

ECONOMIC RESEARCH AND STRATEGY



**LAURENTIAN BANK
SECURITIES**

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Ontario First Quarter Update – Encouraging Economic and Fiscal Developments

The Ontario government had good news to share on Thursday morning with the release of the [First Quarter Fiscal Update](#).

The economic environment improved since the release of the March budget, thanks to vaccination progress and stronger U.S. economic growth. Ontario's real GDP growth 2021 forecast was revised up significantly from 4.0% to 5.0% despite global chips shortages weighing down on motor vehicles assembly and shipments (see charts below). The rebound in corporate profits and robust housing market activity led the government to revise taxation revenues by \$1B for FY 2021-22. Combined with \$1.9B in additional federal transfers related to the pandemic, total fiscal revenues are up \$2.9B to \$156.9B versus budget 2021.

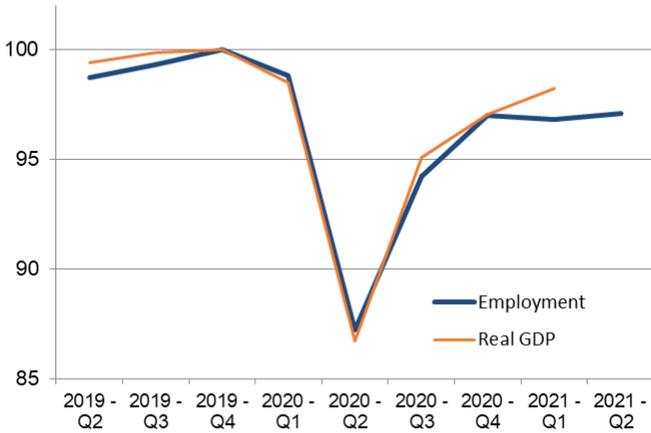
Total spending stands at \$188.3B, up \$2.2B from budget because the government decided to set aside this latter amount for the Time-Limited COVID-19 Fund in case a pessimistic pandemic scenario occurs in the future. The FY 2021-22 includes also a \$1B reserve and a \$1.5B contingency fund the government may end up not using if the fourth pandemic wave or future variants do not lead to a large setback in economic activity.

These various fiscal buffers sum up to \$4.7B, a sizeable amount that could reduce the deficit and borrowing requirements down the road. Also, the private sector real GDP growth average forecast stands at 5.4% this year. In our latest [provincial outlook](#), we penciled Ontario's economic growth at 6.0% in 2021, implying further potential upside in terms of tax receipts. Altogether, today's short-term improvement in Ontario public finances appears to us fundamentally better than the modest \$0.7B deficit reduction to \$32.4B proposed in the First Quarter Update versus the 2021 budget.

Finally, long-term borrowing requirements are down by \$1.6B to \$53.0B, reflecting the decrease in the funding requirements and more pre-borrowing activity for FY 2021-22. As of August 4th, the Province has borrowed \$21.0B, completing 40 % of its long-term borrowing program for FY 2021-22.

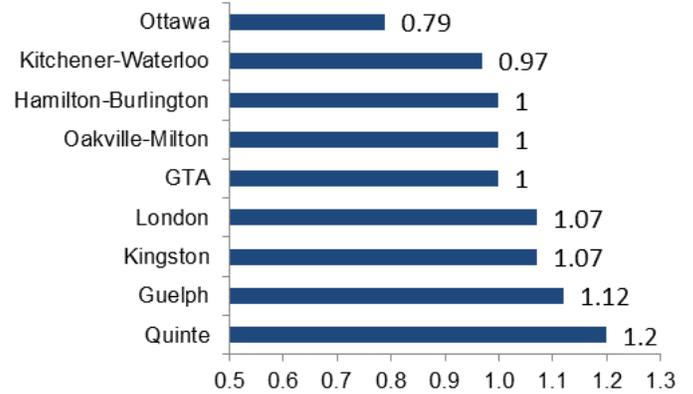
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Ontario: Real GDP and Employment
(index at pre-pandemic level 2019Q4=100)



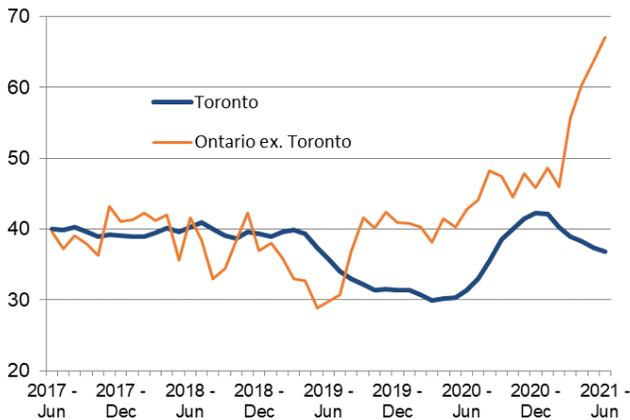
Source: Ontario Finances, Statistics Canada

Ontario Resale Market : Residential Sales-to-Listings Ratio, 2021Q2



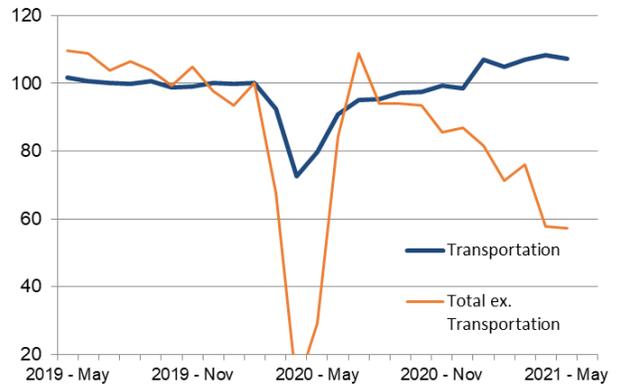
Source: Canadian Real Estate Association

Ontario Housing Starts (units in 000s, annualized)



Source: Statistics Canada

Ontario Manufacturing Shipments
(index at pre-pandemic level February 2020=100)



Source: Statistics Canada

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