

Federal Budget 2016

Budget Highlights

- The deficit for 2016/17 is budgeted at \$29.4B, for 2017/18 at \$29B, for 2018/19 at \$23B, for 2019/20 (the final year of the government's mandate when balance was promised) at \$17.7B and for 2020/21 at \$14.3B
- In total, more than \$100B in additional federal government debt is amassed over the 5 year forecast
- Annual GDP growth is forecast at a pessimistic 0.4 % which is lower than forecast by many economists
- The budget contains no path to balance. Instead, the government is using the debt to GDP ratio as its primary metric of fiscal management success and that indicator will remain steady over the five year forecast period
- The budget contains a contingency of \$6B which could provide the government with an opportunity to achieve fiscal balance in time for the next election if energy prices improve significantly
- The government recommitted to its promise of investing \$120B over 10 years in public infrastructure, a significant increase over the infrastructure investment program of the previous government; this will significantly increase the pace of infrastructure modernization across the country

Commentary

Leading up to the federal election campaign of the fall of 2015, the Liberals recognized quite astutely that the Canadian public wasn't seized with deficits and they campaigned and were elected on a platform that promised a vast array of give aways coupled with "modest deficits" to spark a sluggish economy. Surprise, surprise, when the Grits took office they found the country's finances in a much worse state than ever could be imagined and the public was conditioned to the prospect an even larger financial shortfall. And we suspect the public will give Prime Minister Trudeau and Finance Minister Morneau a pass on the almost \$30B deficit projected for 2016/17. The outrage will likely be confined to Parliament Hill and opposition events across the country.

The government's recommitment to their campaign promise to invest \$120B over the next ten years is reassuring. However the budget contained scant detail of how projects will be selected or on specific projects. We do know these investments will be funneled into public transit, water purification and waste water treatment plants, social housing, projects that contribute to a low carbon, clean growth economy, parks and harbours.

The government must be highly selective with regard to its infrastructure investments. It must select projects that will contribute to improved productivity in the Canadian economy.

Prime Minister Trudeau has stated that the government's program of infrastructure investments will not start with big "sexy" projects. We will be disappointed if these early stage investments are simply minor paint up, fix up, deferred maintenance type projects that do little to boost productivity and grow the economy?

It always takes time to plan large infrastructure projects and receive all the necessary approvals. It will take additional time for the government to assess all project applications that will be competing for government funding and select their preferred ones. Because of these delays, the money does not always go to work in the economy when it is really needed. We implore the federal government to make its infrastructure investments quickly and wisely to make sure their project choices support economic growth?

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