Ontario Ministry of Finance

Stronger Growth in Key Trading Partners

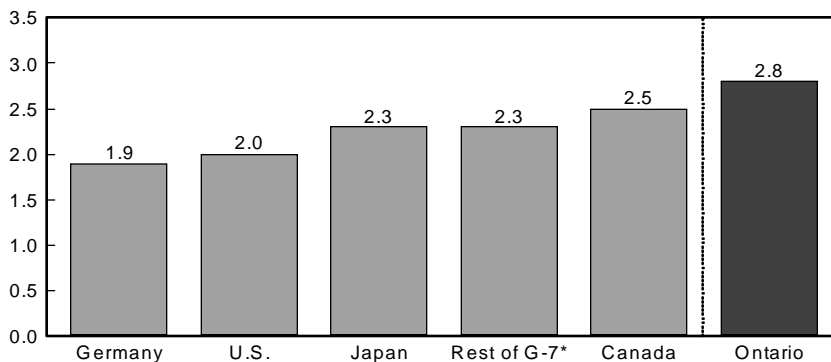
Continued economic growth in the United States and Ontario's strong competitive position support export growth. Ongoing growth in the rest of the G-7 will create a larger export market for Ontario goods and services.

- ◆ The United States is Ontario's most important export market, accounting for about 90 per cent of international exports. The average private-sector forecast for U.S. economic growth is 1.9 per cent in 1996, 2.1 per cent in 1997 and 1.9 per cent in 1998. Although the U.S. economy is currently near full capacity, this modest pace of growth is expected to keep inflationary pressures in check. This is consistent with the projection of moderate non-inflationary growth in Ontario.
- ◆ European growth is expected to pick up as recent lower interest rates boost domestic demand and business investment.
- ◆ The strong yen and continued economic restructuring, particularly in the financial industry, are expected to keep Japanese growth modest, with real GDP rising by an average 2.3 per cent over the 1996 to 1998 period.

**Private
sector
forecasts
renewed
global
growth**

Private Sector Expects Ontario Economy to Outpace G-7 Countries

1996-98, Average annual per cent growth



* Britain, France and Italy

Sources: *Consensus Forecasts*, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

***Autos and
high-tech
sector lead
growth***

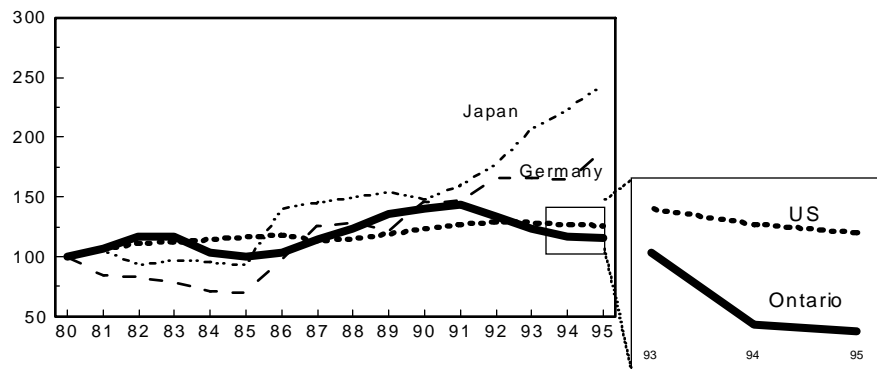
Exports Will Continue to Lead Growth

Ontario exports will continue to be a key source of growth over the next three years. Exports are expected to grow faster than overall GDP, supported by Ontario's highly productive manufacturing sector, modest growth in U.S. demand and a competitively priced Canadian dollar.

- ◆ Ontario's strong competitive position reflects lower labour costs, strong capital investment and a competitive exchange rate. Since 1991, Ontario's unit labour costs, measured in U.S. dollars, have fallen 19.2 per cent, compared to a 0.6 per cent decline in the U.S. and increases of 28.8 per cent in Germany and 52.8 per cent in Japan.
- ◆ Although North American auto sales are projected to grow marginally over the next few years, North American assemblers will build more of the vehicles sold here. In addition, auto exports to the rest of the world should strengthen as North American-made cars displace high-priced European and Japanese models. Ontario auto exports are projected to surpass last year's record-breaking level.
- ◆ The value of Ontario's computer hardware and software exports has nearly doubled over the last three years and telecommunications exports have risen by nearly 60 per cent. Worldwide exports of high-technology business equipment will remain strong.

Ontario's Manufacturing Competitiveness Improves as Unit Labour Costs Decline

Index of manufacturing unit labour costs
1980=100, US\$



Sources: U.S. Bureau of Labor Statistics, Statistics Canada and Ontario Ministry of Finance.

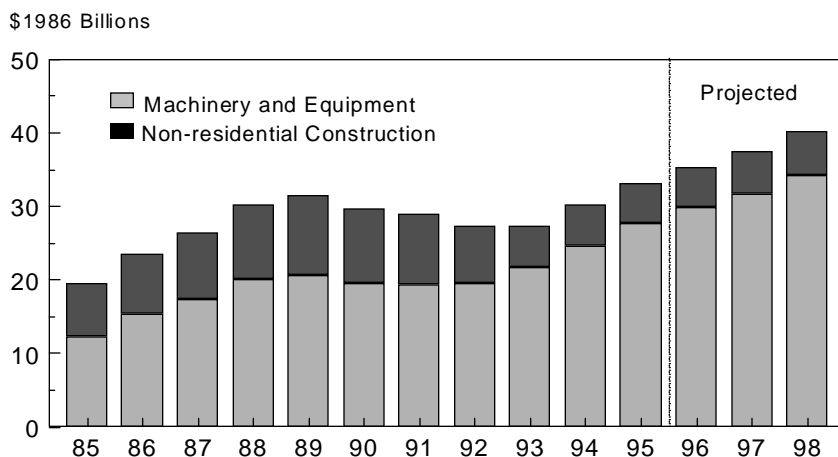
Strength in Business Investment

Total real business investment is expected to reach a record level of \$35.4 billion in 1996, and rise by an average annual rate of 6.6 per cent over the 1996 to 1998 period. This is much stronger than the first half of the 1990s when declines in plant construction led to an average annual decline of 0.8 per cent in total business investment.

- ◆ Investment in machinery and equipment is projected to rise by an average 7.3 per cent over the 1996 to 1998 period.
- ◆ Non-residential construction is projected to expand by an average 3.0 per cent per year over the 1996 to 1998 period, following six years of decline.
- ◆ According to Statistics Canada's investment intention survey, Ontario business investment in current dollars is expected to increase 3.7 per cent in 1996, compared to a 1.2 per cent decline for Canada as a whole.
- ◆ Ontario's investment is expected to be concentrated in the manufacturing and communications sectors, as growing firms invest in high-tech machinery and more modern industrial and commercial space. Major capital investments in mining and forest production are under way in Northern Ontario. (See map on the next page.)
- ◆ Strong profit growth will provide business with the cash flow necessary to finance their investments. Profits as a share of provincial income are projected to rise from 9.5 per cent in 1996 to 11.1 per cent in 1998. Excellent cost control, rising demand and Ontario's strong competitive position should support a sustained recovery in corporate profits.

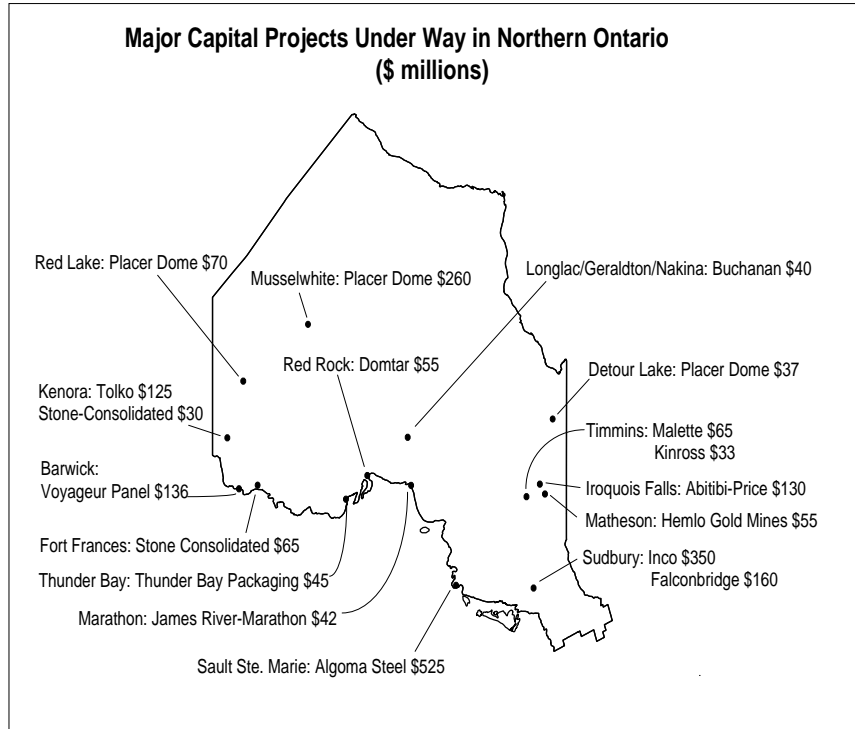
Investment gives business competitive advantage

Strong Growth in Ontario Investment

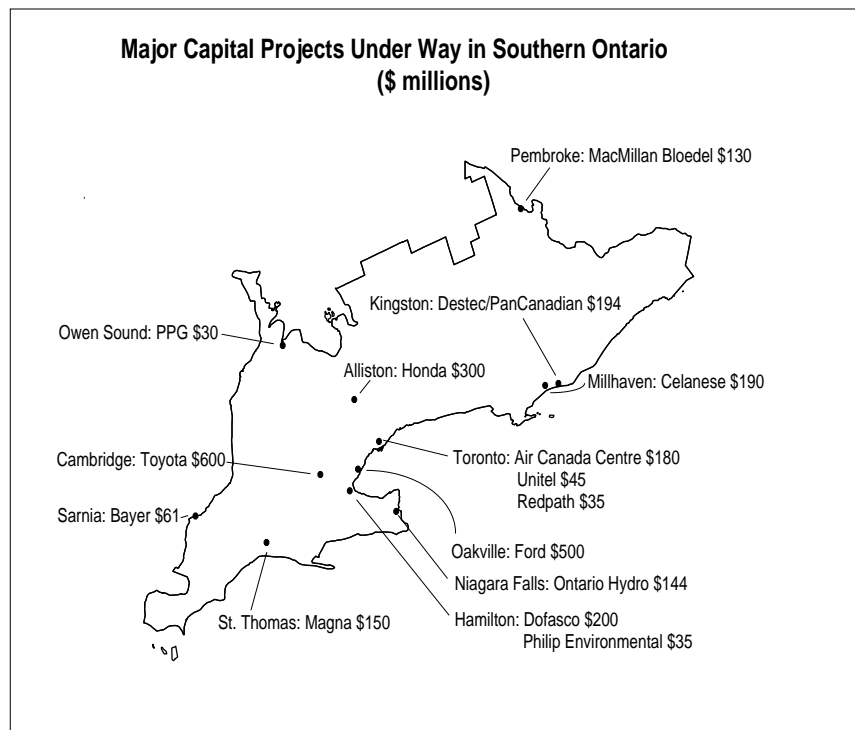


Sources: Statistics Canada and Ontario Ministry of Finance.

Over \$2 billion in major capital projects in the North...



... and nearly \$3 billion in the South



Small Business Sector

The small business sector is an important and dynamic sector of the economy. Businesses with fewer than 100 employees accounted for 96 per cent of the net job growth in the 1980s and for 31 per cent of the net job losses in the 1990 to 1993 period, the latest period for which data are available. Higher personal tax rates, the imposition of the Employer Health payroll tax and successive rounds of income tax hikes and minimum wage increases contributed to the poor performance in the early 1990s.

Lower taxes are particularly crucial to small business. These businesses often depend on the reinvested earnings of their owners for capital.

- ◆ A recent survey conducted by the Canadian Federation of Independent Business revealed that 80,000 small enterprises are ready to increase hiring plans as a direct result of Ontario's tax cuts.
- ◆ Lower personal taxes will contribute both to increased investment in existing business and higher business formation rates. The prospect of keeping a larger share of earnings will increase willingness to innovate and take risks.
- ◆ Small business will also benefit from the reduction in payroll taxes. Eliminating the Employer Health payroll tax on the first \$400,000 of payroll, freezing the minimum wage and reducing workers' compensation premiums will cut mandatory payroll costs.

***Small
business
leads job
creation***

Small Business Leads Job Creation

Ontario Net Job Creation by Firm Size



Note: The data cover the commercial sector only. This data source provides the best available breakdown of employment by firm size. Employment is based on a full-time equivalent measure that is calculated by dividing a firm's payroll by the average wage in its industry and employment size group. Self-employed people who are issued a T4 are included. Although the trends are similar, these numbers are not directly comparable to the Labour Force Survey, which counts full-time and part-time jobs equally (as one job) and all self-employed people.

Sources: Statistics Canada, Business and Labour Market Analysis Division, and Ontario Ministry of Finance

Tax cuts and job gains key to improving confidence

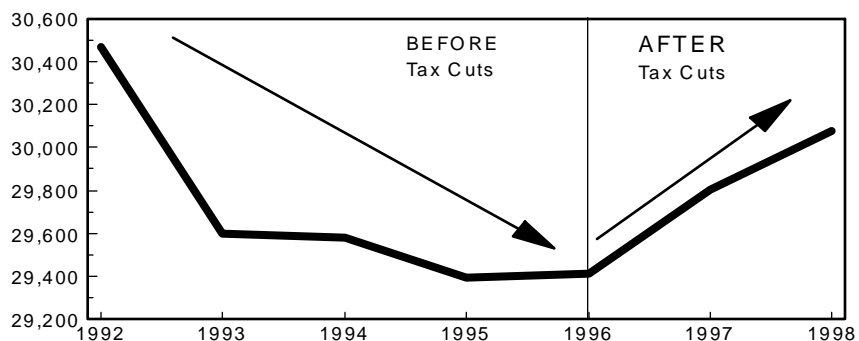
Consumer Spending Supported by Tax Cuts and Job Gains

Consumer spending is expected to revive with lower taxes, solid job gains and a rebound in consumer confidence.

- ◆ Real consumption is projected to rise by 1.2 per cent in 1996 and accelerate to an average 3.1 per cent in 1997 and 1998, about the same pace as real disposable income. A large portion of the rise in spending is directly attributable to the personal income tax cuts that boost disposable income.
- ◆ New jobs and wage gains will lead to stronger income growth. The improved economic climate has already generated a significant number of jobs. This trend is projected to continue, with employment rising by an average annual rate of 1.8 per cent over the 1996 to 1998 period. Average wages are projected to rise by an average 2.0 per cent per year, in line with the wage gain over the past three years.
- ◆ The savings rate is expected to average about 8.0 per cent over the 1996 to 1998 period, which means consumers will spend about 92 cents out of every after-tax dollar earned.
- ◆ Lower taxes and low interest rates will help people pay down their debts, further strengthening consumer confidence. Low interest rates reduce the monthly payments on consumer loans, easing the burden of high debt levels. According to the federal Department of Finance, the average interest rate on consumer debt in Canada fell to 10.6 per cent in the fourth quarter of 1995, down from a peak of 16.0 per cent in the third quarter of 1990.

Boost to Consumer Spending Through Tax Cuts and Job Gains

Real disposable income per worker, \$1986



Sources: Statistics Canada and Ontario Ministry of Finance.

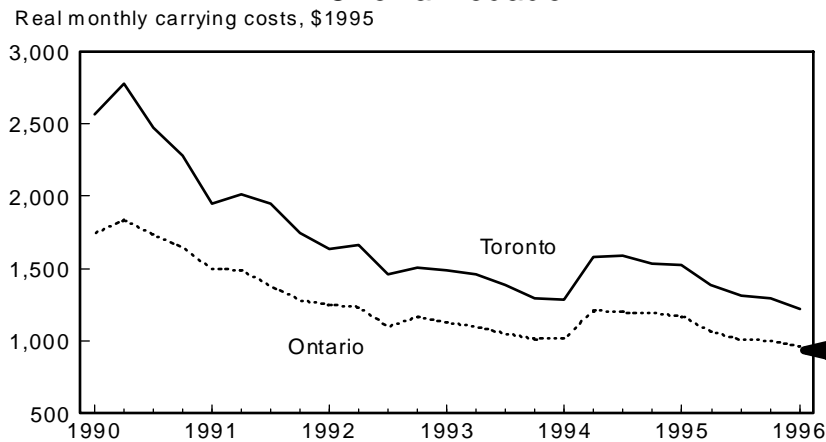
Housing Now More Affordable

Personal income tax cuts, improved affordability and solid job gains will help rebuild consumer confidence and encourage housing activity. These conditions will strengthen housing sales and starts over the next few years.

- ◆ There is significant pent-up demand for housing. Over the first half of the decade, housing starts averaged close to 50,000 per year, well below underlying demographic requirements.
- ◆ The Land Transfer Tax refund for new home purchases will help people buy their first home.
- ◆ According to Canada Mortgage and Housing Corporation, home ownership has never been more affordable with over 40 per cent of all renters able to afford a starter home — a new high.
- ◆ The drop in carrying costs reflects both lower interest rates and lower average home prices. Monthly carrying costs for an average home in Ontario in the first quarter of 1996 were \$962 — the lowest in over a decade in real terms.

Housing starts below requirements over last five years

Lowest Mortgage Carrying Costs in Over a Decade



Sources: Canadian Real Estate Association, Toronto Real Estate Board, Bank of Canada and Ontario Ministry of Finance.

Export sectors to lead growth

Domestic-oriented sectors continue recovery

Broad-based Growth for the Private Sector

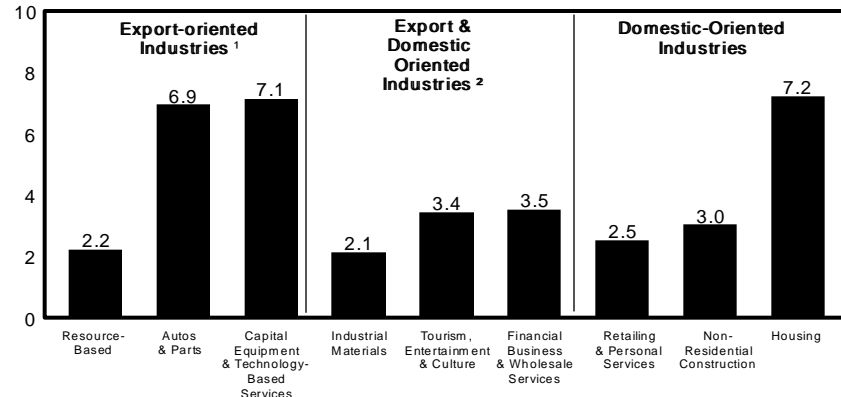
More balanced growth in demand throughout the economy is leading to sustained growth across a wide range of industrial sectors. Export-oriented sectors such as autos and capital equipment are continuing to gain market share in the United States. As a result, jobs will be created in manufacturing at a faster rate than in other sectors of the economy.

Production in sectors relying on both export and domestic markets, such as financial and business services, are growing steadily and constitute an important source of jobs. These service industries are also major exporters to other provinces and will benefit from their growth.

With higher consumer confidence, in part due to the income tax cut, sectors driven primarily by household spending – housing, retailing, leisure, entertainment and culture – are recovering. These household-related sectors are also returning as important sources of job creation.

Sectoral Real Output Growth 1996-1998

Average annual per cent change



¹ Export well over 50 per cent of their output internationally. Resource-based industries include mining and forest products but exclude agriculture because it depends largely on domestic demand.

² Rely mainly on domestic demand although some also export to other provinces and countries.
Sources: Statistics Canada and Ontario Ministry of Finance.

CONCLUSION

Positive Job Creation Outlook

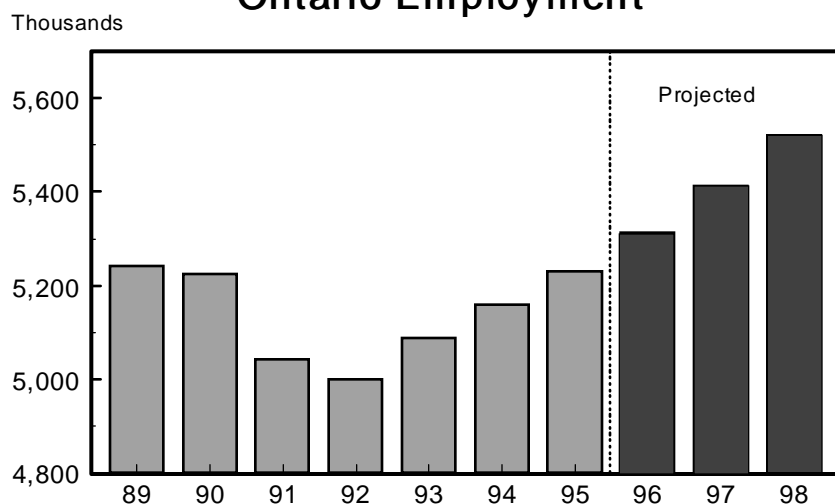
Steady economic growth will lead to solid job creation. Cutting income and payroll taxes, freezing the minimum wage, and cutting red tape are all measures designed to encourage initiative and job creation. Employment is projected to grow 1.5 per cent in 1996 and an average 1.9 per cent over 1997 and 1998.

- ◆ Ontario's economy is already seeing results: from June 1995 to March 1996 the Ontario economy has created 90,000 net new private-sector jobs.
- ◆ Industries providing good jobs at above-average wages will continue to lead job growth. For example, manufacturing and business services, such as advertising and computer services, are generating growing opportunities for high-skilled employment and accounted for three-quarters of the increase in private-sector jobs in 1995.

This projection of job creation, like other economic projections underlying the Ontario Budget, is intended to be a prudent planning assumption. The economy expanded at an annual rate of 0.8 per cent over the first half of the 1990s, well below Ontario's potential. This slow growth raised unemployment and created a huge pool of under-used capital. As a result, the Ontario economy has the capacity to grow significantly faster and create more jobs than the cautious projection in this Budget.

***Ontario's
economy
can create
more jobs***

Ontario Employment



Sources: Statistics Canada and Ontario Ministry of Finance.

**Projections
depend on
prudent
assumptions**

Sensitivity of Deficit to Changes in Economic Assumptions

This Budget presents prudent assumptions about interest rates and economic growth in order to develop a cautious fiscal projection. The following table indicates the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic benefit of lower interest rates on economic activity.

- ◆ The impact of a one percentage-point change in interest rates on PDI would be about \$60 million in the first year and about \$180 million in the second year. The low sensitivity of public debt interest payments to higher interest rates in 1996-97 reflects the fact that Ontario has already borrowed \$5 billion for the current fiscal year.

Impact of Assumptions on the Ontario Deficit (change from base level)

	Deficit (\$millions)	
	1996-97	1997-98
100 Basis Point Fall in Canadian Interest Rates	-60	-180
1 Percentage Point Increase in Real GDP Growth	-435	-880

*Note: Second-year figures are cumulative change from base level.

Source: Ontario Ministry of Finance

- ◆ Ontario's economic growth projections are more cautious than the consensus of private-sector forecasts to ensure that the plan to meet the fiscal targets set out in this Budget is realistic and achievable.

Cautious Economic Growth Assumptions

(per cent)	1996	1997	1998
Ontario Real GDP Growth			
Private-sector high	2.7	4.3	4.7
Private-sector low	1.5	2.3	2.2
Private-sector survey average	2.1	3.1	3.3
Ontario's prudent projection	1.9	2.8	3.0

Sources: Ontario Ministry of Finance Survey April 30 and Ontario Ministry of Finance

Note: The private-sector average is based on 10 respondents for 1996, 9 for 1997 and 5 for 1998.

The Ontario Economy, 1993-1998
(per cent change)

Table A1

	Actual			Projected		
	1993	1994	1995	1996	1997	1998
Real Gross Domestic Product	1.3	5.5	2.5	1.9	2.8	3.0
Personal consumption	1.3	2.9	1.4	1.2	3.1	3.0
Government spending	-0.6	0.1	-0.6	-3.2	-4.7	-3.4
Residential construction	-6.8	5.0	-12.0	3.4	9.0	9.3
Non-residential construction	-27.5	-2.2	-3.0	0.9	3.9	4.2
Machinery and equipment	11.1	13.8	12.4	7.9	6.2	7.8
Exports	8.6	12.7	10.3	8.7	5.1	4.6
Imports	8.8	11.8	10.1	6.9	4.6	4.4
Nominal Gross Domestic Product	2.0	5.2	3.3	3.4	4.4	4.8
Other Economic Indicators						
Retail sales	3.8	6.7	3.1	1.3	4.8	4.9
Housing starts (000s)	45.1	46.6	35.8	42.6	51.7	60.0
Personal income	0.8	2.2	3.2	2.7	3.9	4.4
Corporate profits	14.9	36.9	12.1	8.3	10.0	15.3
Ontario Consumer Price Index	1.7	0.1	2.4	1.4	1.6	1.8
Labour market						
Labour force	1.5	0.3	0.4	1.8	1.7	1.7
Employment	1.8	1.4	1.4	1.5	1.9	2.0
Unemployment rate (per cent)	10.6	9.6	8.7	8.9	8.8	8.5

Sources: Statistics Canada and Ontario Ministry of Finance

