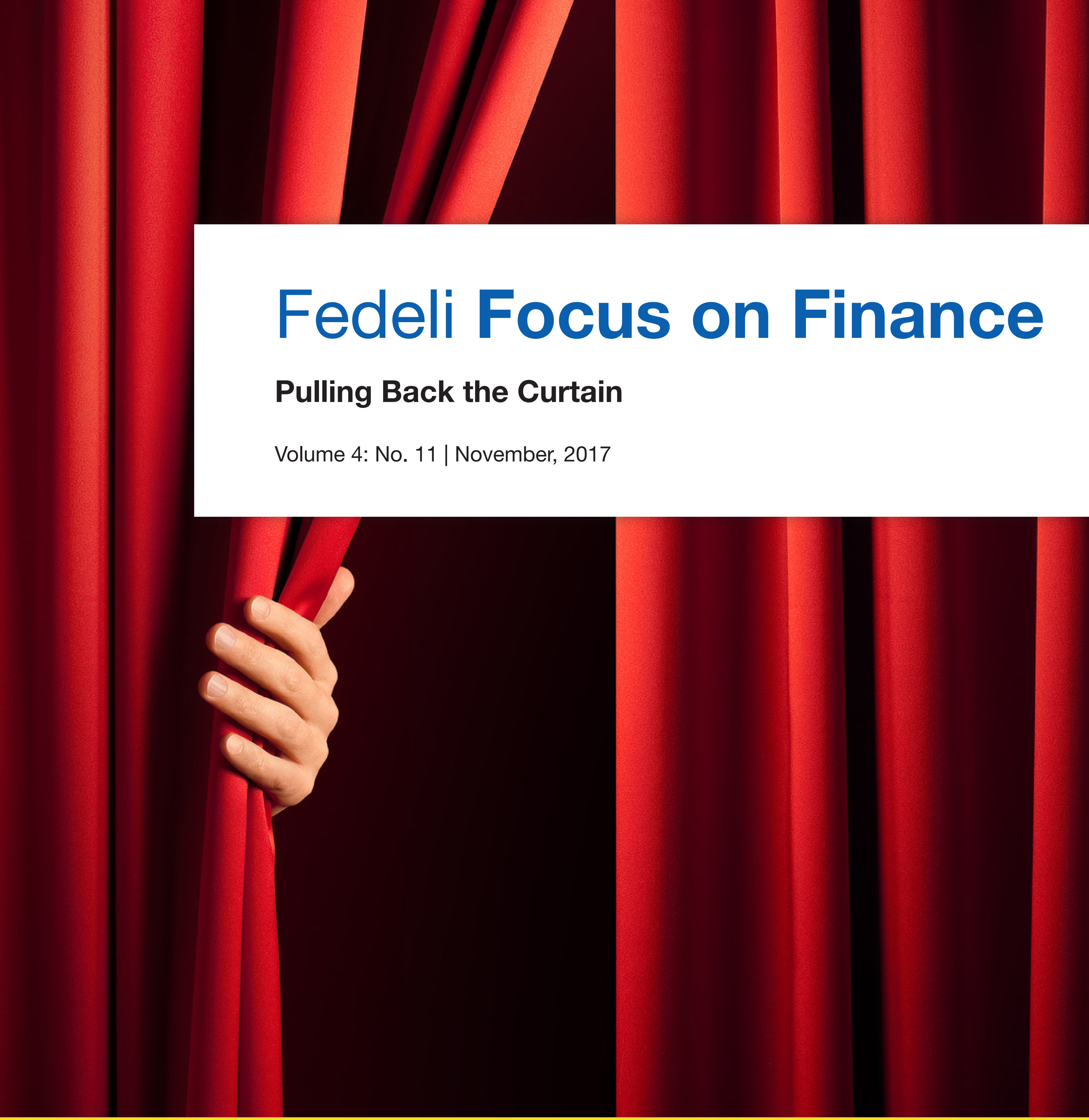

Fedeli **Focus on Finance**

Pulling Back the Curtain

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Ontario

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Pulling Back the Curtain

Each month, I consolidate Ontario's financial news, gathered from a wide variety of sources. As always, it is presented as a non-partisan summary – although I will admit it is pretty rough reading. This month will be no different, as several organizations have weighed-in with sobering statistics and analysis, further eroding the credibility of the government's fiscal claims.

Fall or Folly?

The main feature this month was the government's *Fall Economic Statement*. The government pitched this year's FES as an olive branch to business in the wake of their change of direction which will now raise the minimum wage to $15 by 2019. This was passed despite warnings from various authorities including the Financial Accountability Officer, TD Economics, and the Ontario Chamber of Commerce (OCC). They've all warned that the resulting job losses will be anywhere from 50,000 to 185,000. However, the OCC's research came up with one key finding – if the increase is phased in more slowly, the job impacts would be mitigated by 74% in the first two years. Given the job loss numbers, that's significant, and should be considered.

In the Fall Economic Statement, the government will lower the small business tax rate from 4.5% to 3.5% as an offset. But it's not nearly enough. The Keep Ontario Working Coalition says an accelerated minimum wage hike will have a $12 billion impact on businesses, where the government's remedy attempt will only amount to $500 million.

Here's one real-life example of what this will do. The owners of a mom-and-pop restaurant came into my office and opened up their books. The minimum wage increases will cost them $152,000 annually. That additional cost would eliminate all of their annual profit, and actually put them into a loss. In this scenario of rushing the increase, the government's small business tax rate doesn't help – 3.5% of zero is still zero. This business has already moved to eliminate four positions in anticipation of the government's legislation coming into force January 1.

This is typical across Ontario. In fact, a majority of members surveyed by the Canadian Federation of Independent Businesses (CFIB) say they will either increase prices, reduce hiring, or reduce hours, while 43% say they will cut the number of employees in response to the changes. To put this all in perspective, another business owner told me that if the government removed all their HST, EHT, and corporate taxes, that still wouldn't be as much as this additional minimum wage cost.

The government was quick to promote this rate change as something positive, as outlined on page 160 of the *2017 Ontario Economic Outlook and Fiscal Review*. "Internationally, the combined federal-Ontario CIT rate for small business would be the lowest among G7 member countries." The only problem is that there is absolutely no truth to that statement! British Columbia, Manitoba, Newfoundland, Nova Scotia, Saskatchewan, and the Yukon all have lower small business tax rates – Ontario is now simply in the middle of the pack.

Digging into the Numbers

Equally concerning with the Fall Economic Statement are the government's fiscal projections. On almost every metric, the government underperformed the targets laid out in the 2017 budget. With the Canadian economic upturn this year, many private sector economists expected GDP growth for Ontario of 3% or better. Yet the government's revised projection is for only 2.8% growth. Total revenue growth since the budget has been only $115 million, but expenses grew by $215 million. A slowdown in housing also reduced land transfer taxes. But despite this dismal performance, the government has not changed its revenue projection of a $10 billion increase this year. That's simply not reasonable.

The government admits Personal Income Tax and Health Tax revenue was down $1.8 billion from the spring budget. As well, the government is now forecasting average revenue growth of 4% over the next four years, while the Financial Accountability

Officer says it will be 3%. We're talking about a difference of billions of dollars. The numbers just don't add up and aren't realistic.

TABLE 3.10 2017–18 Revenue Changes since the *2017 Budget*
($ Millions)

	2017–18
Taxation Changes	
Personal Income Tax and Ontario Health Premium	(1,832)
Corporations Tax	1,579
Land Transfer Tax	(270)
All Other Taxes	293
Total Taxation Changes	**(230)**
Government of Canada Transfers	**145**
Income from Government Business Enterprises	**200**
Total Revenue Changes since the *2017 Budget*	**115**

Note: Numbers may not add due to rounding.

Also of note in the FES is that the $1 billion promise for the Ring of Fire infrastructure contained in the 2014, 2015, and 2016 budgets has now disappeared. Interest on debt will rise to $12.2 billion, reaching $13.3 billion in 2019-20. And while infrastructure spending is budgeted at $12.9 billion, more than $6 billion remains unspent over the past three years.

Falling Behind

Statistics Canada released census data on income in Ontario, and the numbers are certainly alarming. The Institute for Competitiveness and Prosperity offers the following summary: "The results paint a bleak picture for the progress of Ontario's middle-class over the past decade. Median individual total income in Ontario grew only 3.8% between 2005 and 2015; the lowest growth rate among all provinces and well below Canada's growth of 12.7%." When you look at the median employment income in Ontario over the same period, it decreased 2.3%, the only negative growth rate among all provinces. After-tax income growth in Ontario was less than half of the national number.

Labour force participation, productivity, and income distribution are cited as factors, but the Institute also states "Ontario's contracting manufacturing sector is partly responsible." With more than 300,000 jobs lost in that sector, it seems an obvious point.

Free Falling

BMO was blunt in its assessment of the Canadian economy – "Evidence is mounting that the amazing run …from mid-2016 to mid-2017 is over and done." A number of other headlines and commentaries continue to chip away at the false façade the government continues to put up when it comes to the state of Ontario's finances. Among them:

- Scotiabank reports retail sales growth in Ontario declined for two consecutive quarters
- Ontario saw the lowest rate of increase in auto sales among all provinces in October (0.7%)
- BMO Capital Markets reports an "unnerving" four-month slide in export volumes despite a still relatively competitive Canadian dollar
- BMO also cites "uncertainty" in the housing outlook as the Greater Golden Horseshoe works through the impact of the province's housing plan and new OSFI measures
- The Fraser Institute reported 99% of Ontario job creation since 2008 is in Toronto and Ottawa, leaving other areas of the province behind
- BMO says Ontario still looks like the province most at risk from a disruption to NAFTA; Ontario's U.S. exports are 82.8% of its total exports
- Central1 says NAFTA negotiations remain a potential downside risk to the provincial economy long-term
- CFIB's Business Barometer index in October (55.5) is the fifth consecutive month that small business confidence is lower compared to the same month in 2016

The Real Story on Power Export Losses

The Ontario Society of Professional Engineers (OSPE) laid bare the facts regarding how much the province loses regarding surplus power exported to our neighbours every year. Their study of data from the province's own Independent Electricity System Operator (IESO) found exports of surplus nuclear, wind, solar, and hydro power has cost Ontario up to $1.25 billion from the start of 2016 to the end of September, 2017.

While the government continues to insist hydro rates will fall and the system is reliable, Hydro One confirmed the utility has applied for a 4.8% rate increase "to keep the system stable". In fact, statistics show Ontario has the least reliable system in terms of outages in Canada. According to Eaton Blackout Tracker, the number of Ontario outages *increased* by 275% from just 2012 to 2015.

Hydro One also announced its third-quarter profit fell 6% from last year due to the $6.7 billion purchase of U.S. utility Avista.

Conclusion

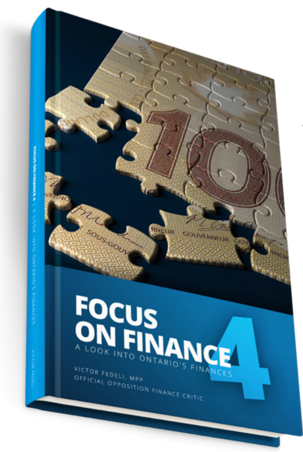
As the Auditor General and Financial Accountability Officer have pointed out repeatedly, the government's financial claims are not reliable. They have refused to alter their bottom line fiscal projections in the Fall Economic Statement, while admitting they have underperformed almost all the fiscal targets laid out in the spring budget to this point.

Key Questions

How does the government still expect to increase revenue by $10 billion this year, when personal income tax and health tax revenue fell $1.8 billion since the spring budget alone?

Why does the government continue to deny that Ontario is losing money on surplus power exports when the opposite has been proven to be true?

Will the government admit their policies are negatively impacting Ontario businesses?



Similar stories of waste, mismanagement, and scandal are disclosed in my new book, ***Focus on Finance 4***.

Please go to **www.fedeli.com** to download your own copy of the book.

Please feel free to SHARE this report with as many people as you can!

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