



Fiscal Forensics: Shining a Light on Federal Government Spending Plans

Randall Bartlett, CFA

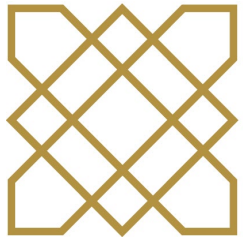
Chief Economist

Institute of Fiscal Studies and Democracy

November 20, 2018

Overview

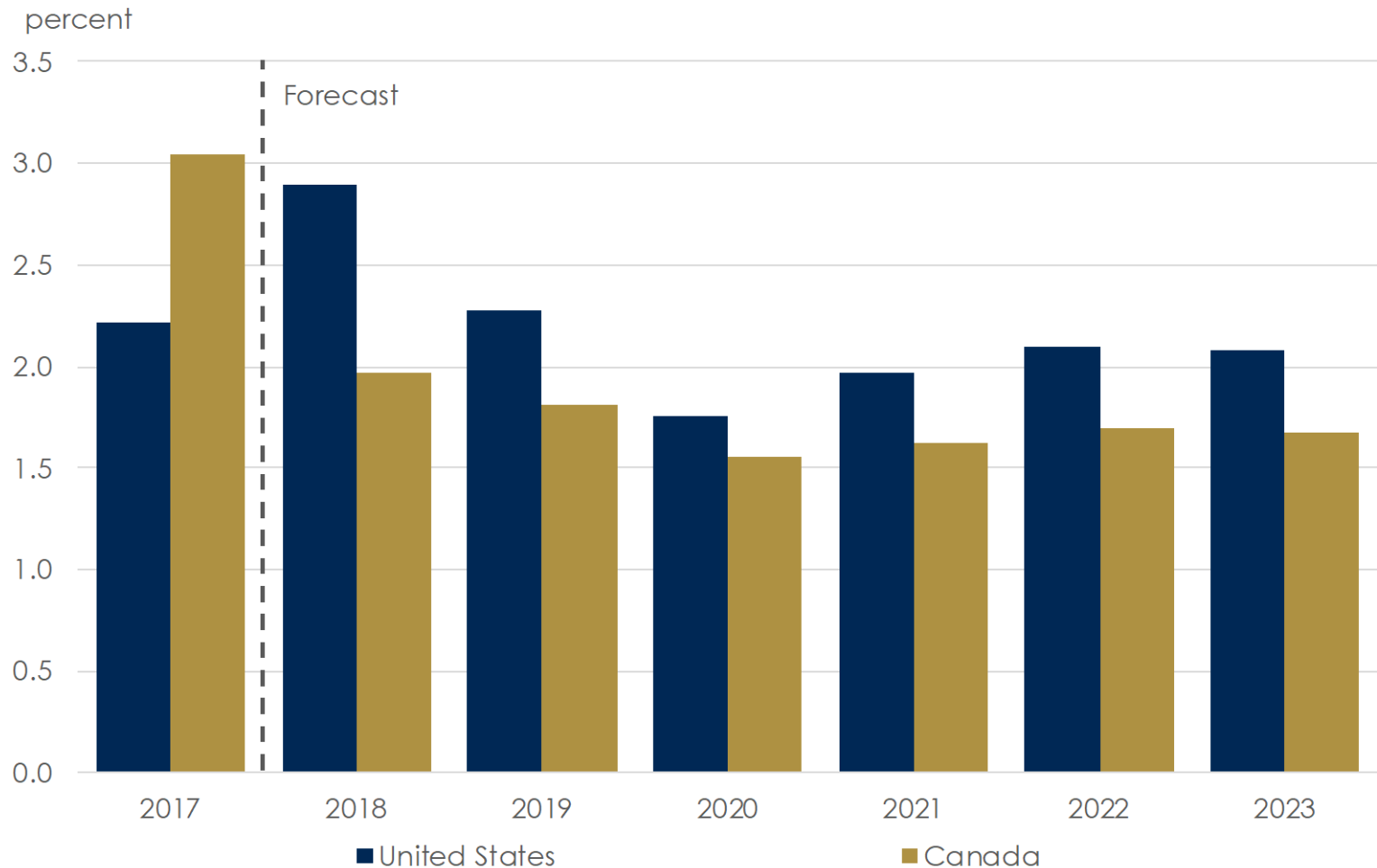
- How is the Canadian economy performing?
- What's the outlook for federal finances?
- Are the federal books fiscally sustainable?
- How does the federal situation compare to the provinces?



Canadian Economic Outlook

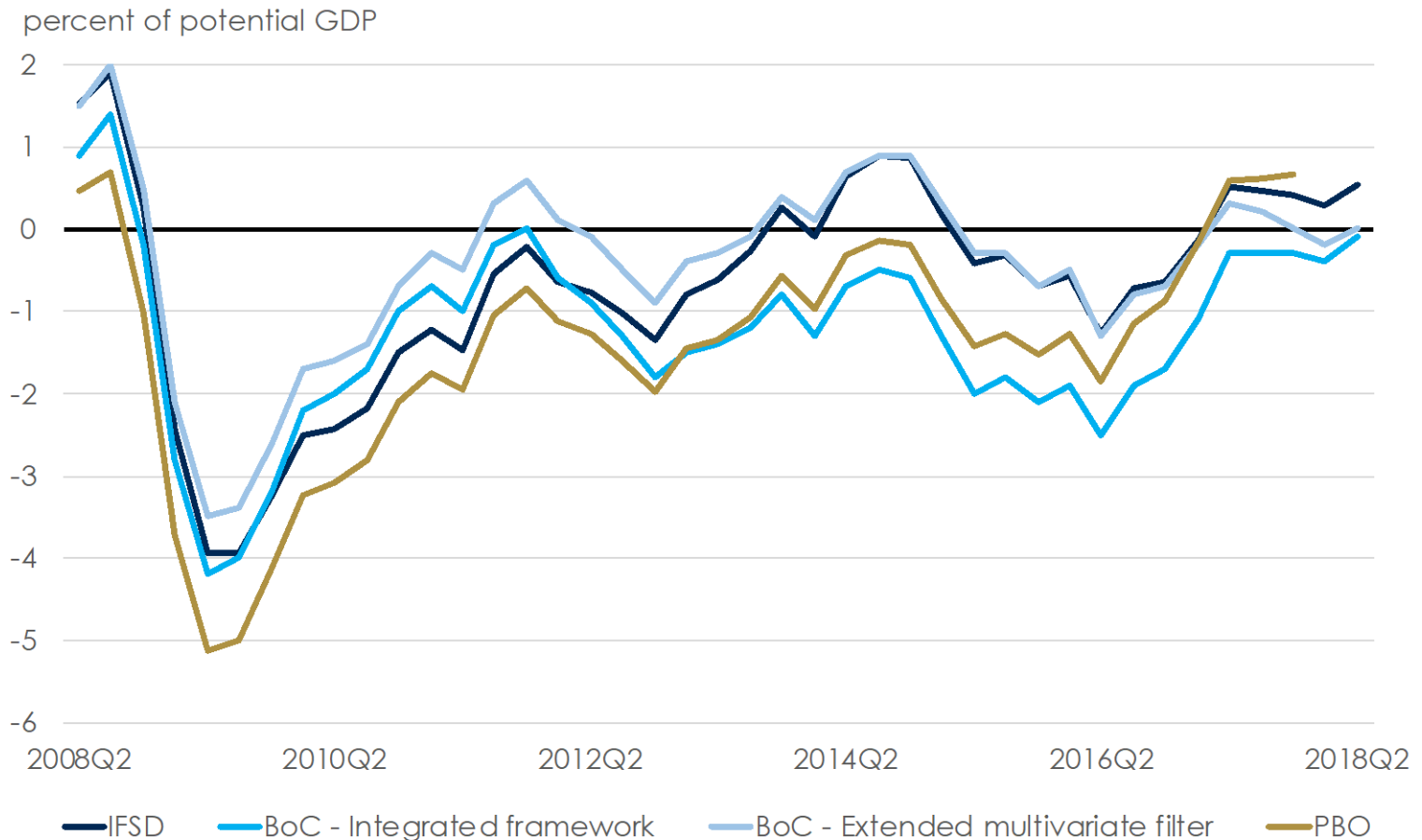
Canadian economy is doing well ...

Real GDP Growth in Canada and the US



... and has returned to its trend

Various Canadian Output Gap Measures

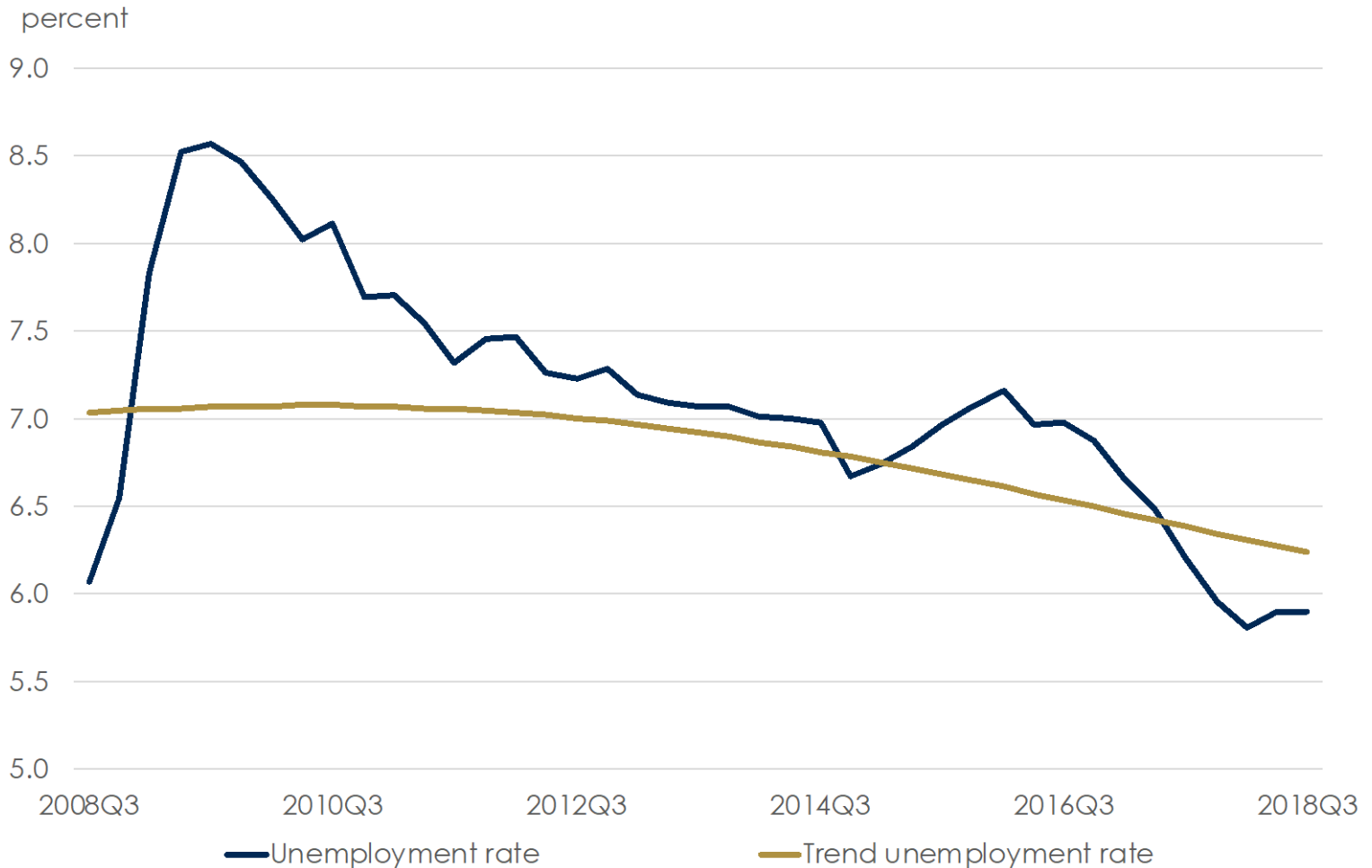


Sources: Bank of Canada (BoC), Parliamentary Budget Officer (PBO), Statistics Canada, Institute of Fiscal Studies and Democracy (IFSD).

Note: The output gap is the difference between actual and potential GDP divided by potential GDP.

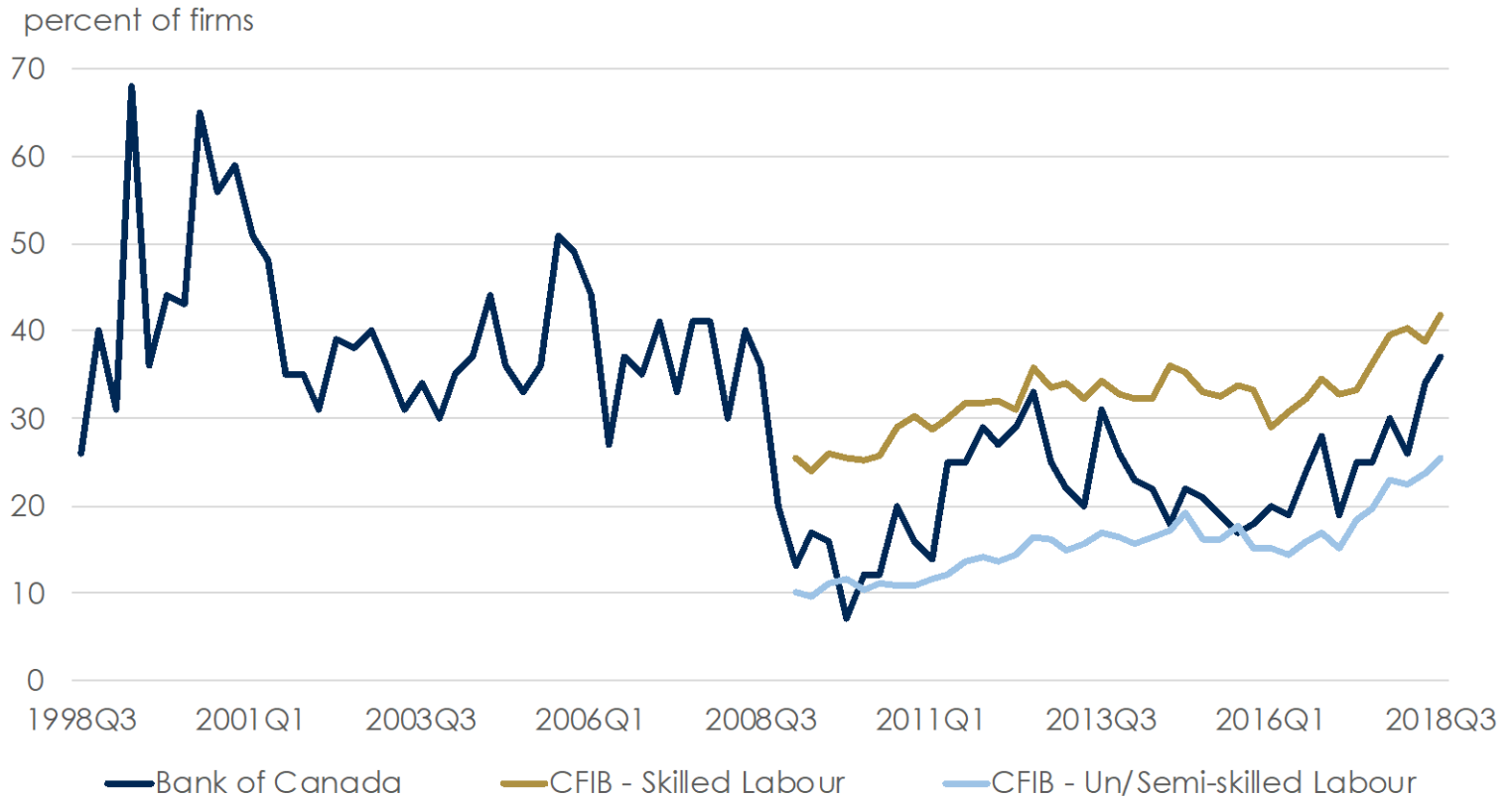
Unemployment is very low ...

Canadian Actual and Trend Unemployment Rate



... leading to labour shortages ...

Share of Firms Reporting Labour Shortages

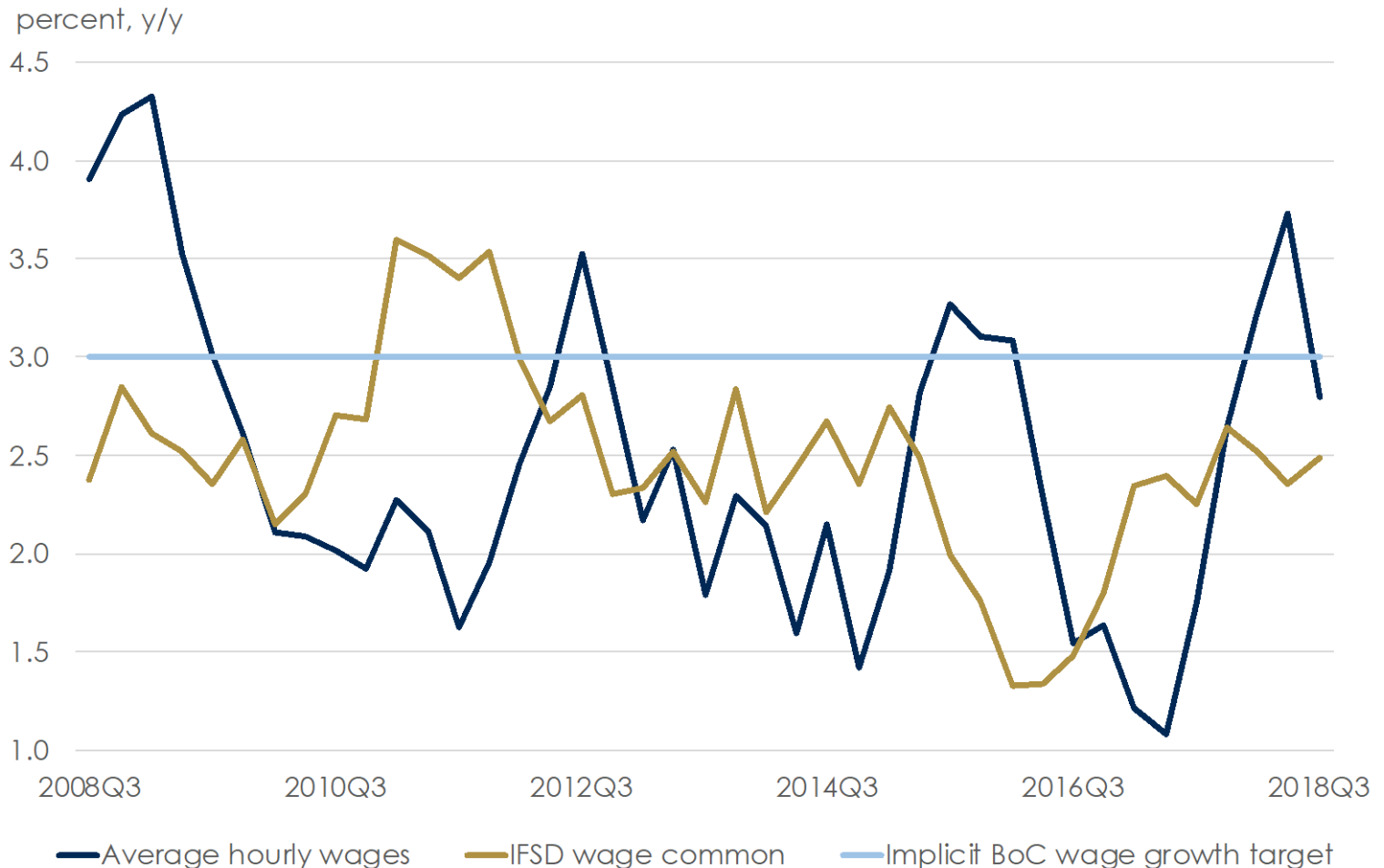


Sources: Bank of Canada (BOC), Canadian Federation of Independent Business (CFIB), Institute of Fiscal Studies and Democracy.

Notes: The CFIB share is the share of firms that responded affirmatively to the question "What factors are limiting your capacity to increase sales or production?" with the response "Shortage of skilled labour" and/or "Shortage of un-semi-skilled labour". The Bank of Canada share is the share of firms that responded affirmatively to the question: "Does your firm face any shortages of labour that restrict your ability to meet demand?"

... which are pushing up wages

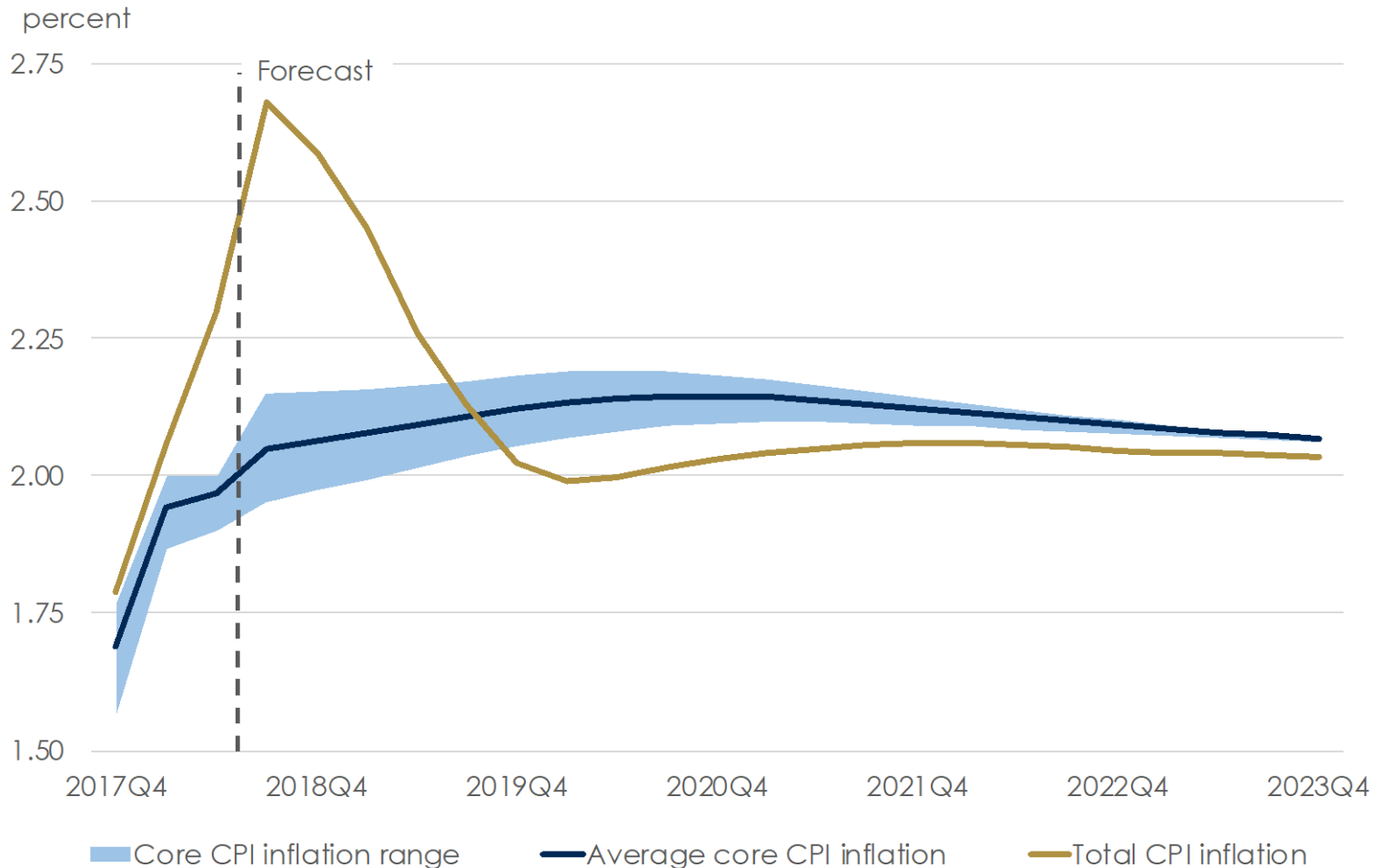
Various Wage Growth Measures in Canada



Sources: Statistics Canada, Bank of Canada (BoC), Institute of Fiscal Studies and Democracy (IFSD).

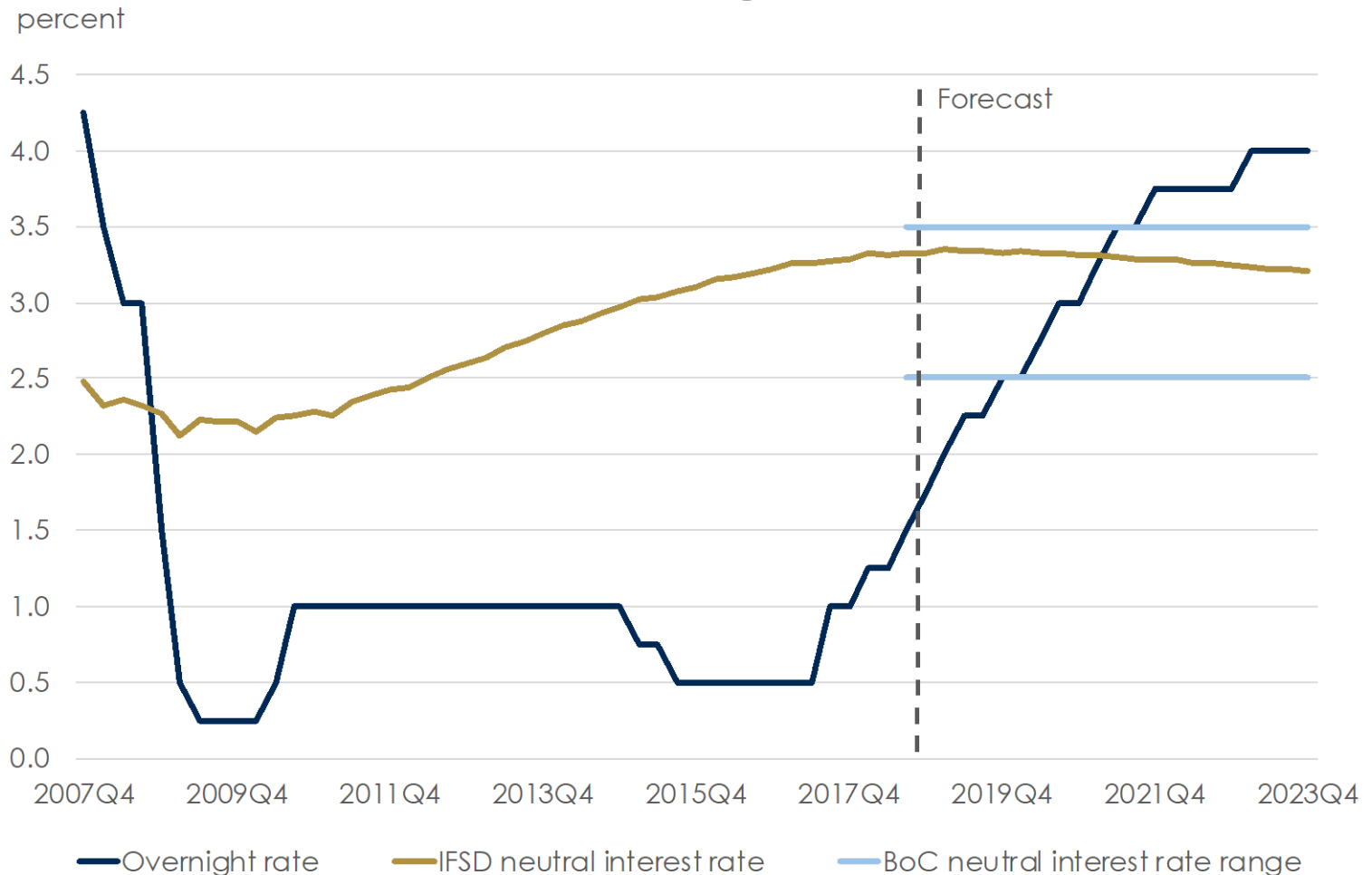
Consumer prices are on the rise ...

Consumer Price Index (CPI) Inflation Forecasts

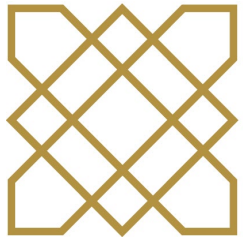


... supporting interest rate hikes

Bank of Canada's Overnight and Neutral Rate



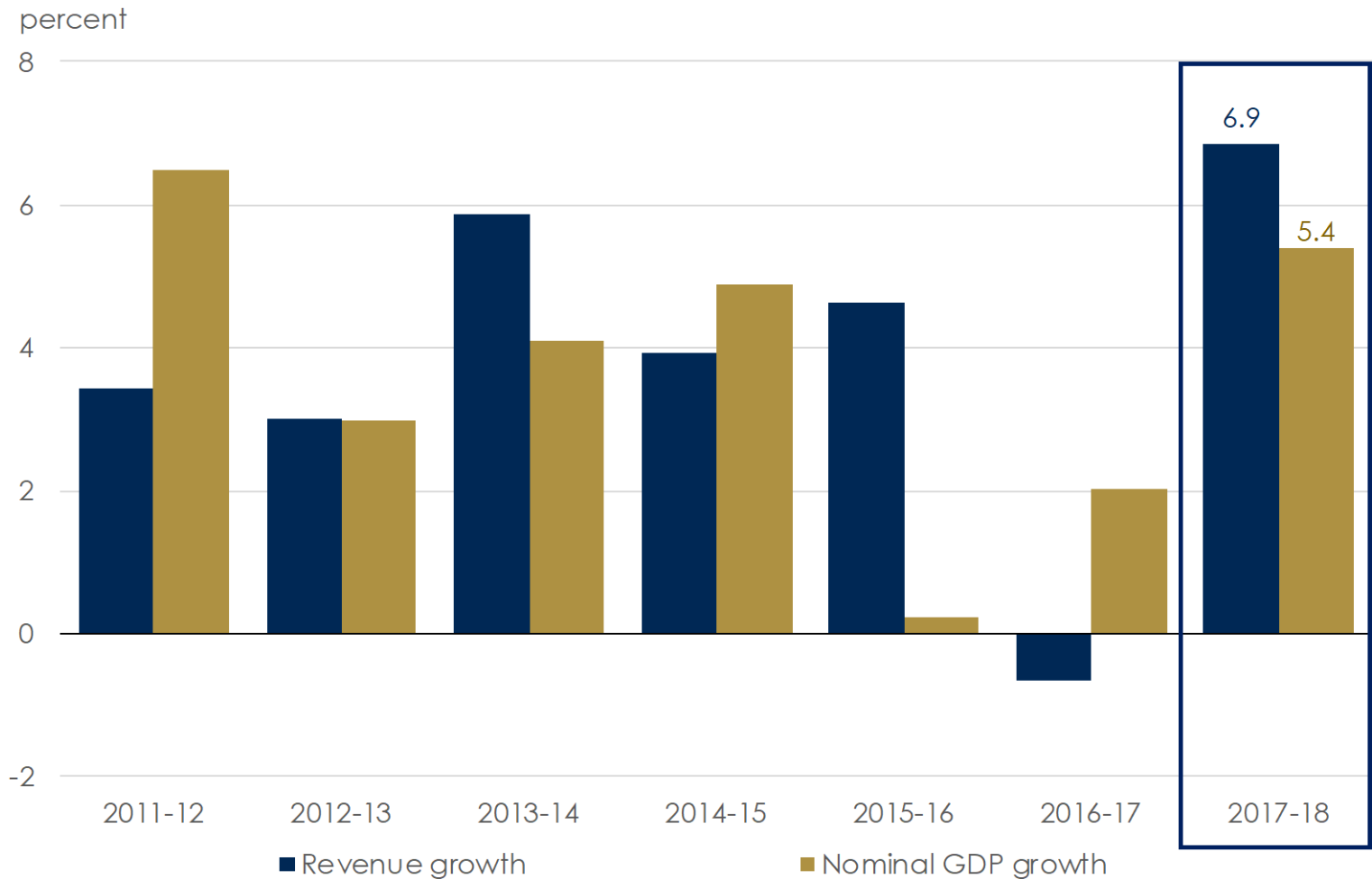
Sources: Bank of Canada (BoC), Institute of Fiscal Studies and Democracy (IFSD).



Federal Fiscal Forecast

Growth has boosted revenues ...

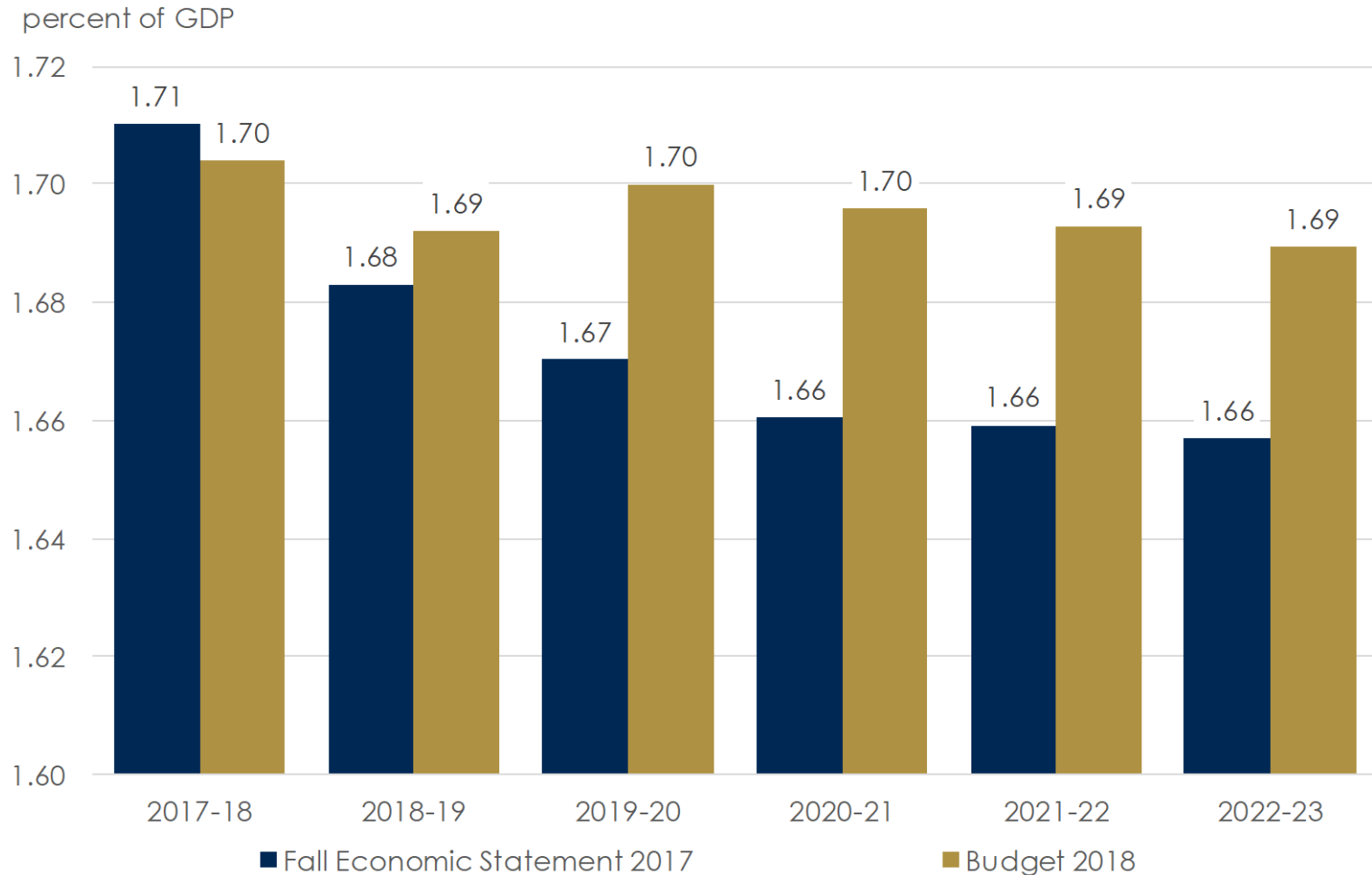
Federal Revenue and Canadian Nominal GDP Growth



Sources: Government of Canada, Statistics Canada, Institute of Fiscal Studies and Democracy.

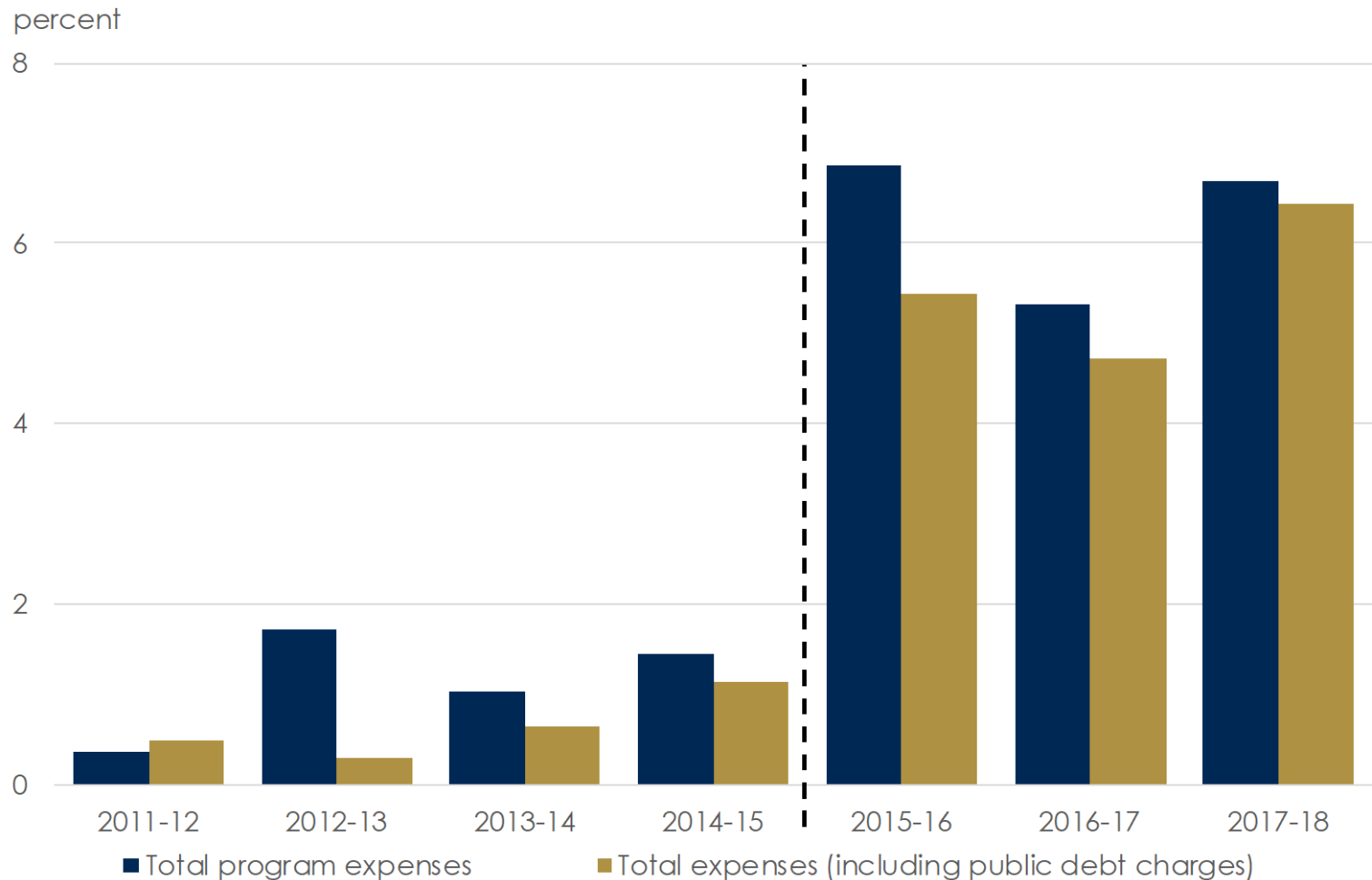
... but as much as the Feds want

GST Revenue Forecast as a Share of GDP



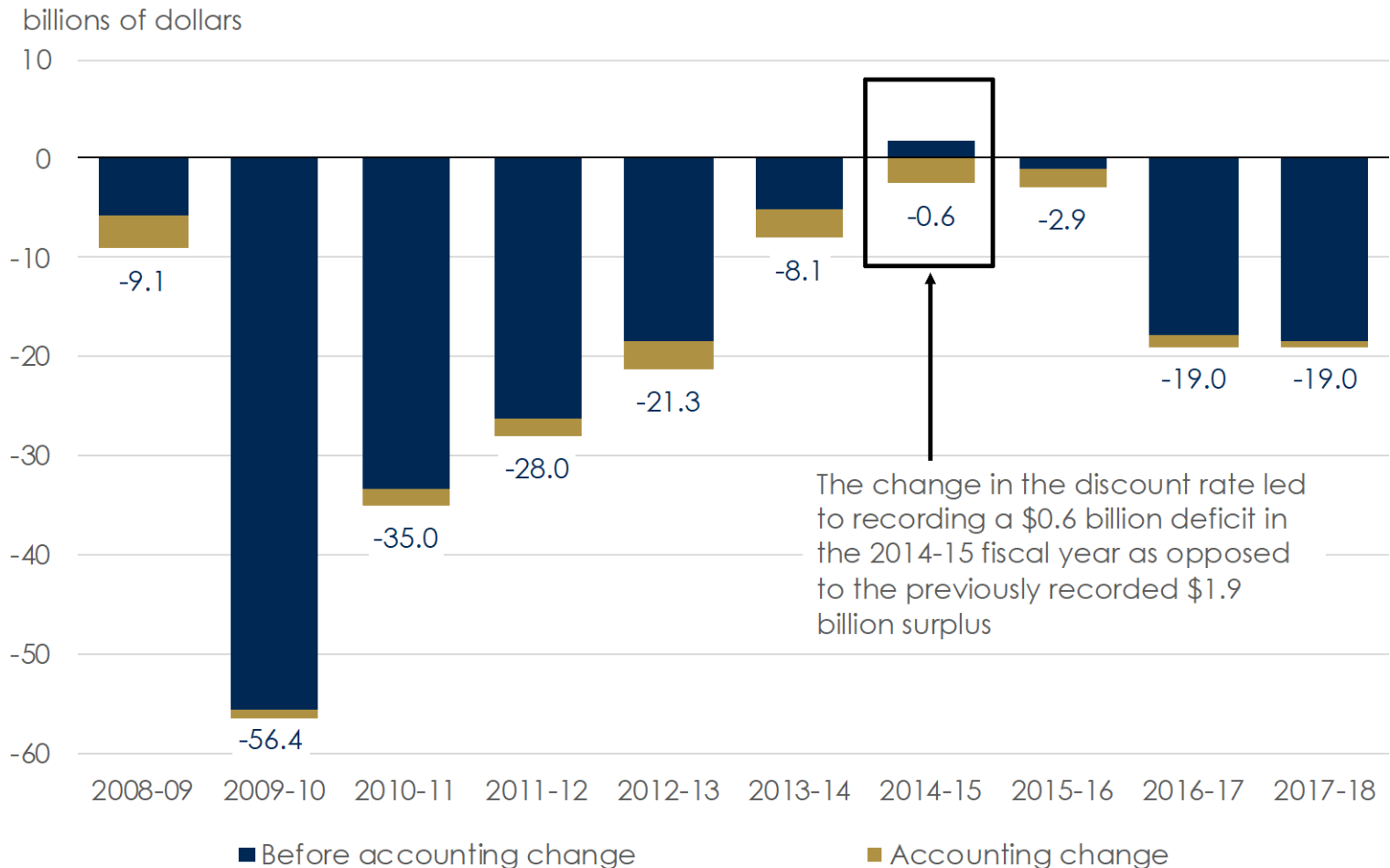
Spending has also risen, ...

Total Expenses and Program Expense Growth



... partly on accounting changes ...

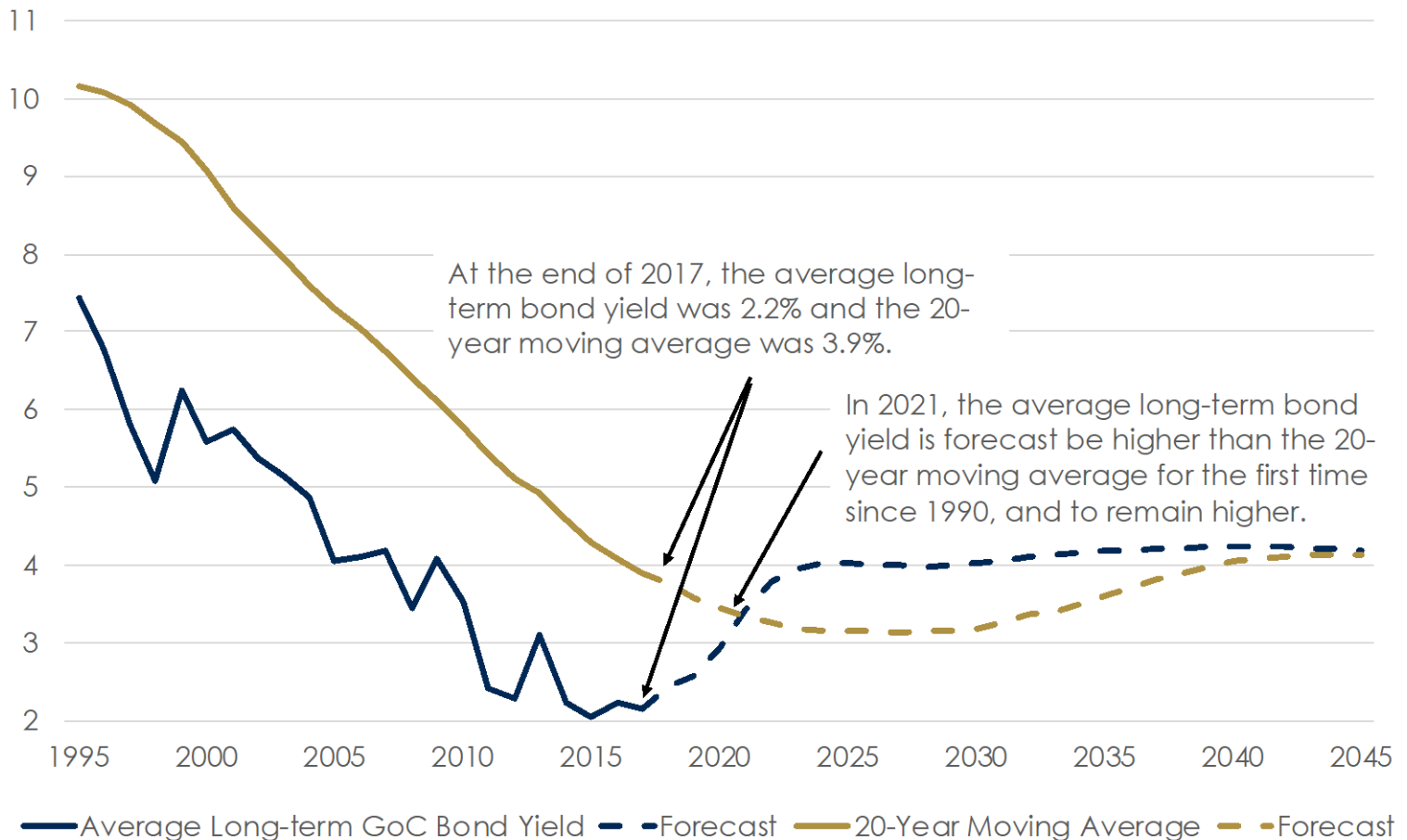
Accounting Change Impact on the Deficit



... related to discount rates

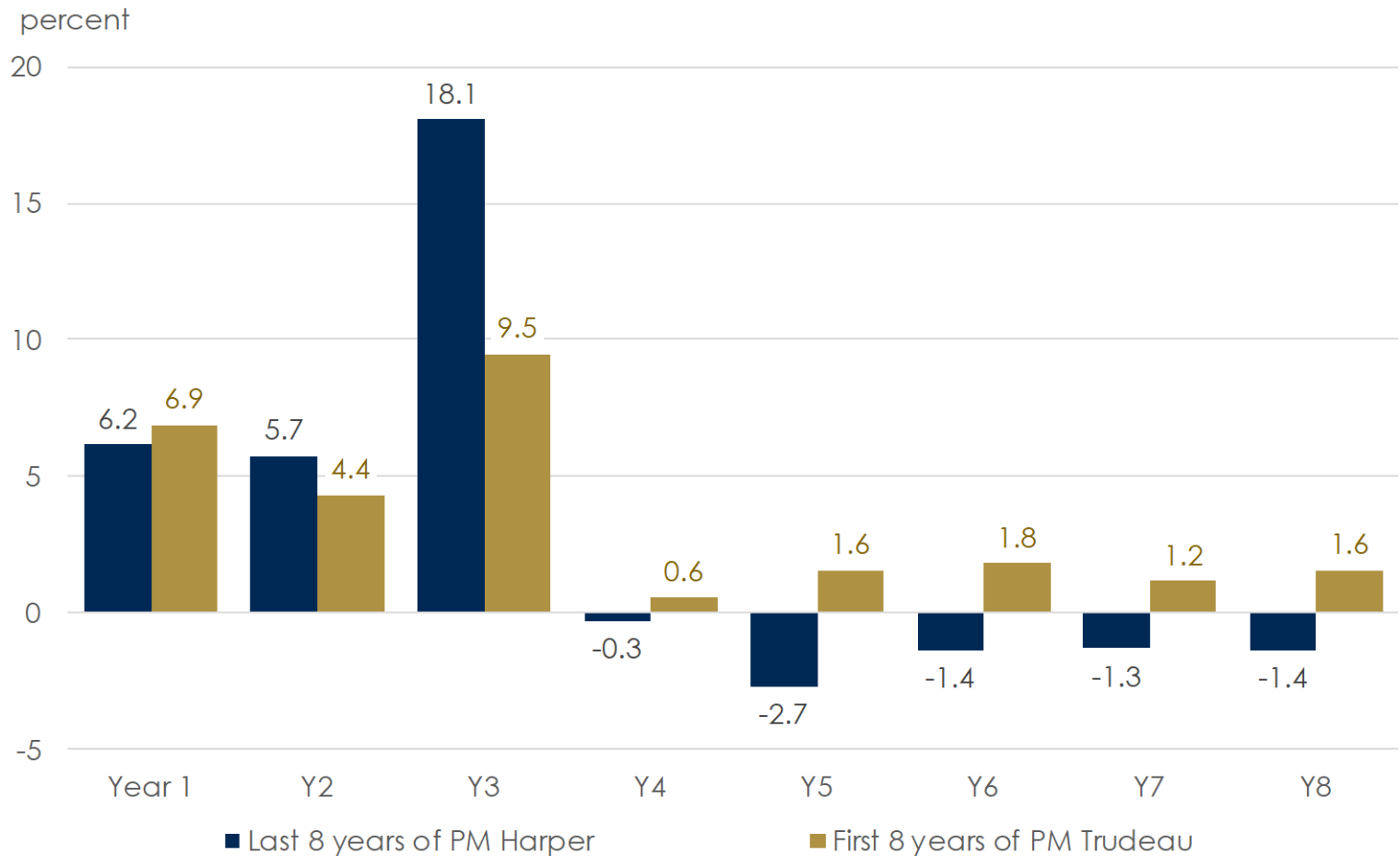
Average of Federal Government Long-Term Bond Yields

percent



Is 'soft austerity' in our future, ...

Growth in Direct Program Expenses

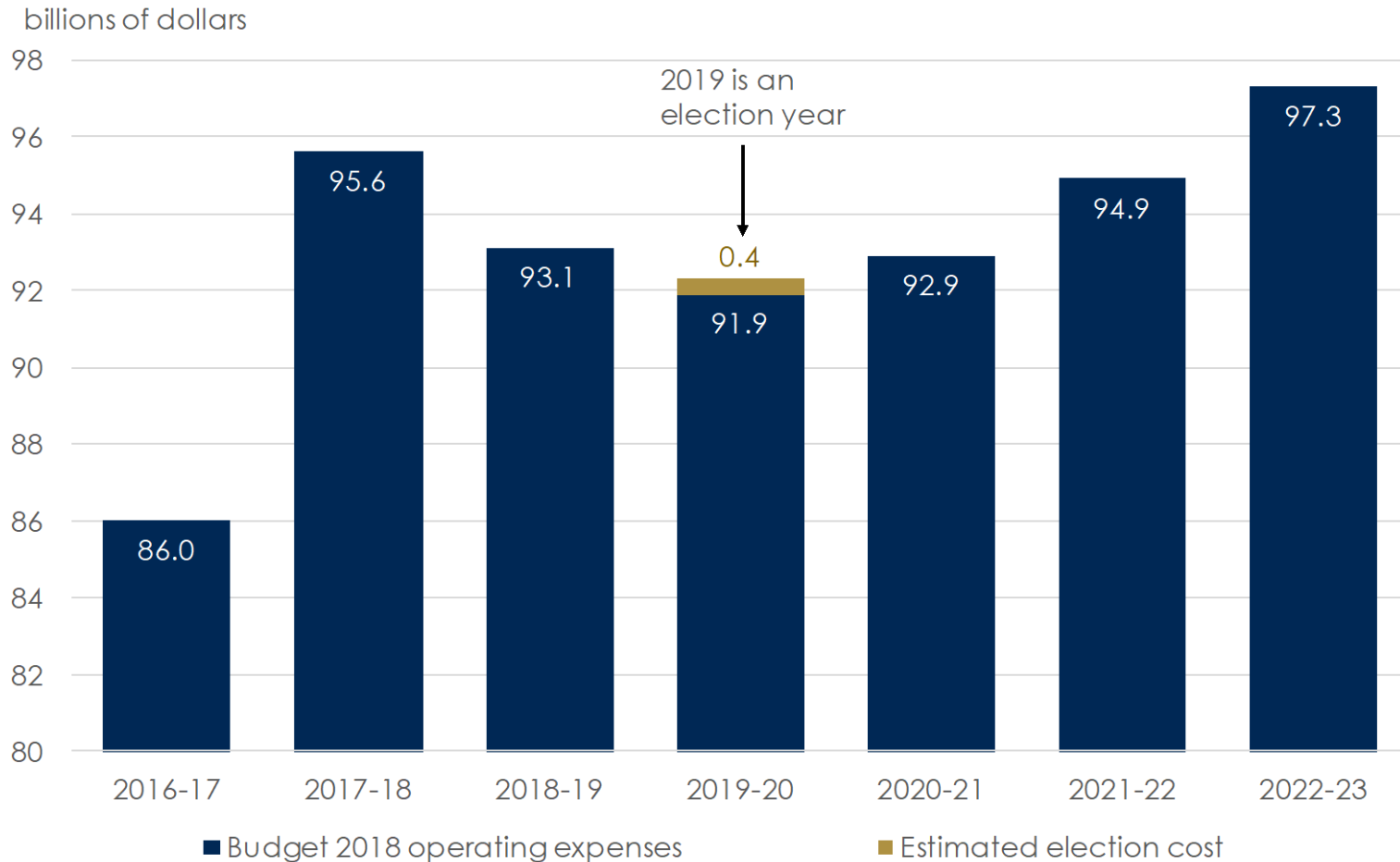


Source: Department of Finance Canada.

Note: The 2015-16 fiscal year is attributed Prime Minister Trudeau, and the forecast starting in Y3 is from Budget 2018.

... and in an election year?

Federal Government Operating Expense Forecast

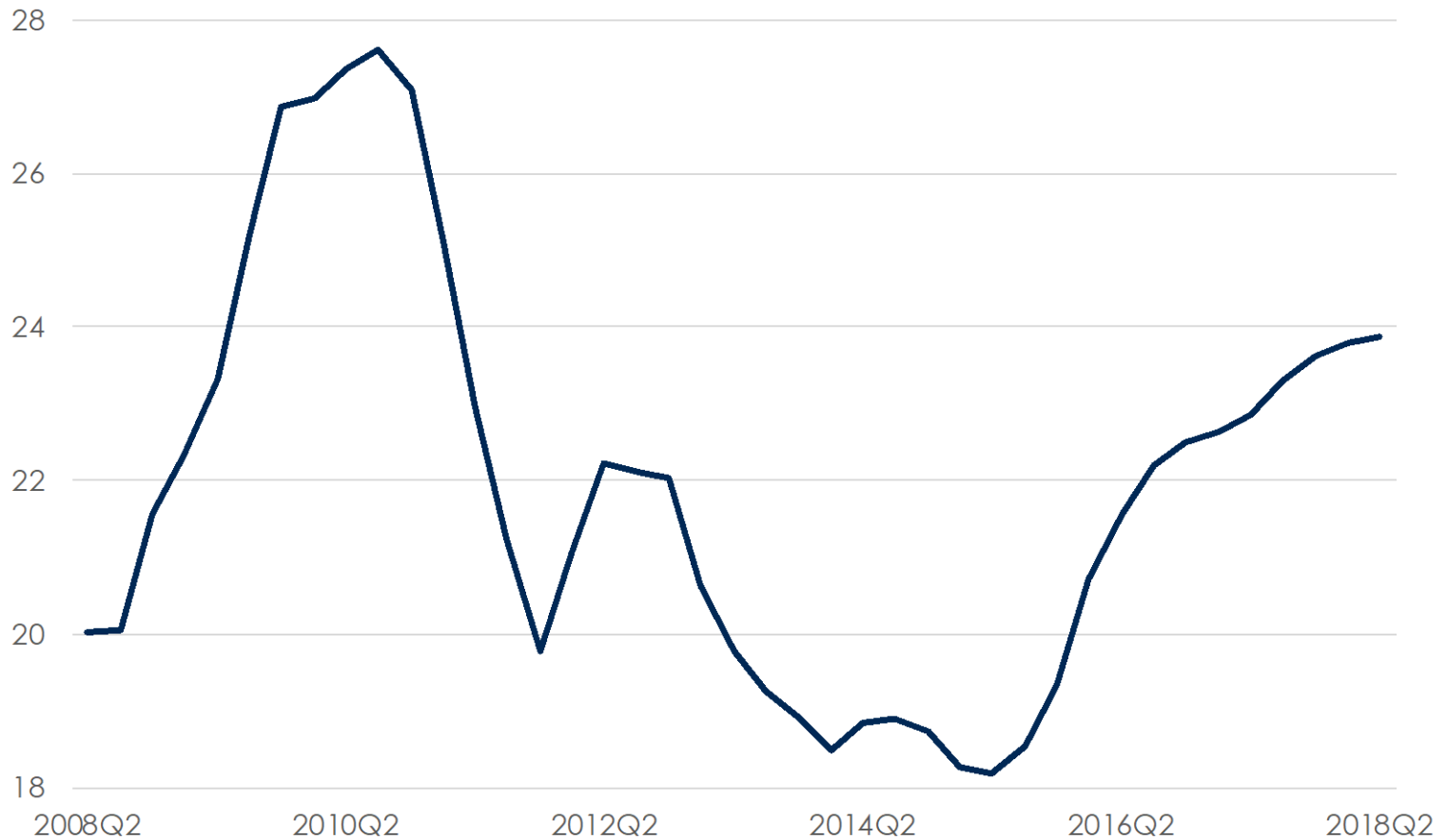


Sources: Department of Finance Canada, Elections Canada, Institute of Fiscal Studies and Democracy.
 Note: Election cost estimate is calculated by the Institute of Fiscal Studies and Democracy.

Infrastructure money is flowing, ...

Government Spending on Engineering Structures

billions of dollars, chained, 2007



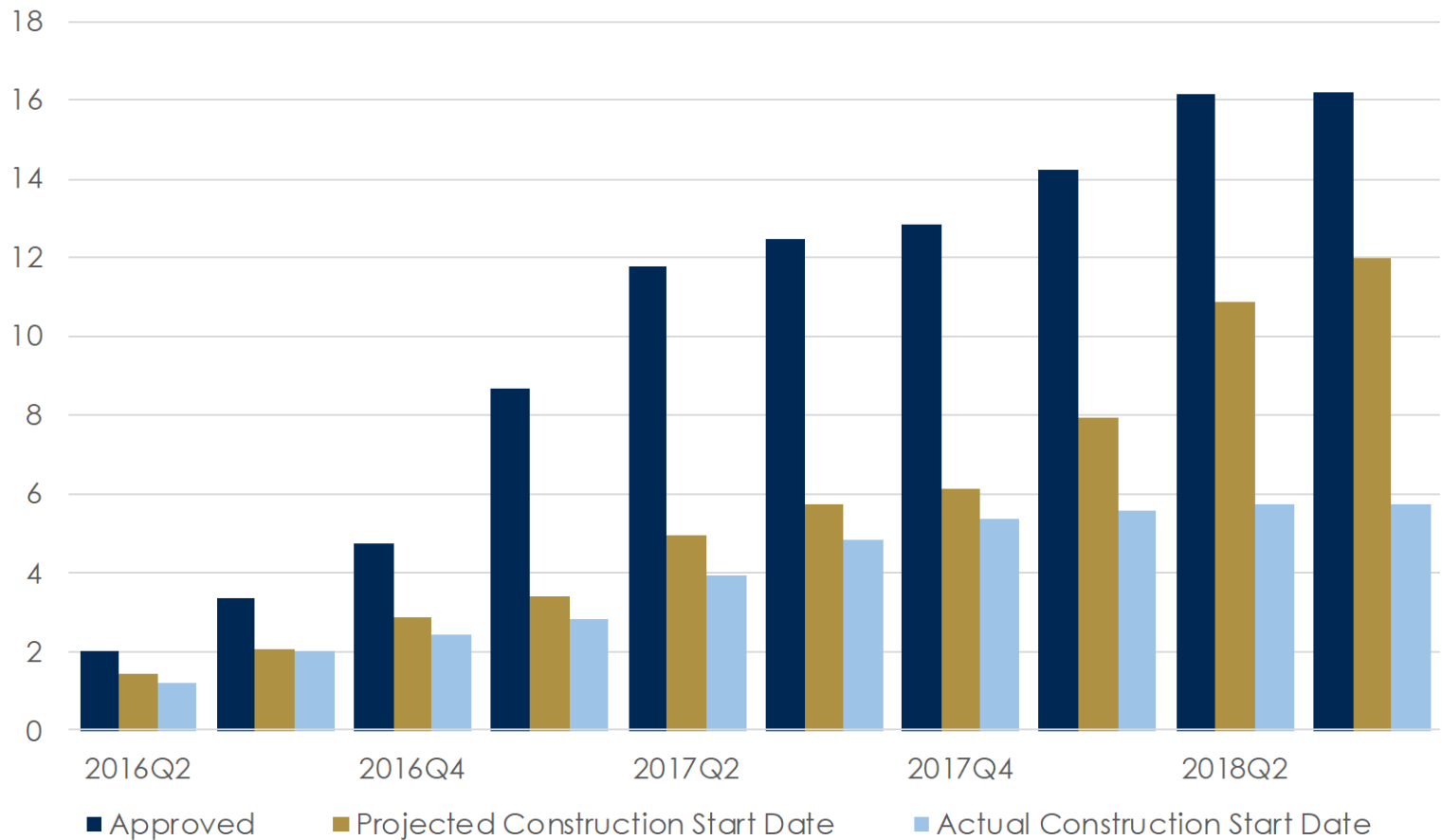
Source: Statistics Canada.

Note: This includes spending by all levels of government.

... but taking its sweet time

Cumulative Federal Infrastructure Spending

billions of dollars



Sources: Infrastructure Canada, Institute of Fiscal Studies and Democracy.

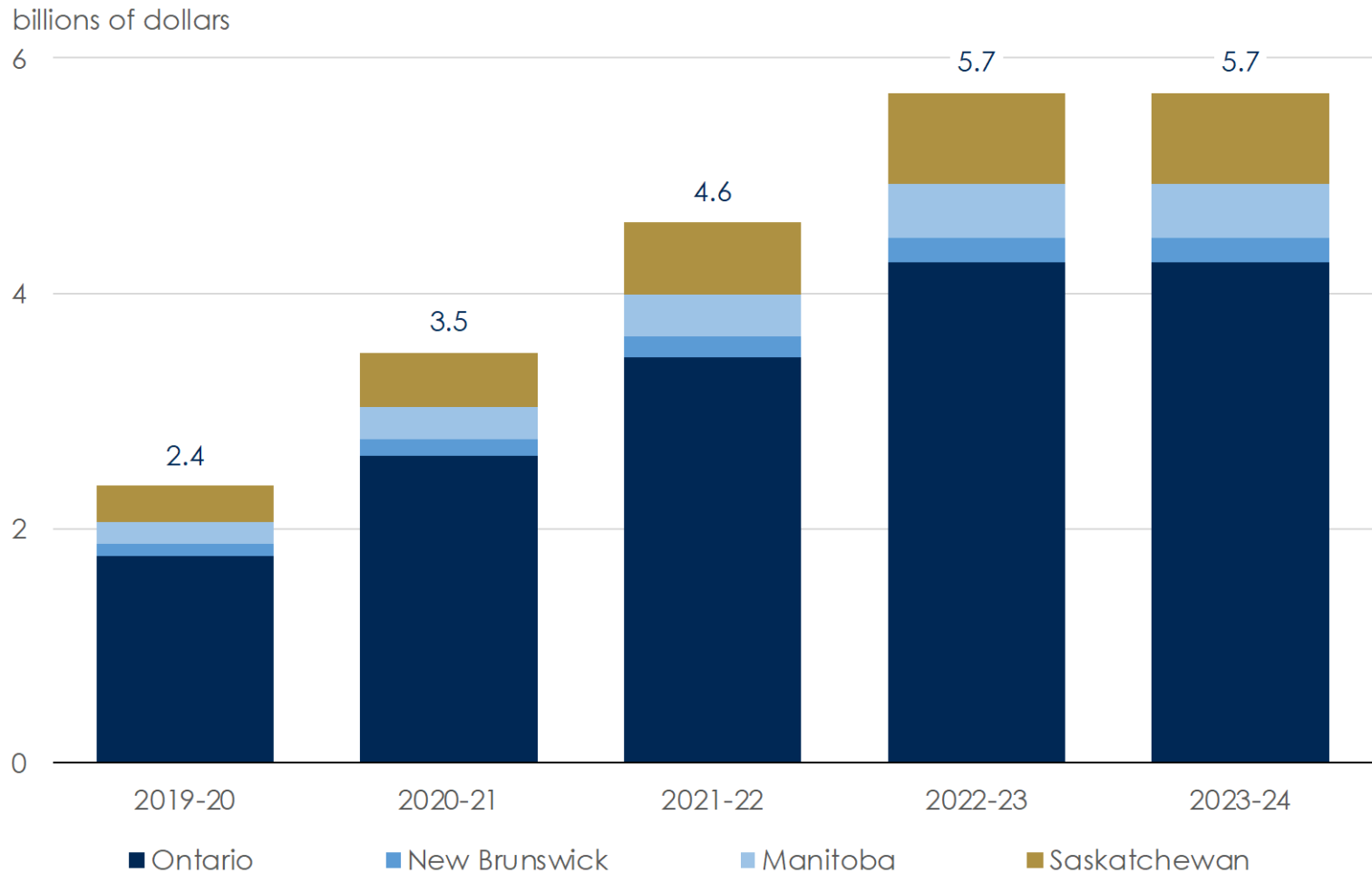
Notes: Data is taken from the Infrastructure Canada Open Data Portal. Data retrieved on September 14, 2018.

And then there's more spending

- National Housing Strategy
- Defence Policy Review
- National Pharmacare
- Investing in Canada Plan
- Poverty Reduction Strategy

And let's not forget carbon pricing

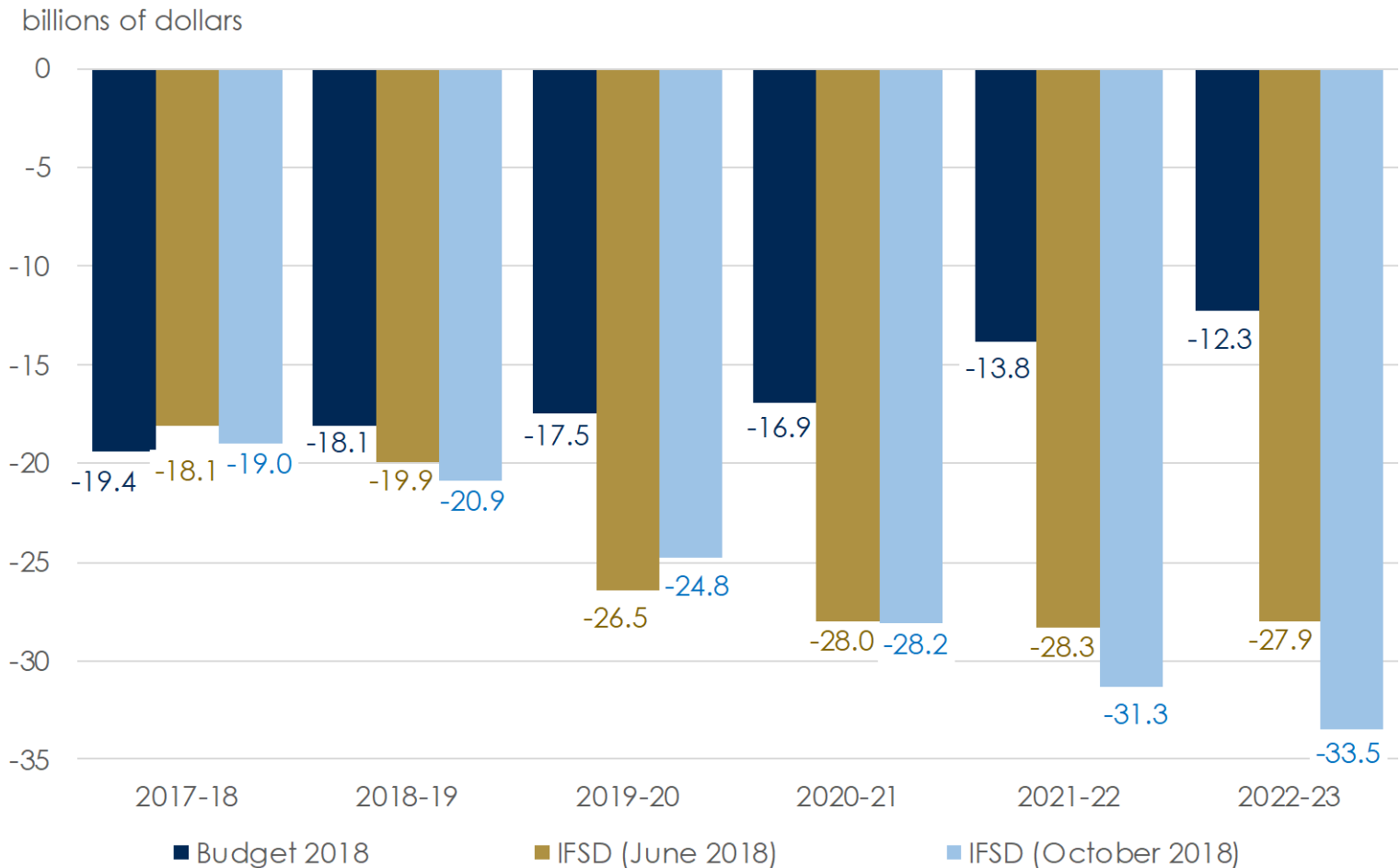
Federal Carbon Tax Proceeds and Distributions



Source: Government of Canada.

The IFSD expects big deficits ...

Federal Budget Balance Forecast Comparison

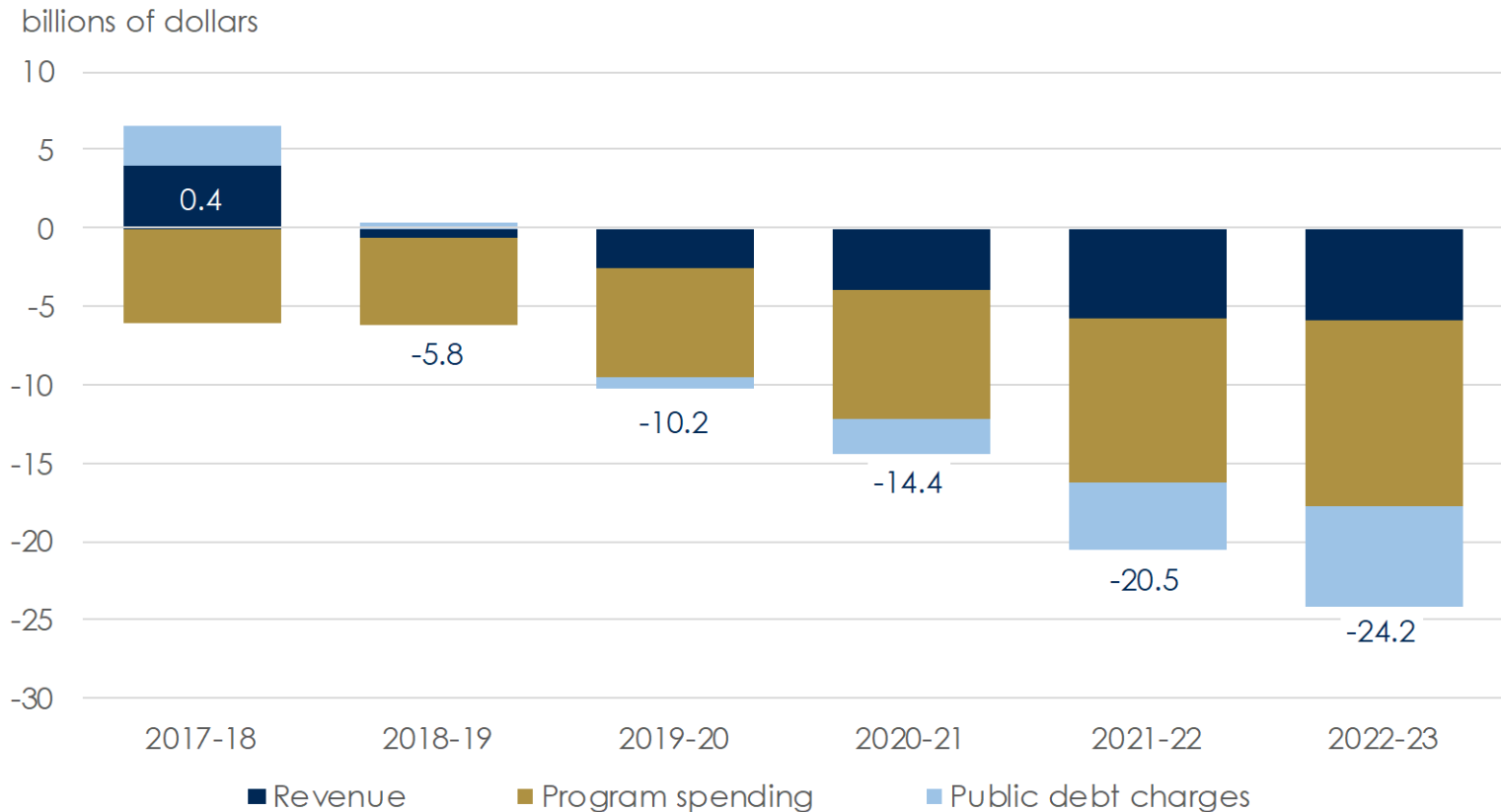


Sources: Government of Canada, Institute of Fiscal Studies and Democracy (IFSD).

Note: The budget balance forecast for the 2017-18 fiscal year for IFSD (October 2018) is the actual number.

... largely driven by expenses ...

Causes of IFSD and GoC Forecast Differences

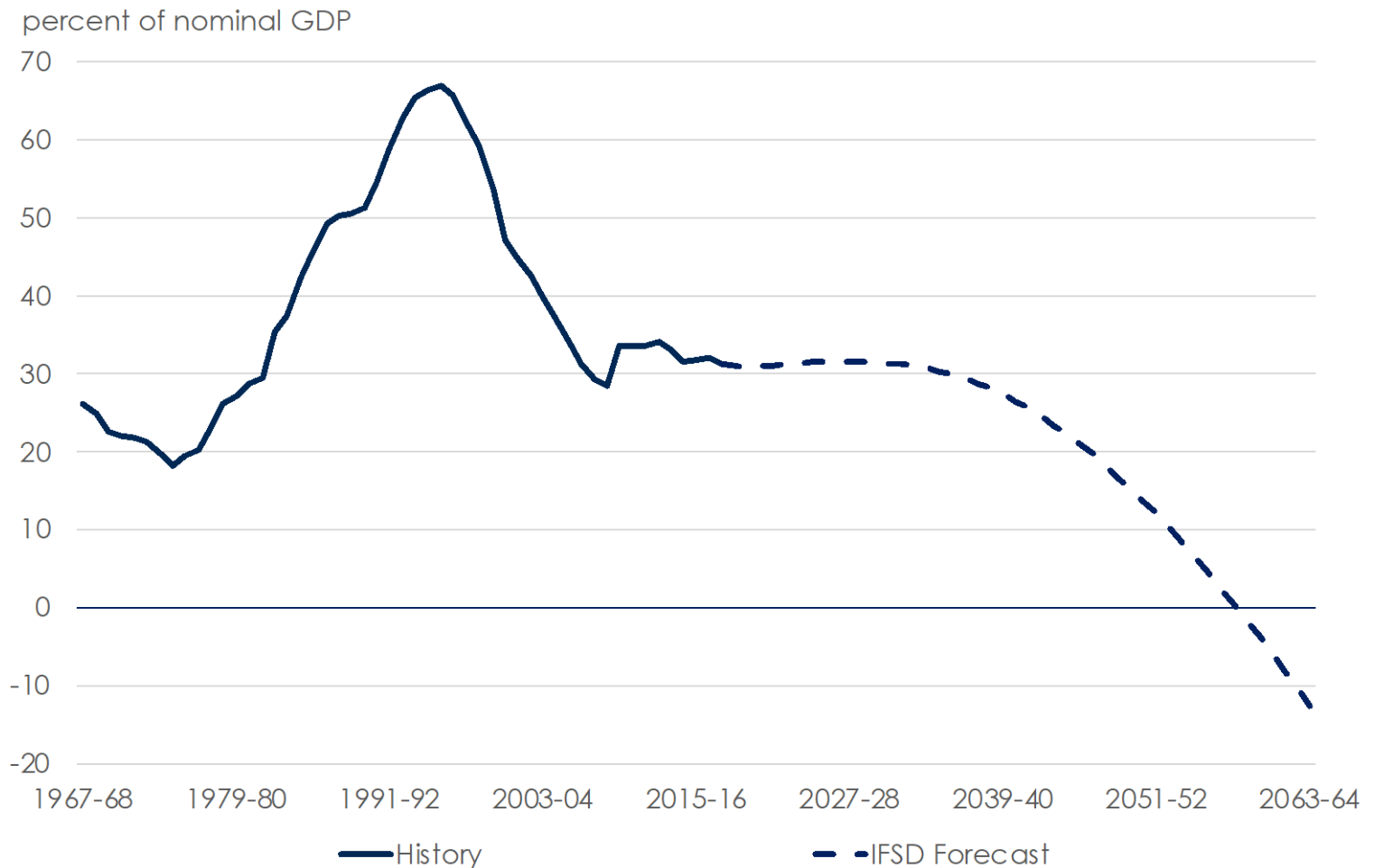


Sources: Government of Canada, Institute of Fiscal Studies and Democracy (IFSD).

Notes: The bars represent the contributions to the difference in the budget balance forecasts of the IFSD in October 2018 and the Government of Canada (GoC) in Budget 2018, reflecting economic and fiscal forecast differences. The Budget 2018 numbers used do not reflect the 'Adjustment for risk'. The fiscal 2017-18 IFSD number is actual. These numbers do not include the federal carbon-pricing regime introduced in October 2018.

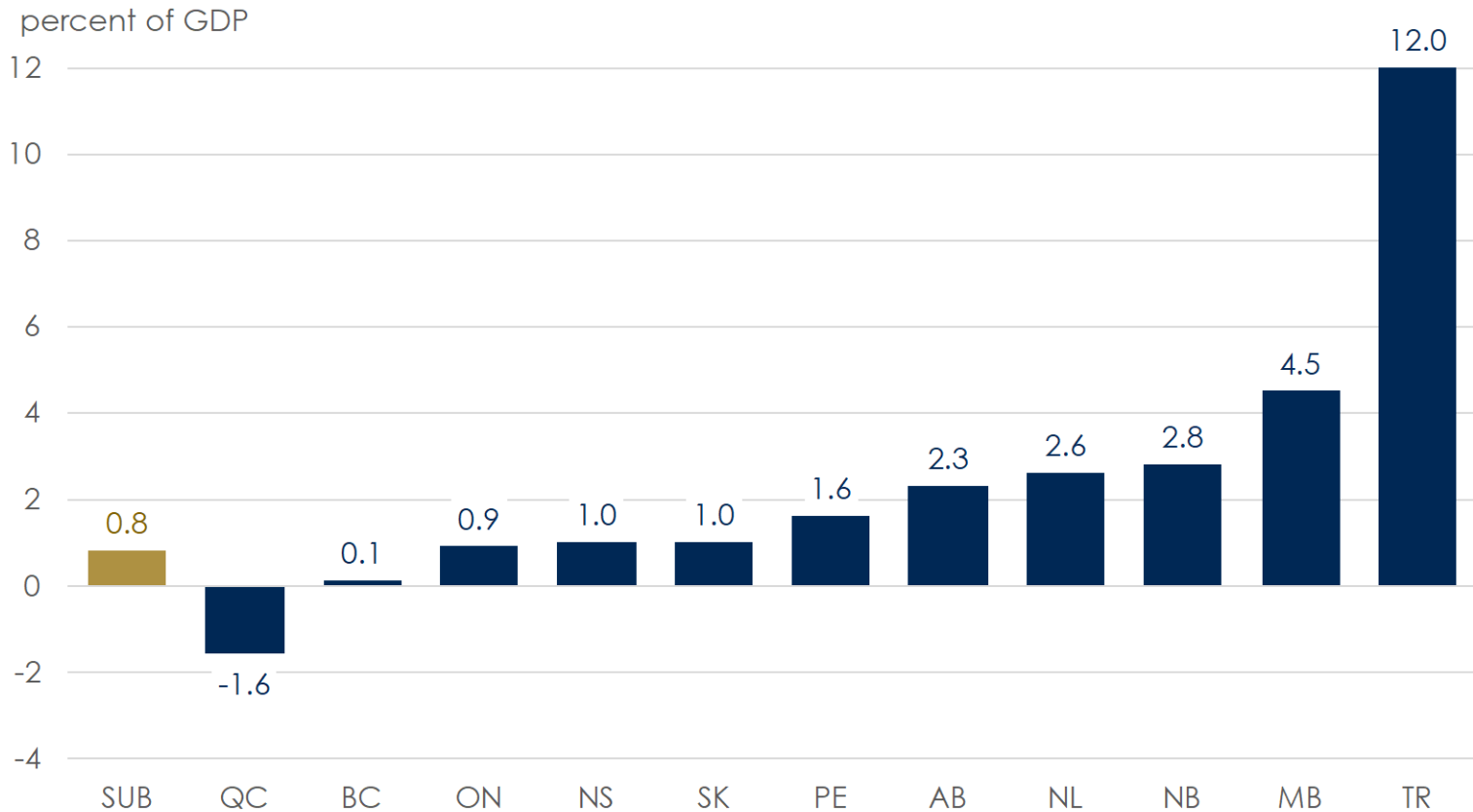
... but debt to GDP should fall

IFSD Federal Debt (Accumulated Deficit) Outlook



The provinces are worse off

Subnational Government Fiscal Gap Estimates



Source: Parliamentary Budget Officer.

Notes: Fiscal gaps for each provinces and the territories are expressed relative to their corresponding provincial and territorial GDP. SUB refers to the consolidated subnational government sector, and is expressed relative to Canadian GDP. The projection period covers 2018 to 2092, and can be found in the PBO's Fiscal Sustainability Report 2018.

Conclusion

- The Canadian economy is performing well
- The outlook is for deficits, deficits, and more deficits at the federal level
- But the federal government's books are fiscally sustainable
- However, the federal situation in the provinces is not nearly as rosy



uOttawa

Thank You



Follow us on Twitter:

[@IFSD_IFPD](https://twitter.com/IFSD_IFPD)

Join our email list:

info@ifsd.ca

Visit our website: www.ifsd.ca

Randall Bartlett, CFA

Chief Economist

Institute of Fiscal Studies and Democracy

November 20, 2018