Ontario FY19 Final Results: Deficit Halved

- On Friday, the Government of Ontario released its *Public Accounts* for fiscal year 2018–19 (FY19). The final $7.4 bn deficit was less than half of the Province`s initial forecast of $15 bn fiscal shortfall for FY19, and $4.3 bn less than the $11.7 bn estimate unveiled in the April 2019 *Ontario Budget* (chart 1). At 0.9% of GDP, Ontario's FY19 deficit is modestly improved versus the prior projection of 1.4%, but leaves it with the third-highest share of any province.

- FY19 net debt came in $6.2 bn lower than anticipated as of *Budget*. Ontario Economic Accounts data released to Q1-2019 point to an FY19 net debt-to-GDP ratio of 39.3%, lower than the 40.2% Government projection in April. In addition to the smaller deficit, reduced debt levels reflected a $3 bn downward revision in acquisition of tangible assets.

- The Province's borrowing program totalled $39.6 bn in 2018–19—in line with estimates in April. Some $16.9 bn in net new financing was completed.

- About $3 bn (70%) of the deficit reduction relative to April stemmed from a corporate income tax (CIT) windfall and a reduction in the "other expenses" category (chart 2). We have written about the Canada-wide upside surprise in CIT revenues (report); the *Public Accounts* establish the presence of that trend in Ontario. The fall in other expenses was attributed to schedule changes related to federal infrastructure program.

- The sources of the FY19 windfall look transitory. It is unclear whether re-profiled federal infrastructure program transfers permanently reduce expenditures or simply push them out. Moreover, corporate profitability is among the most volatile series in any economy, and the present trade and diplomatic tensions facing Canadian businesses add to an uncertain CIT outlook. *Budget 2019* had already built in flat FY20 CIT revenues with accelerated depreciation measures coming on the books.

- Nevertheless, Ontario is clearly on a lower debt and deficit trajectory than outlined in *Budget 2019*. Alongside these results, we reiterate our view that the *Budget 2019* forecast of 1.4% real GDP growth was conservative, despite risks to the global outlook. Robust Ontario job creation—up 2.7% y/y through August this year versus a *Budget* estimate of just 1.3%—also bodes well for FY20 personal income tax (PIT) revenues.

- In our view, any additional outer-year fiscal room generated by the FY19 windfall would be best directed towards continued debt reduction. While we anticipate steady growth in Ontario this year and next, the province is at an advanced stage of its economic cycle and faces downside risks vis-à-vis the US expansion. As such, it is appropriate to build in fiscal buffers against future shocks. That could also engender some additional confidence among market watchers.

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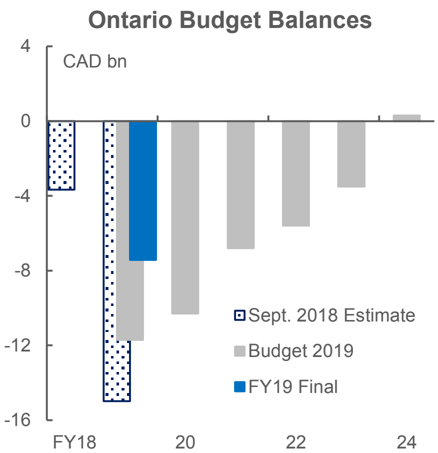
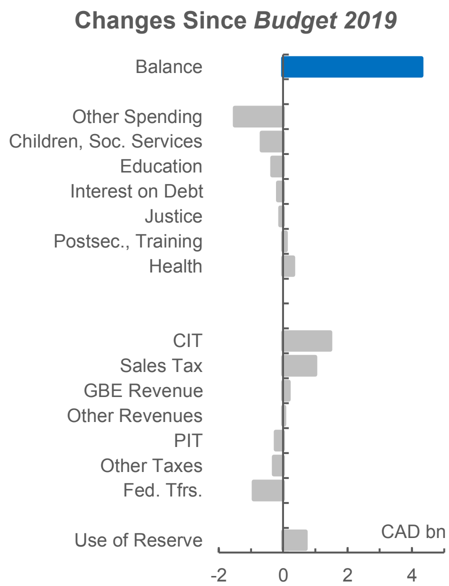
Chart 1



Sources: Scotiabank Economics, Ontario Finance.

Chart 2



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