

# ONTARIO'S LONG-TERM REPORT ON THE ECONOMY

---

MINISTRY OF FINANCE

For electronic copies of *Ontario's Long-Term Report on the Economy*,  
visit our website at [www.ontario.ca/longtermreport](http://www.ontario.ca/longtermreport)

© Queen's Printer for Ontario, 2020  
ISBN 978-1-4868-4562-0 (Print)  
ISBN 978-1-4868-4563-7 (HTML)  
ISBN 978-1-4868-4564-4 (PDF)

Ce document est disponible en français sous le titre :  
*Rapport sur les perspectives économiques à long terme de l'Ontario*

# Contents

<b>Introduction .....</b>	<b>1</b>
Purpose of the Long-Term Report on the Economy .....	1
Uncertainty Stemming from the COVID-19 Pandemic.....	2
Ontario’s Response to COVID-19.....	3
Looking Ahead Post COVID-19 .....	4
<b>Chapter 1: Demographic Trends and Projections.....</b>	<b>5</b>
Introduction .....	5
1. Continued Population Growth .....	6
2. Immigration-Driven Population Growth .....	9
3. Population Growth Concentrating in the Largest Urban Areas.....	13
Population Growth in the Greater Toronto Area .....	15
4. Rapid Increase in the Number and Proportion of Seniors.....	17
5. Slower Growth for the Core-Age Population .....	22
Alternative Scenarios .....	23
Potential Implications of COVID-19 on Ontario’s Demographics .....	26
<b>Chapter 2: Economic Trends and Projections.....</b>	<b>27</b>
Introduction .....	27
1. Moderating Growth of the Labour Force .....	28
2. Continued Productivity Growth.....	31
3. Slowing Economic Growth Driven by Demographics.....	33
Long-Term Growth Projections .....	36
Prices and Nominal GDP Growth.....	36
Ontario Projected Potential Output Growth .....	37
Global Economic Environment.....	37
Other Perspectives on Long-Term Growth .....	41

Alternative Scenarios and Risks .....	42
Labour Force Growth .....	42
Productivity Growth .....	43
Global Economic Environment .....	43
Potential Implications of COVID-19 on Ontario’s Long-Term Economic Growth.....	44
Appendix: External Environment.....	45
<b>Chapter 3: Implications of Demographic and Economic Trends for the Public Sector and Fiscal Policy .....</b>	<b>47</b>
Introduction .....	47
Past Trends in Ontario Government Services and Finances .....	48
Demand for Public Services .....	48
Government Revenues .....	52
Government Deficits .....	54
Government Debt.....	55
Debt Financing Costs .....	57
1. Implications of Demographic and Economic Trends for Public Services .....	58
Demand for Public Services .....	58
Population .....	59
Aging .....	61
Service Enhancement.....	62
Inflation .....	63
Future Fiscal Pressures.....	64
2. Implications of Demographic and Economic Trends for Revenue Growth.....	66
Revenue Growth Driven by Economic Growth.....	66
Income from Retirement Savings Withdrawals .....	67

3. Ongoing Measures Will Be Needed to Support Fiscal Sustainability .....	69
Sustainability of Government Finances.....	69
Office of the Auditor General of Ontario <i>Annual Report 2019</i> :	
Debt Sustainability Commentary and Recommendations .....	70
Enshrining the Importance of Fiscal Sustainability in Legislation .....	75
Alternative Scenarios and Risks .....	76
Potential Implications of COVID-19 on Ontario's Finances .....	78
<b>Conclusion.....</b>	<b>79</b>

# Tables

## Chapter 1: Demographic Trends and Projections

Table 1.1	Scenarios for Population Growth and Age Distribution .....	25
Table 1.2	Projected Population Growth by Other Organizations.....	25

## Chapter 2: Economic Trends and Projections

Table 2.1	Summary of Key Economic Variables .....	37
Table 2.2	Key External Economic Assumptions .....	38
Table 2.3	Comparison with Other Long-Term Real GDP Projections .....	41
Table 2.4	Alternate Labour Force Scenarios .....	42
Table 2.5	Alternate Labour Productivity Scenarios.....	43

## Chapter 3: Implications of Demographic and Economic Trends for the Public Sector and Fiscal Policy

Table 3.1	Ontario Health Spending by Age Group .....	61
-----------	--	----

# Charts

## Chapter 1: Demographic Trends and Projections

Chart 1.1	Growth Rate of Ontario’s Population, 1971 to 2046.....	6
Chart 1.2	Annual Growth of Ontario’s Population, 1971 to 2046 .....	7
Chart 1.3	Population Growth Rate, Selected Countries, 1998 to 2018.....	8
Chart 1.4	Natural Increase and Net Migration in Ontario, 1971 to 2046.....	9
Chart 1.5	Annual Immigration to Ontario, 1971 to 2046 .....	10
Chart 1.6	Age Distribution of Immigrants to Ontario, 2018–19 .....	11
Chart 1.7	Net Interprovincial Migration to Ontario, 1971 to 2019.....	12
Chart 1.8	Projected Regional Population Growth, 2019 to 2046 .....	14
Chart 1.9	Population of the Greater Toronto Area, 1986 to 2046 .....	15
Chart 1.10	Population Growth Rate in the 10 Most Populous Metropolitan Areas in North America, 2018–19 .....	16
Chart 1.11	Total Fertility Rate in Ontario, 1921 to 2046 .....	17
Chart 1.12	Life Expectancy at Birth in Ontario, 1986 to 2046.....	18
Chart 1.13	Age Composition of Ontario’s Population, 1971 to 2046.....	19
Chart 1.14	Distribution of the Population of Seniors in Ontario, 1971 to 2046.....	20
Chart 1.15	Proportion of Seniors, Selected Countries, 2018 .....	21
Chart 1.16	Growth Rate of the Core-Age Group, 1971 to 2046.....	22
Chart 1.17	Population Projections Scenarios for Ontario .....	24

## Chapter 2: Economic Trends and Projections

Chart 2.1	Ontario Labour Force Participation Rates by Age Group .....	28
Chart 2.2	Labour Force Growth: Ontario, G7 Countries and Provinces .....	30
Chart 2.3	Ontario Labour Productivity Growth .....	32
Chart 2.4	Components of Potential Real GDP Growth .....	33
Chart 2.5	Economic Growth Projected to Slow .....	35
Chart 2.6	Nominal GDP Growth Projected to Slow.....	36

Chart 2.7	Exports to Other Countries and Services Exports Have Grown Strongly .....	39
Chart 2.8	Shifting Structure of Ontario’s Economy .....	40

### **Chapter 3: Implications of Demographic and Economic Trends for the Public Sector and Fiscal Policy**

Chart 3.1	Past Trends in Government Services, Ontario, 1982 to 2019 .....	49
Chart 3.2	Ontario Total Expense to GDP, 1981–82 to 2020–21 .....	50
Chart 3.3	Ontario Government Program Spending, 1981–82 to 2018–19 .....	51
Chart 3.4	Ontario Government Revenues, 2018–19 .....	52
Chart 3.5	Ontario Government Revenues, 1981–82 to 2018–19 .....	53
Chart 3.6	Fiscal Balance, 1981–82 to 2020–21 .....	54
Chart 3.7	Ontario Net Debt-to-GDP, 1981–82 to 2020–21 .....	55
Chart 3.8	Provincial Net Debt-to-GDP Comparisons .....	56
Chart 3.9	Growing Provincial Debt Supported by Low Interest Rates .....	57
Chart 3.10	Demand for Public Services Expected to Rise .....	58
Chart 3.11	School-Age Population in Ontario, 1971 to 2046 .....	60
Chart 3.12	Postsecondary Participation and Population, Ages 18 to 24 .....	62
Chart 3.13	Past Trends in Ontario Government Price Inflation, 1993 to 2019 .....	63
Chart 3.14	Demand for Public Services Expected to Rise .....	64
Chart 3.15	Demand for Public Services Expected to Outpace GDP Growth....	65
Chart 3.16	Nominal GDP Growth and Total Provincial Revenue .....	66
Chart 3.17	Select Retirement Savings and Related Income, 1994 to 2017 .....	67
Chart 3.18	Higher Productivity Growth Could Help Fund Public Services .....	77



# Purpose of the Long-Term Report on the Economy

*Ontario's Long-Term Report on the Economy* presents an assessment of the province's future economic and fiscal environment, based on past trends and current projections. This longer term perspective provides important context for planning towards the opportunities and challenges the province is likely to face in the coming decades.

The Ontario government's commitment to deliver a long-term assessment is one component of its approach to fiscal sustainability, transparency and accountability. The legislative requirements regarding this report are included in the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (FSTAA):

***“Long-range assessment of economic and fiscal environment***

*s 12(1) Within two years after the most recent general election, as defined in section 1 of the Election Act, the Minister shall release a long-range assessment of Ontario's economic and fiscal environment.*

***Contents of assessment***

*s 12(2) The long-range assessment must include the following information:*

- 1. A description of anticipated changes in the economy and in population demographics during the following 20 years.*
- 2. A description of the potential impact of these changes on the public sector and on Ontario's fiscal policy during that period.*
- 3. An analysis of key issues of fiscal policy that, in the Minister's opinion, are likely to affect the long-term sustainability of the economy and of the public sector.”*

In addition to describing the anticipated changes in demographics (see *Chapter 1: Demographic Trends and Projections*) and the economy (see *Chapter 2: Economic Trends and Projections*), this report discusses the factors that are likely to impact the provincial economy and finances over time (see *Chapter 3: Implications of Demographic and Economic Trends for the Public Sector and Fiscal Policy*). It is not possible to predict all the potential changes and developments that could occur over this period. At the same time, it is important to understand and better plan for the things that are reasonably certain, such as the growth and aging of the population, while also assessing the potential alternative scenarios and risks that could place the province on a different path.

## **Uncertainty Stemming from the COVID-19 Pandemic**

The outbreak and rapid global spread of COVID-19 in 2020 has unexpectedly shocked the global economy, disrupted financial markets and caused economic and social hardships for many people in Ontario. Although Ontario has and will continue to feel the impacts, the full extent remains unknown.

In response to COVID-19, coordinated actions by governments and central banks around the globe are supporting people, families, businesses and the economy. The impact and spread of the pandemic are being closely monitored. The Province continues to work in cooperation with the Government of Canada and its other partners to coordinate its response to the outbreak, as well as the restart and the recovery of the economy.

## Ontario's Response to COVID-19

On March 25, 2020, the Minister of Finance released *Ontario's Action Plan: Responding to COVID-19* (Action Plan), which included \$17 billion in new measures to increase resources for the health care system, support people and jobs, and improve cash flows for people and businesses. Key initiatives in the government's plan include:

- A COVID-19 health sector response contingency fund of \$1 billion for any emerging needs to support the Province's timely response to the outbreak;
- \$935 million for the hospital sector to address capacity issues and provide additional acute care and critical care beds, as well as more assessment centres;
- One-time payments of \$200 per child up to 12 years of age, and \$250 for those with special needs, to help offset extra costs associated with the closure of schools and daycares;
- Supporting more affordable electricity bills by temporarily setting time-of-use electricity prices at the lowest rate; and
- Making \$10 billion available to improve cash flows for people and businesses through tax and other deferrals.

In addition to the measures noted in the Action Plan, the government has taken further steps to provide immediate support to respond to the COVID-19 outbreak and ensure people, businesses and the economy are well-positioned for a strong recovery. This includes:

- Measures to help contain the spread of COVID-19 by closing non-essential workplaces;
- Providing temporary pandemic pay of \$4 per hour worked on top of regular wages, as well as monthly payments of \$250, for eligible frontline workers fighting COVID-19;
- Launching a new \$50 million Ontario Together Fund to help businesses provide innovative solutions or retool their operations in order to manufacture essential medical supplies and equipment including gowns, coveralls, masks, face shields, testing equipment and ventilators;

- Partnering with the federal government to provide urgent relief to small businesses and their landlords through the new Canada Emergency Commercial Rent Assistance Program;
- Providing additional relief to Ontario’s most vulnerable citizens, including working with the Ontario Community Support Association to launch a new Ontario Community Support Program to expand existing Meals on Wheels services; and
- Supporting the agri-food sector including new funding to connect workers with in-demand jobs to keep supply chains strong and store shelves stocked.

## Looking Ahead Post COVID-19

The actions being taken to support people and jobs through the COVID-19 pandemic are currently the central focus of governments in Canada and globally. History shows that periods of slowing economic activity are followed by a period of relatively strong growth. Future growth will be supported by Ontario’s strong economic fundamentals, including diversification among many robust sectors, a highly skilled workforce, and a motivated population. This foundation has been enhanced by the steps the government has taken to reduce business costs, invest in infrastructure, reduce unnecessary regulatory burden and further enhance labour force skills.

While the potential implications for long-term economic and financial trends arising from COVID-19 will be discussed, this report will focus on the key factors affecting the provincial economy after the recovery from COVID-19 is complete. The long-term economic implications of COVID-19 are highly uncertain, and as such, this report focuses on key trends observed over the past 50 years that are expected to continue in the future, such as the slowing growth and increasing aging of the population.

# Chapter 1: Demographic Trends and Projections

---

## Introduction

This chapter describes anticipated changes in Ontario's population over the next quarter century. These changes are broadly consistent with demographic trends that have taken place in the province over the last 50 years. Based on these demographic trends, there are five key implications for the future:

1. Continued population growth;
2. Population growth driven by immigration;
3. Concentration of population growth in the largest urban areas;
4. Rapid increase in the number and proportion of seniors; and
5. A period of slower growth among the core-age population.

The demographic outlook reflects the latest population projections published by the Ontario Ministry of Finance.<sup>1</sup> These projections are based on assumptions that reflect past trends in all streams of migration and the continuing evolution of long-term patterns. The projections presented in this report are for the reference, or medium-growth scenario, which is considered most likely to occur if recent trends continue. Alternative scenarios and a discussion of the potential impact of the COVID-19 outbreak on Ontario's population growth are also discussed.

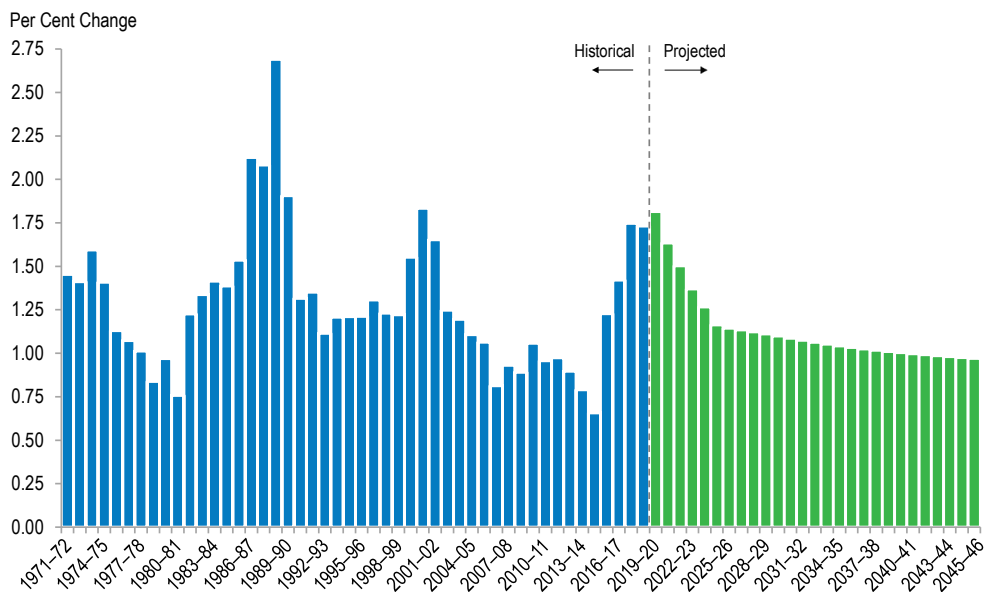
---

<sup>1</sup> Ontario Population Projections, 2018-2046 (summer 2019):  
<https://www.fin.gov.on.ca/en/economy/demographics/projections/>

# 1. Continued Population Growth

Since 1971, Ontario’s population has almost doubled, from 7.8 million to 14.6 million in 2019. Over this time period, the provincial population grew at an average pace of 1.3 per cent, or 140,000 annually. Ontario’s share of the Canadian population also rose, from 35.7 per cent in 1971 to 38.8 per cent in 2019.

**Chart 1.1**  
**Growth Rate of Ontario's Population, 1971 to 2046**

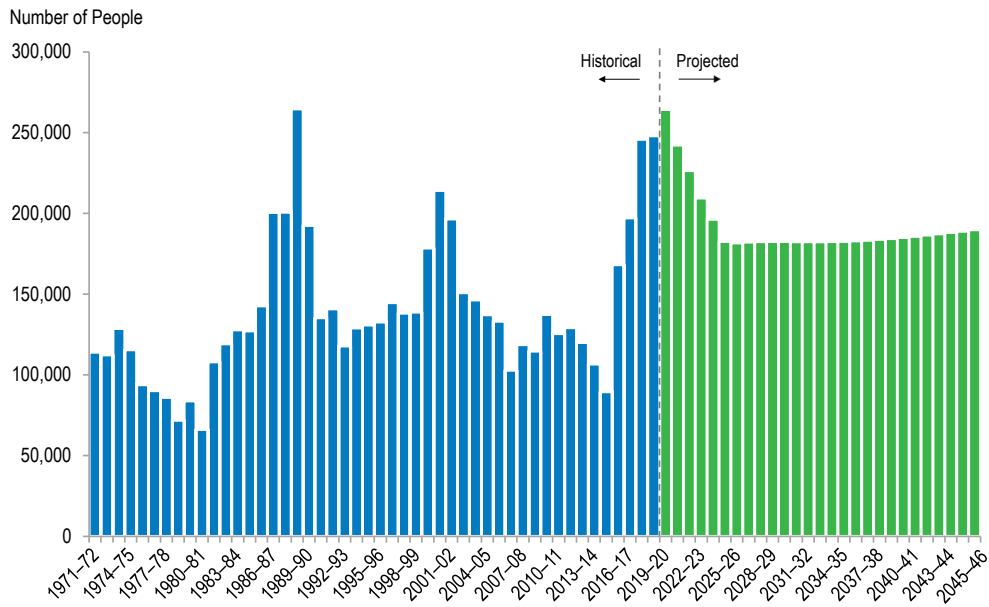


Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

Provincial population growth has accelerated in recent years, starting in the summer of 2016. In 2018–19 alone, Ontario’s population increased by 248,000 (1.7 per cent). This is much faster than the average annual growth of 121,000 (0.9 per cent) observed in the preceding decade (2006 to 2016). The population of the province grew faster due to increased immigration, a rapidly growing number of non-permanent residents including international students, and positive interprovincial migration.

Ontario’s population is projected to continue growing but at a moderating pace, from 1.8 per cent in 2019–20 declining over time to 1.0 per cent by 2045–46.<sup>2</sup> The annual population growth rate is projected to decline as the recent rapid increase in the number of non-permanent residents is assumed to slow down and return to more normal values by 2025. While the growth rate is projected to slowly decline in the long term, the annual growth in the number of people is projected to increase, from 182,000 per year in 2025–26 to 190,000 annually by 2045–46. Provincial population is projected to rise from 14.6 million in 2019 to 19.8 million in 2046. This represents an increase of 5.2 million (36 per cent) over the next 27 years.

**Chart 1.2**  
**Annual Growth of Ontario’s Population, 1971 to 2046**



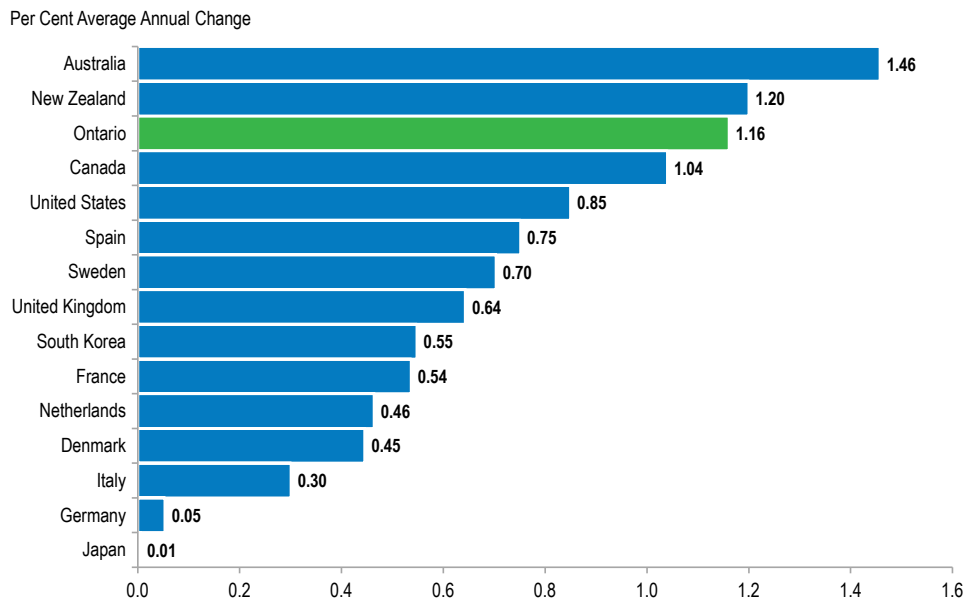
Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

<sup>2</sup> This report uses the same end year of 2046 as the *Ontario Population Projections, 2018–2046*, as it is 30 years from the Census base of 2016.

## Ontario's Population Growth in Perspective

Compared to other advanced economies, Ontario's and Canada's populations have been growing at a relatively fast pace over the last 20 years. This is mainly due to immigration. Other countries with high immigration rates, such as Australia and New Zealand, also grew faster than most other developed countries over the last two decades.

Chart 1.3  
**Population Growth Rate, Selected Countries, 1998 to 2018**



Sources: Statistics Canada (Ontario and Canada) and World Bank.

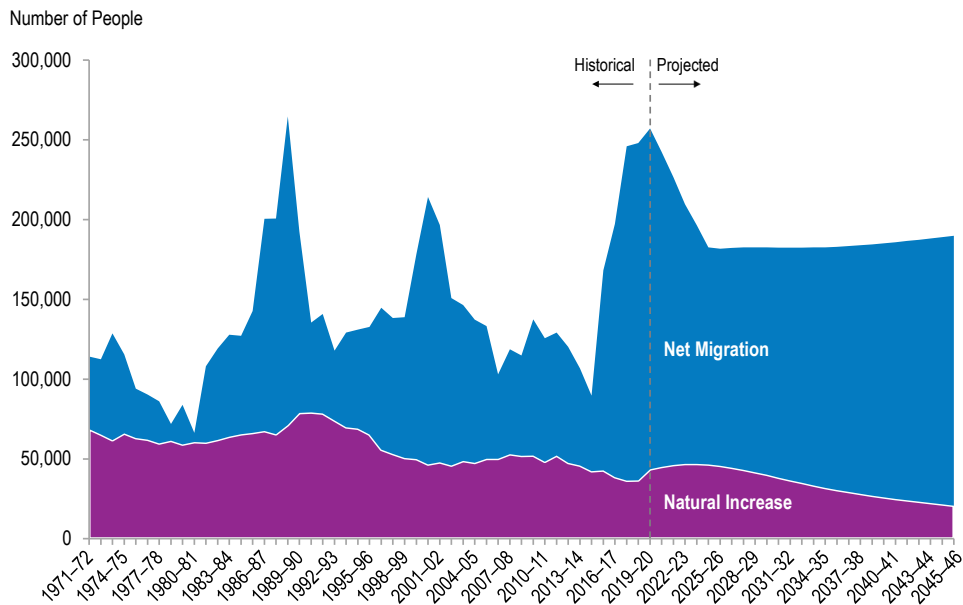


## 2. Immigration-Driven Population Growth

The share of annual population growth coming from natural increase, which is births minus deaths, has been declining over the last 50 years. Accordingly, low fertility rates, an aging population and rising immigration have resulted in an increasing contribution of net migration to provincial population growth. Net migration is the sum of all arrivals minus departures in a given time period. For Ontario, this includes both net international and net interprovincial migration.

In the 1970s, about one-third of population growth was coming from net migration and two-thirds from natural increase. The situation has reversed. Over the last 10 years, natural increase accounted for 28 per cent of population growth in Ontario, and net migration for 72 per cent.

Chart 1.4  
**Natural Increase and Net Migration in Ontario, 1971 to 2046**

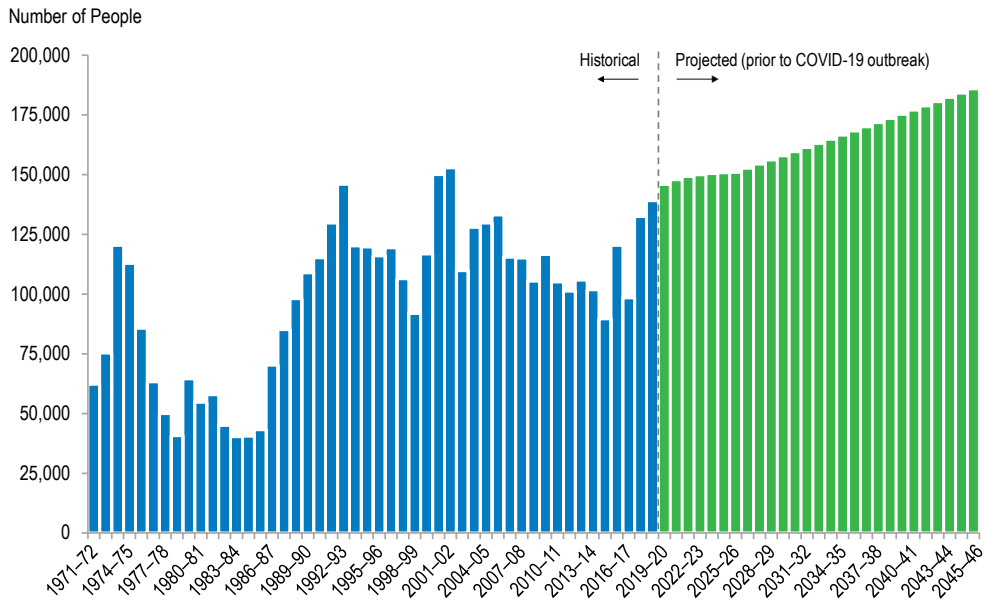


Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

This trend is expected to continue over the projection period to 2046, as fertility rates are forecasted to remain steady, the population to continue aging and immigration rates to remain stable. By 2045–46, only 11 per cent of Ontario’s population growth is projected to come from natural increase, with net migration becoming by far the main source of population growth (89 per cent).

Immigration is the largest component of net migration. During calendar year 2019, 153,413 immigrants settled in Ontario, accounting for 45 per cent of all immigrants to Canada. This number of immigrants is equivalent to the entire population of the city of Barrie. Before the COVID-19 outbreak (refer to the discussion at the end of this chapter), national immigration levels were expected to increase in the short term, consistent with the federal immigration plan. For Canada as a whole, the immigration target was set to rise from 341,000 in 2020 to 361,000 in 2022.

**Chart 1.5**  
**Annual Immigration to Ontario, 1971 to 2046**



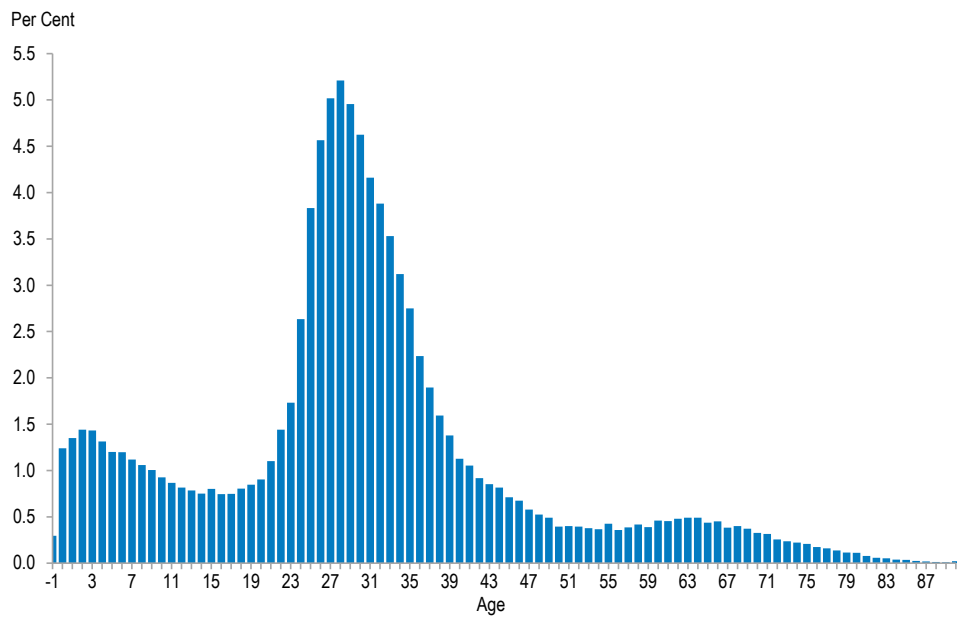
Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

Over the remainder of the projections, which were prepared prior to the COVID-19 outbreak, annual immigration to Ontario is projected to remain strong and to increase gradually as the provincial population grows. From 2019 to 2046, 4.4 million new immigrants are projected to settle in Ontario.

## Age Distribution of Immigrants

Immigrants to Ontario are relatively young compared to the resident population. In 2018–19, two-thirds (67 per cent) of all immigrants who settled in the province were between the ages of 18 and 44. The median age of 2018–19 newcomers was 29 years, compared to 40 years for the resident population.

Chart 1.6  
**Age Distribution of Immigrants to Ontario, 2018–19**



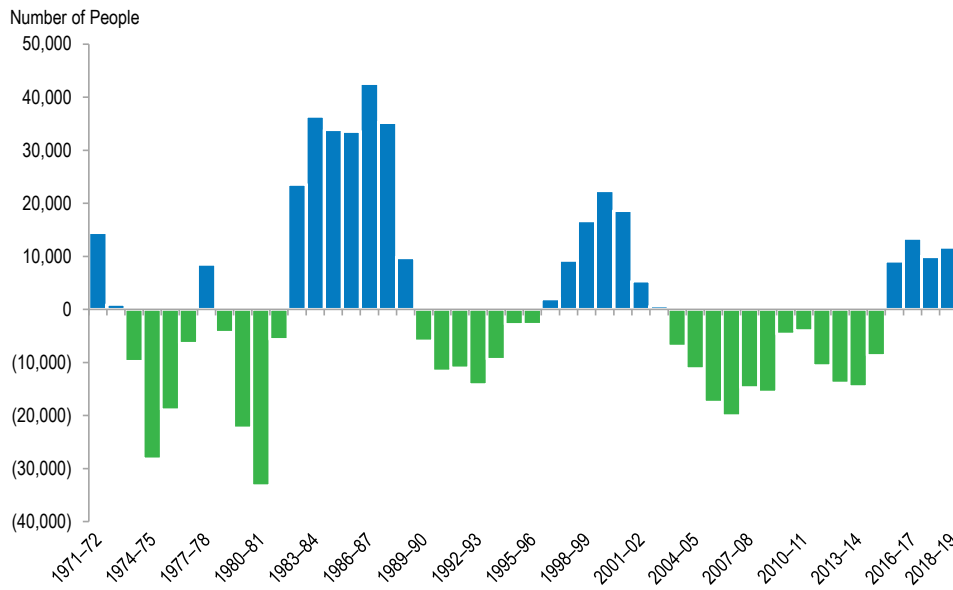
Source: Statistics Canada.

Over the projection period to 2046, other migration components will also have an impact on the pace of population growth in the province. Almost 800,000 people in Ontario are projected to emigrate from the province to other countries. Additionally, Ontario is projected to see a modest net gain of almost 30,000 people through interprovincial migration from the rest of Canada.

## Interprovincial Migration

In any given year, net gains or losses of people to and from other provinces can have a significant impact on annual population growth in the province. However, over longer time periods the contribution of interprovincial migration to Ontario's population growth has been minor. This is because periods of annual net gains usually alternate with periods of yearly net losses, in a pattern closely tied to economic cycles.

Chart 1.7  
**Net Interprovincial Migration to Ontario, 1971 to 2019**



Source: Statistics Canada.

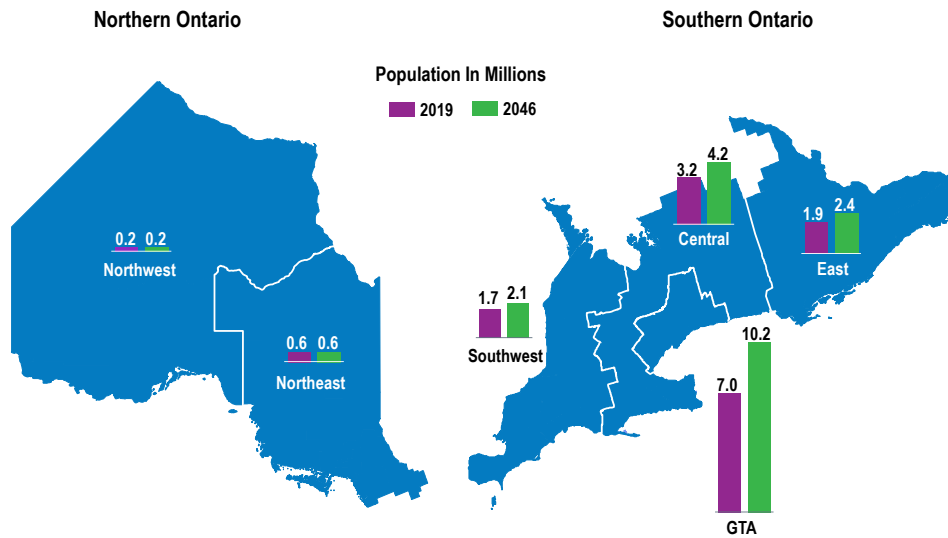
### 3. Population Growth Concentrating in the Largest Urban Areas

As outlined previously, provincial population growth has increasingly been driven by immigration. Immigrants mostly chose to settle in the largest urban centres, which has resulted in relatively stronger population growth in the largest cities, particularly the Greater Toronto Area (GTA).

Over the last 20 years, 80 per cent of all immigrants to Ontario initially settled in the GTA, 8 per cent in Central Ontario, 6 per cent in the East, 5 per cent in the Southwest and less than 1 per cent in the North. Since four out of five newcomers to Canada are below the age of 40, regions selected by more immigrants have experienced slower population aging. Their younger populations have also resulted in more births, which contributed to slow the decline in natural increase. These trends are projected to continue.

At the same time, smaller towns and rural areas where natural increase had previously been the main or sole source of population growth are seeing their population growth slow, and in some cases decline. In 2018–19, deaths exceeded births (negative natural increase) in 29 of the 49 census divisions in the province, up from 13 census divisions 20 years ago. Among regions, only the North experienced natural decrease in 2018–19 with deaths exceeding births. By 2045–46 the GTA is the only region where natural increase is projected to remain positive.

Chart 1.8  
**Projected Regional Population Growth, 2019 to 2046**



*Note:* Rounding may result in growth not matching change in totals.  
*Sources:* Statistics Canada for 2019 and Ontario Ministry of Finance projections.

The GTA’s population is expected to grow by 47 per cent to 2046, adding another 3.3 million people to reach 10.2 million residents. This is 11 percentage points higher than the overall growth of 36 per cent projected for the province as a whole. The region would account for nearly two-thirds of provincial population growth over the period. It is projected that 52 per cent of people in Ontario will live in the GTA by 2046, up from 48 per cent in 2019. In the five other regions of the province the population will keep growing, but at a slower pace.

The population of Central Ontario is projected to grow at a pace close to the provincial average. The region is projected to grow by one million residents, or 32 per cent, from 3.2 million in 2019 to 4.2 million by 2046.

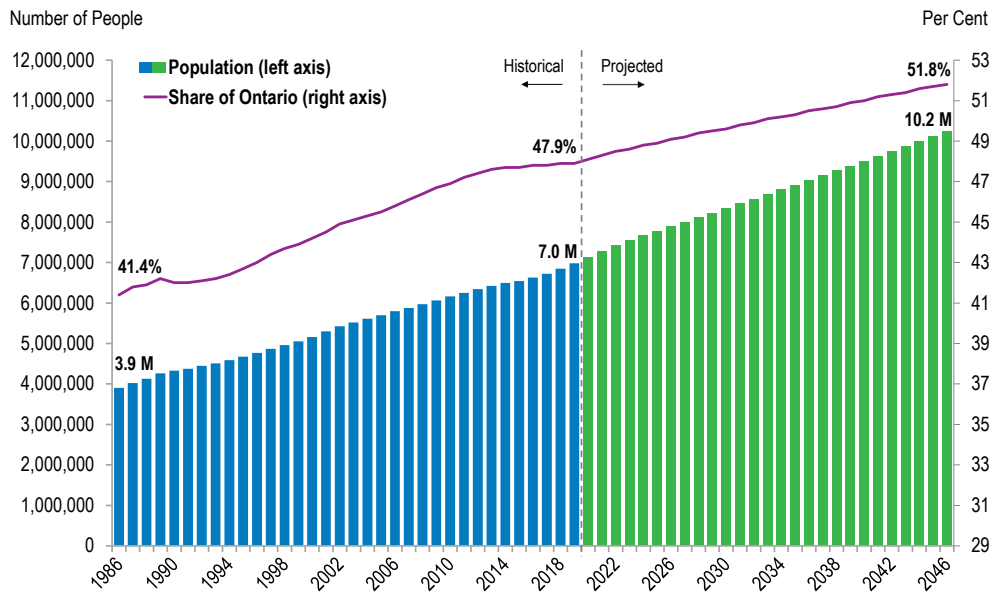
Both Eastern and Southwestern Ontario are projected to experience population growth to 2046 at a slower pace than the province as a whole. Eastern Ontario is projected to see population growth of 507,000, or 27 per cent over the period, from 1.9 million in 2019 to 2.4 million by 2046. The population of Southwestern Ontario is projected to grow by 389,000, or 23 per cent, from 1.7 million to 2.1 million.

Population growth trends for the North changed significantly over the past few years, driven by rapid growth in the number of non-permanent residents living in the region. The population of Northern Ontario is projected to remain relatively stable, with a slight increase of 2.0 per cent, from 811,000 in 2019 to 828,000 by 2046. Within the North, the Northeast is projected to see its population edging up by 10,000, or 2.0 per cent, from 568,000 to 579,000. The Northwest is also projected to experience slight population growth of 6,000 people, or 2.5 per cent, from 243,000 to 249,000.

## Population Growth in the Greater Toronto Area

The GTA is one of the fastest-growing metropolitan areas in North America. In 2018–19, its population grew by 131,000, accounting for 53 per cent of provincial growth. Since 1986, the GTA added 3.1 million residents, growing from 3.9 million to 7.0 million in 2019. Over this time frame, the region experienced significantly faster growth than the rest of the province. As a result, the proportion of people in Ontario living in the GTA increased, from 41 per cent in 1986 to 48 per cent in 2019.

**Chart 1.9**  
**Population of the Greater Toronto Area, 1986 to 2046**

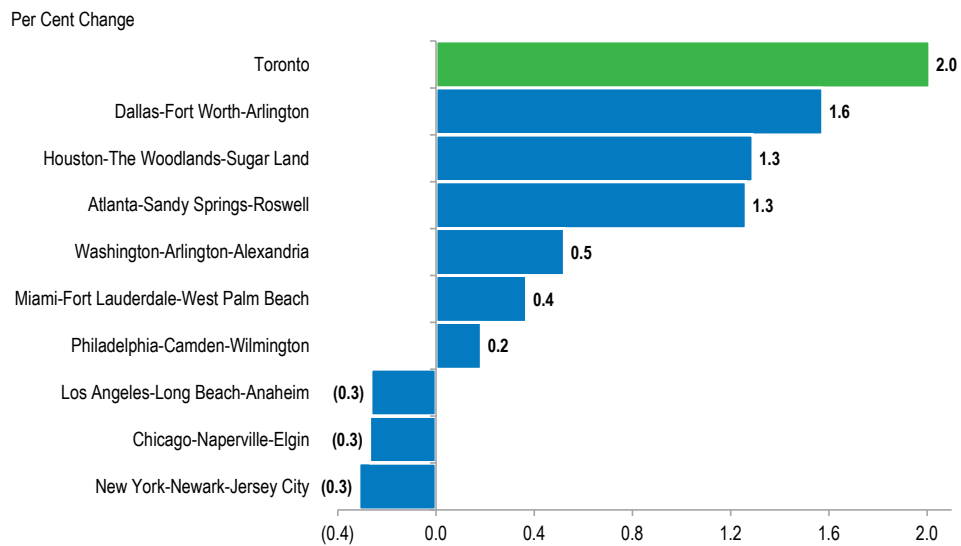


Sources: Statistics Canada for 1986–2019 and Ontario Ministry of Finance projections.

## Metropolitan Population Growth in Perspective

Among the top 10 most populous metropolitan areas in North America, the Toronto census metropolitan area grew fastest in 2018–19 at 2.0 per cent, followed by Dallas-Fort Worth-Arlington at 1.6 per cent.

Chart 1.10  
**Population Growth Rate in the 10 Most Populous Metropolitan Areas in North America, 2018–19**



Sources: Statistics Canada for the Toronto CMA and the U.S. Census Bureau for Metropolitan Statistical Area (MSAs).

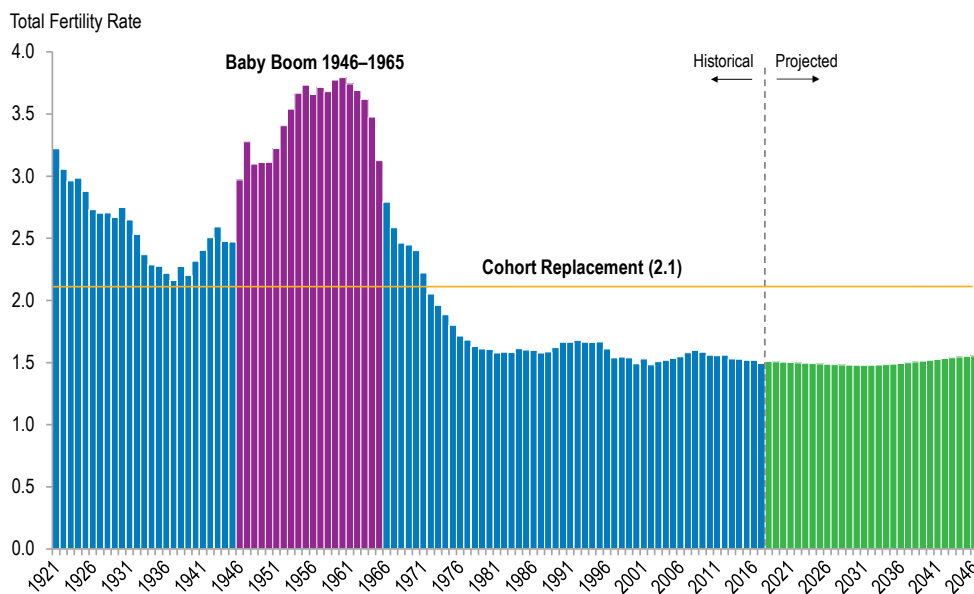


## 4. Rapid Increase in the Number and Proportion of Seniors

Population aging in Ontario is the result of low fertility rates, the aging of the large cohorts of baby boomers and increasing life expectancies.

Baby boomers, born from 1946 to 1965, are now aged 55 to 74. The largest cohorts were born in the early 1960s, when Ontario's total fertility reached a high of 3.8 children per woman. Following the baby boom, fertility rates declined rapidly over the rest of the 1960s and 1970s, falling below the cohort replacement<sup>3</sup> level of 2.1 children per woman in 1972. Since the late 1970s, Ontario's total fertility rate has been fairly stable, hovering in a narrow band between 1.45 and 1.65. The latest data available (2017) show a total fertility rate of 1.49 children per woman.

Chart 1.11  
Total Fertility Rate in Ontario, 1921 to 2046



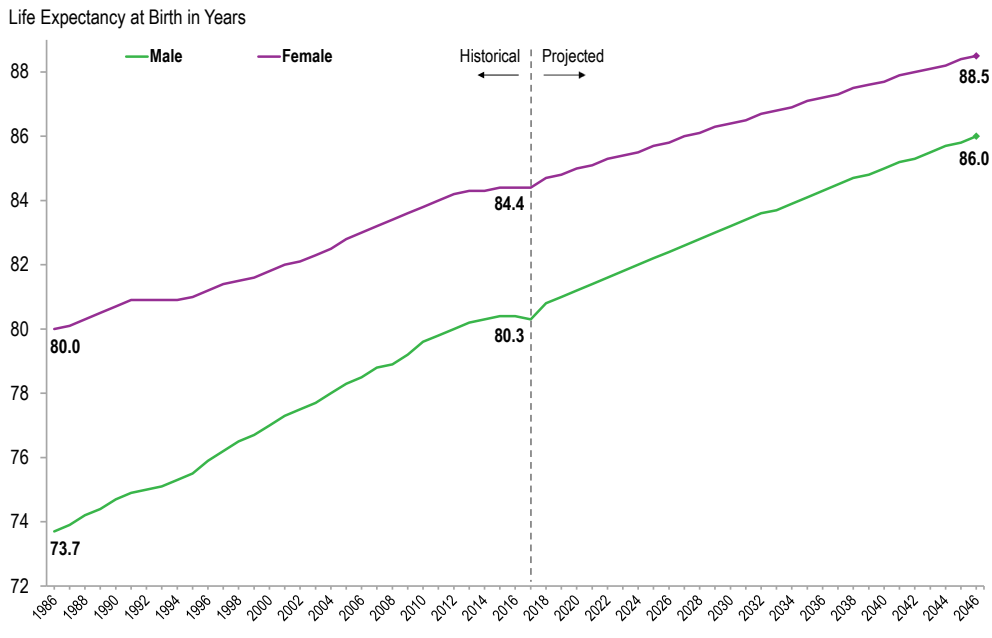
Source: Ontario Ministry of Finance.

<sup>3</sup> The cohort replacement fertility level (total fertility rate of 2.1) is the average number of children per woman that is needed to keep the population constant at given mortality rates with no outside migration.

Fertility rates are not expected to return to the levels observed in the 1950s and early 1960s. The total fertility rate is assumed to increase slightly to 1.55 children per woman as younger women’s fertility rates stabilize, while those of women over the age of 30 continue to slowly increase.

The largest cohorts of baby boomers are now in their late 50s. Over the next decade, these larger cohorts will join the ranks of seniors. Increased longevity is also contributing to a larger share of seniors in the population. For instance, over the last 30 years life expectancy at birth for Ontario men increased from 73.7 years in 1986 to 80.3 years in 2017 (latest available), for a total gain of 6.6 years. The life expectancy at birth of Ontario women increased at a slightly slower pace over the same period, with a total gain of 4.4 years, from 80.0 to 84.4 years. By 2046, life expectancy at birth is projected to reach 86.0 years for men and 88.5 years for women.

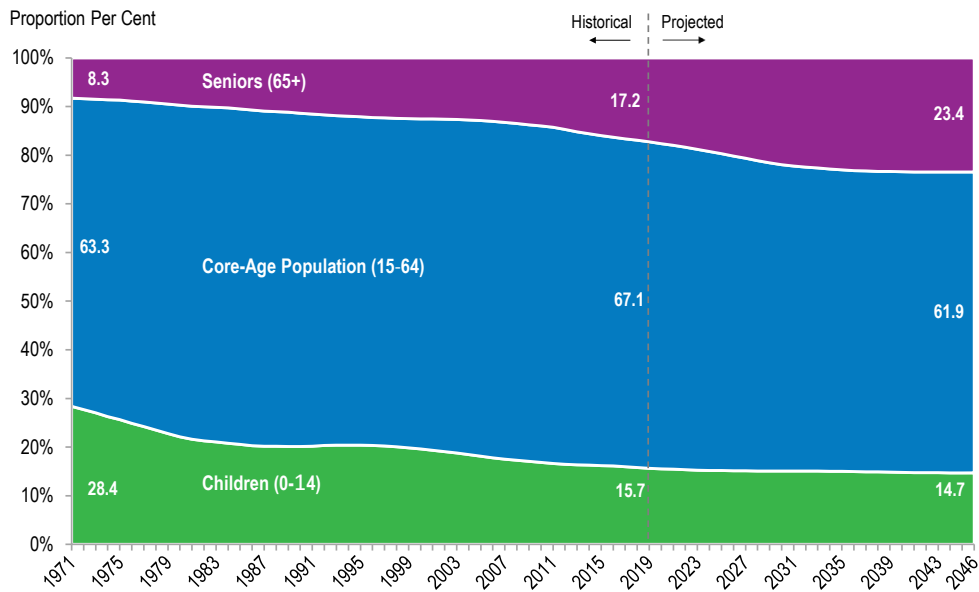
**Chart 1.12**  
**Life Expectancy at Birth in Ontario, 1986 to 2046**



Sources: Statistics Canada for 1986–2017 and Ontario Ministry of Finance projections.

In 2016, for the first time on record, the number of seniors aged 65+ in Ontario surpassed the number of children aged 0 to 14 years. Children now account for less than 16 per cent of Ontario’s population, down from 28 per cent in 1971. By contrast, the share of seniors in the provincial population is now at an all-time high of 17 per cent, up from 8 per cent in 1971.

**Chart 1.13**  
**Age Composition of Ontario's Population, 1971 to 2046**



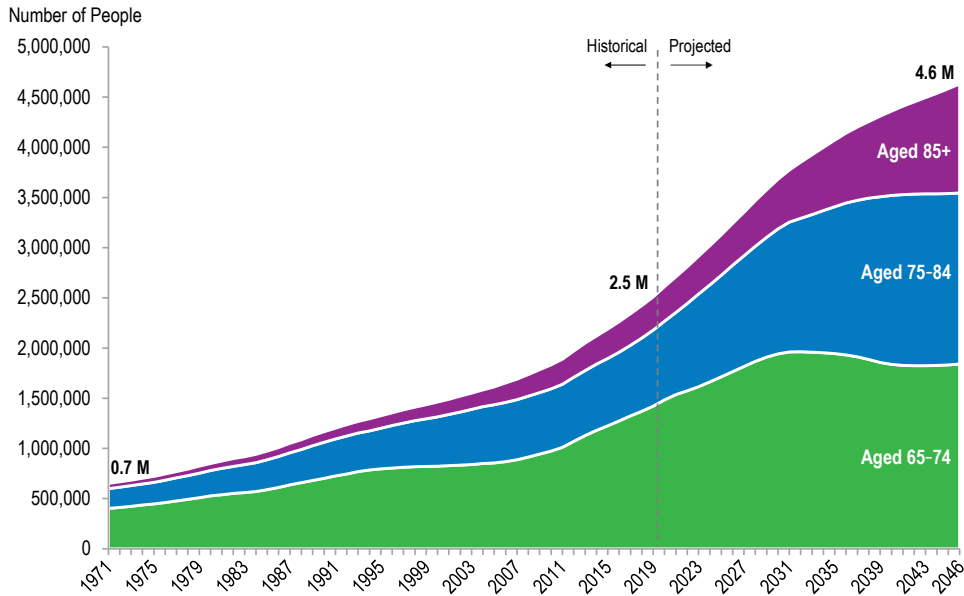
Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

Over the projection period, the number of seniors is projected to almost double, from 2.5 million in 2019 to 4.6 million by 2046. The share of the provincial population that they represent will also rise, from 17 per cent to 23 per cent over the same period.

By the early 2030s, once all baby boomers have reached age 65, the pace of increase in the number and share of seniors is projected to slow significantly. The annual growth rate of the senior age group is projected to slow from an average of 3.5 per cent between 2019 and 2031 to 1.0 per cent by the end of the projection period.

The older age groups will experience the fastest growth among seniors. The number of people aged 75 to 84 is projected to rise from 755,000 in 2019 to 1.7 million by 2046. Over the same period, the 85+ age group is expected to more than triple in size, from 331,000 to 1.1 million.

**Chart 1.14**  
**Distribution of the Population of Seniors in Ontario, 1971 to 2046**



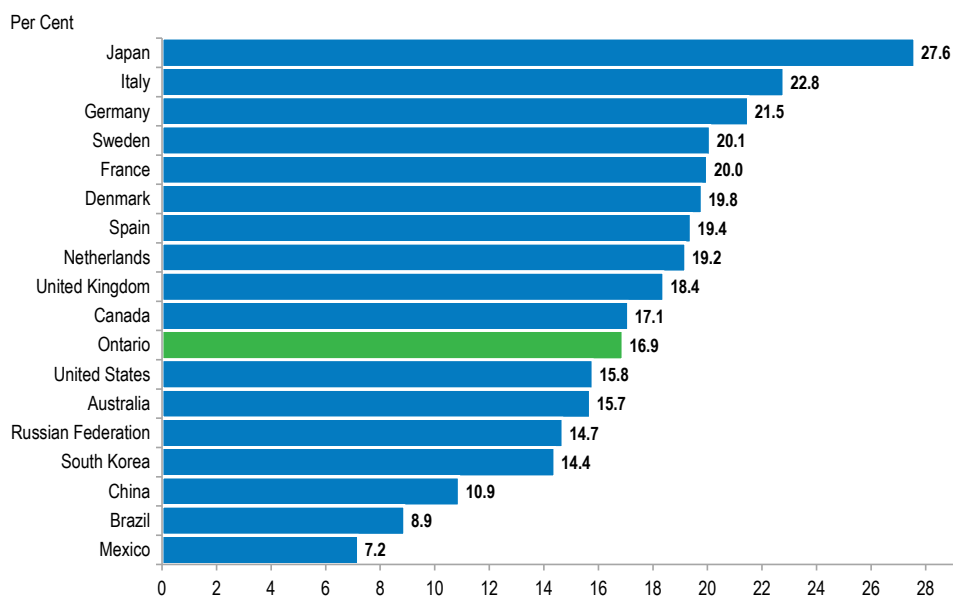
Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

Today, almost six in 10 people in Ontario aged 65+ are in the younger segment of the senior population, between the ages of 65 and 74, because the cohorts of baby boomers that make up this group are larger than the ones preceding them. However, by 2046 the distribution will have reversed, with significantly more older seniors 75+ than younger ones, as a result of both the aging of baby boomers and continued increases in longevity.

## Population Aging in Perspective

The proportion of seniors in Ontario's population in 2018 (16.9 per cent) was slightly lower than the average (17.1 per cent) among countries of the Organisation for Economic Co-operation and Development (OECD). Most European countries had much higher shares of seniors, including Italy at 22.8 per cent and Germany at 21.5 per cent. Japan had the highest proportion of seniors in the OECD at 27.6 per cent in 2018.

Chart 1.15  
**Proportion of Seniors, Selected Countries, 2018**



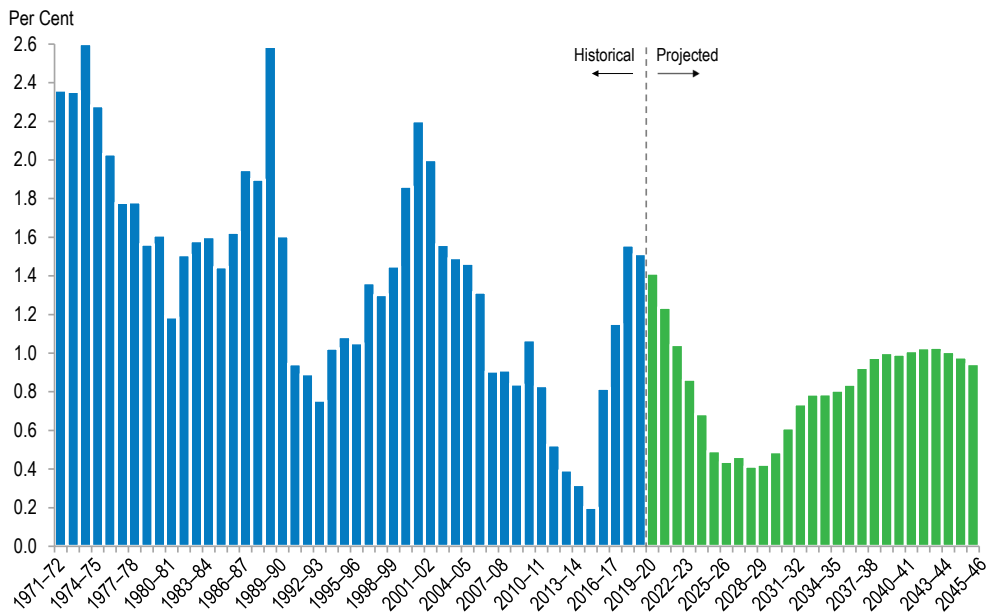
Sources: Statistics Canada (Ontario and Canada) and World Bank.

## 5. Slower Growth for the Core-Age Population

After 2011, when baby boomers started turning age 65, the growth rate of the population aged 15 to 64 in Ontario started to slow down, declining to an annual rate of 0.2 per cent in 2014–15. Over the previous 20 years, Ontario’s core-age population (15 to 64) had grown at an average annual rate of 1.2 per cent.

The recent rapid increase in the number of non-permanent residents and higher immigration levels since 2015 have had a positive impact on the growth of this age group. In 2018–19, Ontario’s core-age group grew by 1.5 per cent.

**Chart 1.16**  
**Growth Rate of the Core-Age Group, 1971 to 2046**



Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

The recently experienced exceptionally high levels of net international migration are projected to diminish over the next few years, while the largest cohorts of baby boomers will move out of the core-age population during the 2020s. These trends will result in slower growth for this age group in the late 2020s. Between 2024 and 2031, the population aged 15 to 64 is projected to only grow at an average annual rate of less than 0.5 per cent.

By 2031, once the large cohorts of baby boomers have completed their transition to the senior age group, the pace of growth in the core-age population (15 to 64) is expected to increase, reaching above 1.0 per cent by the late 2030s. This would be slower growth in the core-age population than the historical trend.

## Alternative Scenarios

The projections presented in this report are based on assumptions that reflect past trends in demographics prior to the significant socioeconomic disruptions stemming from the COVID-19 pandemic.

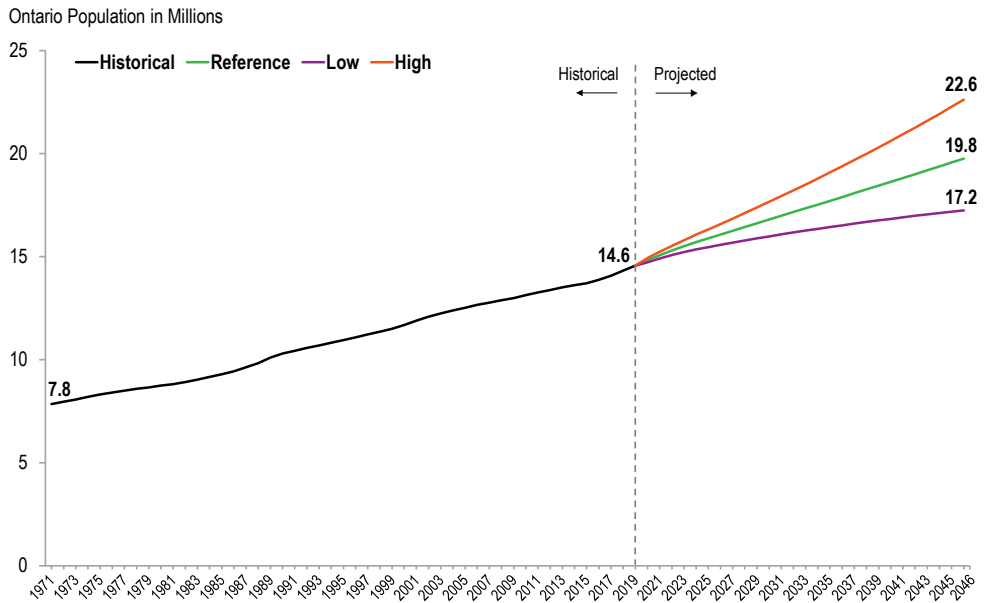
The Ontario Ministry of Finance projections provide three growth scenarios for the population of the province to 2046. The medium-growth, or reference scenario, presented in this chapter is considered most likely to occur if recent trends continue. The low- and high-growth scenarios provide a forecast range based on plausible changes in the components of growth.

Under all three scenarios, Ontario's population is projected to experience growth over the 2019 to 2046 period. In the reference scenario, population is projected to grow 35.6 per cent, or almost 5.2 million, over the next 27 years from an estimated 14.6 million on July 1, 2019 to almost 19.8 million on July 1, 2046.

In the low-growth scenario, population increases 18.4 per cent, or 2.7 million, to reach over 17.2 million people by 2046. The age profile of the population is older in this scenario as a result of lower fertility and fewer immigrants.

In the high-growth scenario, population grows 55.3 per cent, or 8.1 million, to 22.6 million people by the end of the projection period. In this scenario, population aging takes place at a slower pace as a result of higher fertility and more immigrants.

**Chart 1.17**  
**Population Projections Scenarios for Ontario**



Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.



Table 1.1

## Scenarios for Population Growth and Age Distribution

	Low Scenario	Reference Scenario	High Scenario
<b>2046 Population</b>	17,246,055	19,759,472	22,619,901
<b>Population Growth (2019 to 2046)</b>	2,679,508	5,192,925	8,053,354
<b>Population Growth Rate (total 2019 to 2046)</b>	18%	36%	55%
<b>Population Growth Rate (average annual 2019 to 2046)</b>	0.63%	1.14%	1.64%
<b>Natural Increase (total 2019 to 2046)</b>	44,777	943,300	1,993,384
<b>Natural Increase Rate (average annual 2019 to 2046)</b>	0.02%	0.21%	0.40%
<b>Net Migration (total 2019 to 2046)</b>	2,675,376	4,242,360	6,004,173
<b>Net Migration Rate (average annual 2019 to 2046)</b>	0.62%	0.92%	1.23%
<b>Share of 0 to 14 Age Group in 2046</b>	13.1%	14.7%	16.3%
<b>Share of 15 to 64 Age Group in 2046</b>	62.1%	61.9%	61.5%
<b>Share of 65+ Age Group in 2046</b>	24.8%	23.4%	22.2%

Source: Ontario Ministry of Finance projections.

## Ontario Ministry of Finance Population Projections in Perspective

Both Statistics Canada and the University of Toronto also develop detailed population projections for Ontario. To the mid-2040s, Statistics Canada is projecting slightly slower growth, as a result of an assumption of lower natural increase and fewer non-permanent residents, compared to the reference scenario of the Ontario Ministry of Finance. The University of Toronto is projecting slightly faster growth due to an assumption of higher fertility and more non-permanent residents.

Table 1.2

## Projected Population Growth by Other Organizations

(Per Cent Change)

	Statistics Canada 2019–2043	Ministry of Finance 2019–2046	University of Toronto 2019–2046
<b>Average Annual Population Growth</b>	0.95	1.14	1.25

Note: University of Toronto projections are from the Policy and Economic Analysis Program (PEAP, November 2019).

## Potential Implications of COVID-19 on Ontario's Demographics

Given that these scenarios were developed before the COVID-19 pandemic, it is important to assess the potential impact that the pandemic may have on Ontario's population and demographics.

As of the end of May 2020, there had been over 2,000 deaths attributed to COVID-19 in Ontario. In terms of magnitude, so far this corresponds to about 2 per cent of all deaths recorded in the province in 2018–19.

Given the travel restrictions put in place to contain COVID-19, there will also be a potential impact on population growth coming from migration. Immigration, Refugees and Citizenship Canada is continuing to accept and process some permanent residence applications, focusing on applicants who are most likely already in Canada among those in the Express Entry system. However, the federal department indicated that reaching the full 2020 official target for immigration will be a challenge, given the current travel restrictions and the fact that its domestic and international operations are now working at reduced capacity, which will impact processing times. The arrival of new temporary residents is also likely to slow temporarily for the same reasons. For example, if net international immigration into the province is reduced by 50 per cent in 2020–21, population growth for the year would be reduced from 242,000 to 148,000, and the population growth rate would decline from 1.6 per cent to 1.0 per cent.

While population growth is likely to be slower than previously anticipated over the next two years, the magnitude of the deceleration will largely depend on the length of time over which travel restrictions persist, and the timeline for resumption of normal operations of governments and businesses.

Given that immigration is by far the largest contributor to population growth in Ontario, it is most likely that long-term demographic trends would return to their previously projected path once the current disruptions subside. Canada and Ontario specifically will remain attractive destinations for immigrants going forward. As such, there is moderate potential for the long-term demographic outlook presented in this document to be permanently affected, beyond the expected short-term disruptions.

## Chapter 2: Economic Trends and Projections

---

### Introduction

This chapter presents a description of the anticipated changes in the Ontario economy based on past trends and the demographic projections presented in the previous chapter. Key implications for the future include:

1. Moderating growth of the labour force;
2. Continued productivity growth; and
3. Slowing economic growth driven by demographics.

Economic performance in the near term will be heavily influenced by the COVID-19 pandemic. As the purpose of this report is to focus on long-term trends, the projections are presented based on a 20-year outlook after the recovery from the COVID-19 pandemic has occurred. A discussion of the implications of the COVID-19 pandemic is included later in this chapter.

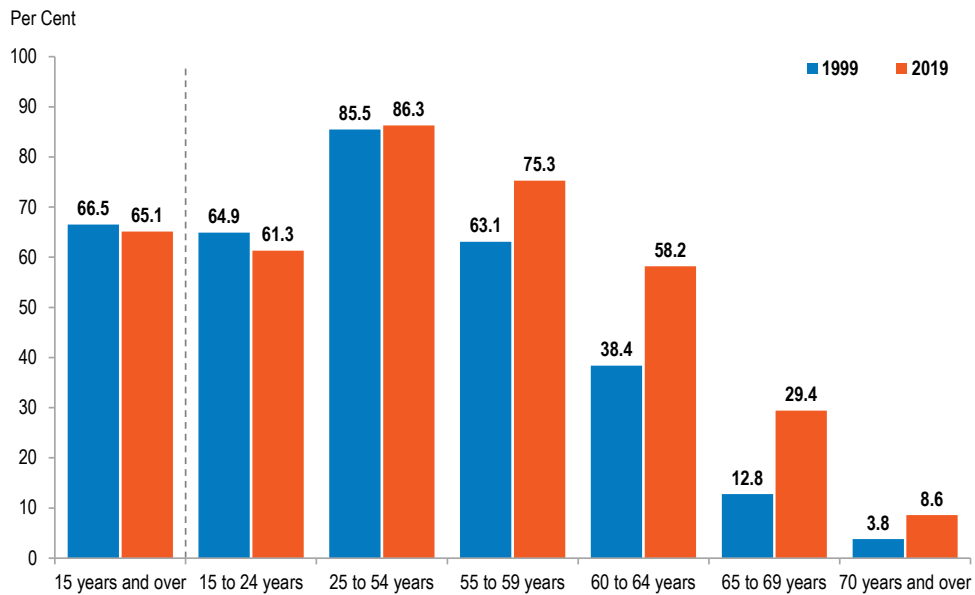
The projection presented is for Ontario's macroeconomic potential real gross domestic product (GDP) growth. Potential real GDP represents the maximum level of output that an economy can produce at relatively high rates of capacity utilization without causing rising rates of price inflation. These are presented as average annual rates of growth over time. An economy can temporarily produce above its potential level of output, which is accompanied by rising inflation. As well, an economy can operate below its potential output for a period of time. All economies will experience these variations above and below potential output through time over the business cycle.

# 1. Moderating Growth of the Labour Force

The future evolution in Ontario’s labour force will be a critical factor in determining potential GDP growth. The long-term projection for Ontario’s labour force depends on the increase in the working-age population and the participation rate — the percentage of the working-age population employed or seeking employment.

The overall economy-wide participation rate has been trending down due to the rising share of older workers (aged 55 and over) in the labour force, who tend to have lower participation rates compared to other working-age cohorts. The decline in the overall participation rate has been somewhat tempered by the participation rates of older workers rising gradually since the late 1990s as a growing segment of older workers have been delaying the transition to retirement. This reflects several factors including rising rates of educational attainment, greater employment opportunities and improving health outcomes.

Chart 2.1  
**Ontario Labour Force Participation Rates by Age Group**



Source: Statistics Canada.

However, this increase is not projected to offset the impact of the declining shares of core working-age (aged 25 to 54 years) and youth populations (aged 15 to 24 years), whose participation rates are significantly higher than older workers.<sup>1</sup> As a result, the downward trend in the overall participation rate is expected to continue over the long term, declining from 65 per cent in 2019 to 61 per cent by the end of the projection period. This highlights the importance of policies that encourage higher participation rates in promoting stronger economic growth.

The gradual decline in the participation rate combined with moderating working-age population growth over the long term would result in slower labour force growth over the forecast period. Ontario's labour force is projected to grow by an average of 0.9 per cent annually over the long term, slower than its historical average annual pace of 1.4 per cent.

---

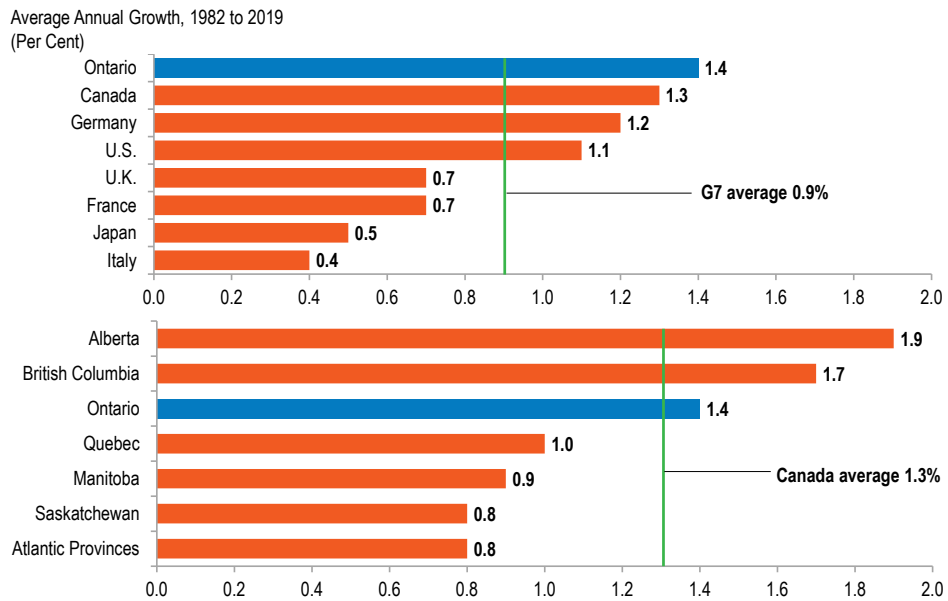
<sup>1</sup> Fields, Uppal and LaRochelle-Côté, "The impact of aging on labour market participation rates", Statistics Canada (2017).

## Ontario's Labour Force in Perspective

While Ontario and Canada's labour force growth has been slowing, they grew at a faster pace than most advanced economies over the 1982 to 2019 period. For example, during this period Germany, the United States, U.K. and other G7 countries experienced slower rates of labour force growth than Ontario and Canada.

Between 1982 to 2019, Ontario's labour force growth ranked third among Canadian provinces. Alberta's labour force growth led all other provinces during this period, expanding at an average annual rate of 1.9 per cent. Meanwhile, Quebec, Manitoba, Saskatchewan and the Atlantic provinces experienced relatively slower rates of labour force growth over this period.

Chart 2.2  
**Labour Force Growth: Ontario, G7 Countries and Provinces**



Sources: Statistics Canada, Organisation for Economic Co-operation and Development and Ontario Ministry of Finance.

## 2. Continued Productivity Growth

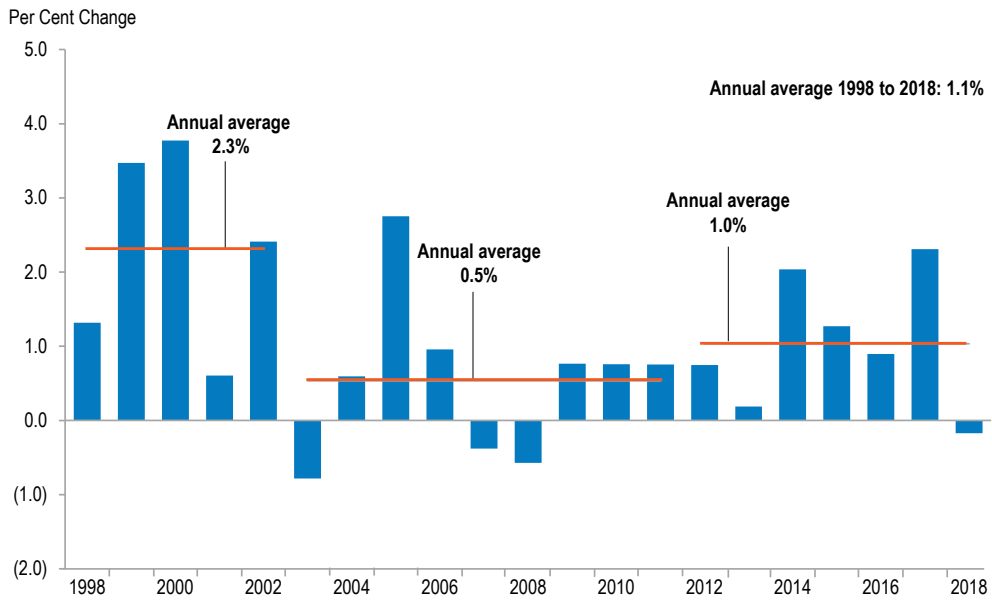
Labour productivity, or the amount of real GDP produced per hour worked, is a key determinant of future potential economic growth.

Ontario labour productivity growth has averaged 1.1 per cent per year from 1998 to 2018. During this period, productivity growth has experienced significant variations, with a period of relatively fast average annual growth of 2.3 per cent between 1998 and 2002, followed by an extended period of slower growth between 2003 and 2011, averaging 0.5 per cent annually. Ontario's productivity slowdown during that period can be largely attributed to the global commodity price boom and associated appreciation of the Canadian dollar, combined with increased competition from producers in newly industrializing economies.<sup>2</sup> Increased competition from producers in low-cost economies has also contributed to an increase in imported goods manufactured in other countries. The 2008–09 global recession contributed to weakening productivity growth. Since 2012 productivity growth has averaged 1.0 per cent annually, close to its long-term average.

---

<sup>2</sup> A. Sharpe, "Ontario's Productivity Performance, 2002-2012: A Detailed Analysis," Centre for the Study of Living Standards, (2015).

**Chart 2.3**  
**Ontario Labour Productivity Growth**



Sources: Statistics Canada and Ontario Ministry of Finance.

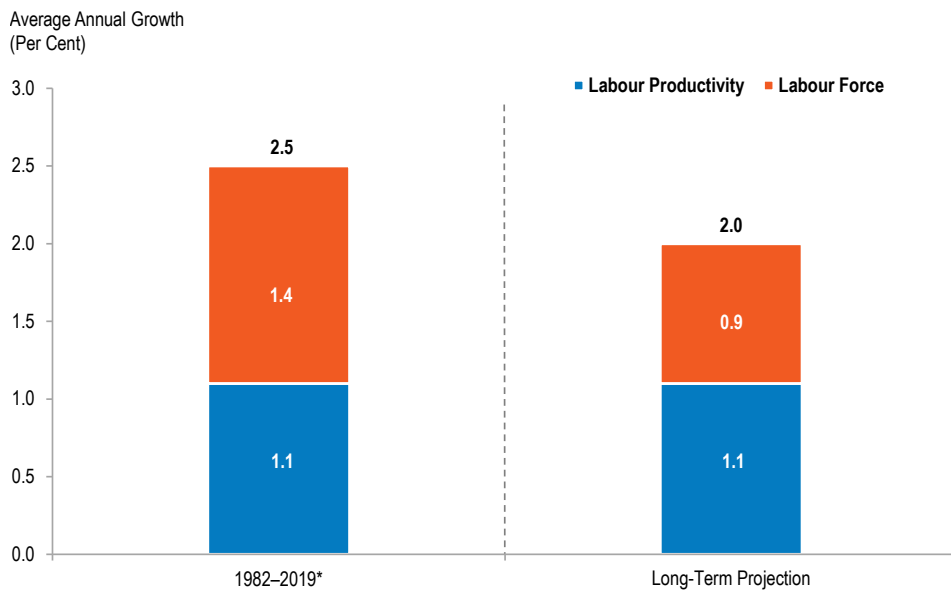
Productivity is projected to advance at its historical average over the long-term projection period, averaging 1.1 per cent annually. Growth in labour productivity is largely driven by investment in physical capital, labour force skills and technological progress.



### 3. Slowing Economic Growth Driven by Demographics

Potential real GDP represents the maximum level of output that an economy can produce without causing rising rates of price inflation. The main building blocks of potential output are the supply of workers (labour force) and the efficiency with which output is produced (labour productivity). Average annual growth in potential real GDP is projected to be 2.0 per cent for Ontario, slower than the 2.5 per cent average annual growth over the 1982 to 2019 period. This is the result of the slower projected growth in the labour force outlined earlier in this chapter, while labour productivity growth is expected to continue at its long run average pace.

Chart 2.4  
Components of Potential Real GDP Growth



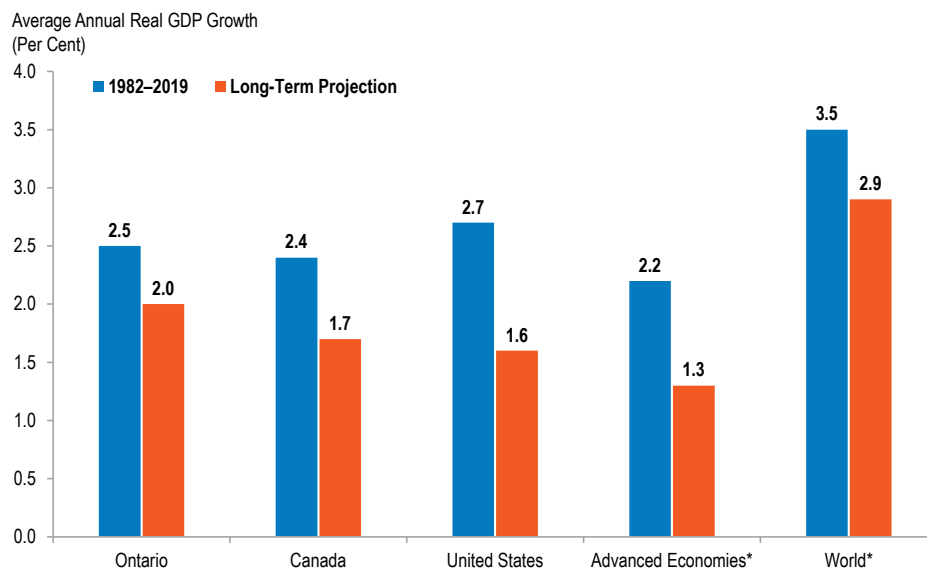
\*Historical average for labour productivity growth reflects the 1998 to 2018 period.  
Sources: Statistics Canada and Ontario Ministry of Finance.

Slower economic growth is expected across most regions globally. The Parliamentary Budget Officer (PBO) projects Canada's real GDP growth to advance at an average annual pace of 1.7 per cent over the long term, lower than the 2.4 per cent average annual growth experienced over the 1982 to 2019 period. The PBO projects Ontario's real GDP growth to be 1.7 per cent annually over the long term, same as the national average. This is lower than the Ontario Ministry of Finance's annual average growth projection of 2.0 per cent reflecting slower projected Ontario labour force growth by the PBO. Other provinces such as British Columbia and Quebec are also projected by the PBO to grow at a slower pace over the long-term projection. Likewise, long-run projections for the United States, Europe, Japan and China also indicate weaker economic growth than experienced in the past.

## Slowing Economic Growth Across Jurisdictions

Ontario real GDP growth is projected to moderate from an average of 2.5 per cent annually between 1982 and 2019 to 2.0 per cent per year over the long-term projection. Moderating growth is expected in other jurisdictions as well. Canada, the United States, overall advanced economies, and the world economy are expected to experience a slower pace of economic growth over the long-term projection.

Chart 2.5  
**Economic Growth Projected to Slow**



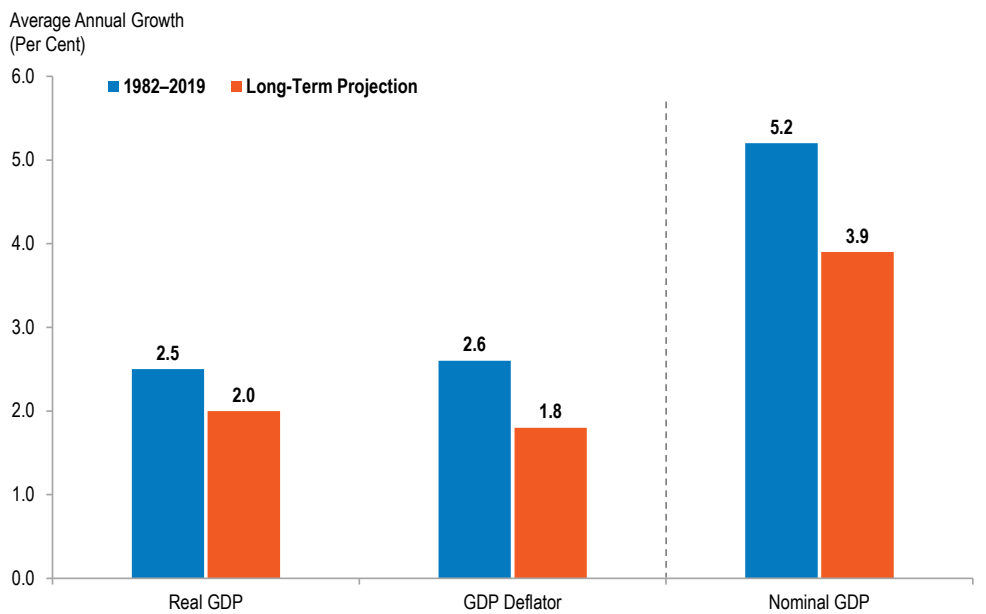
\*Historical average for advanced and world economies reflect the periods of 1989-2019 and 1993-2019, respectively.  
Sources: Bureau of Economic Analysis, Statistics Canada, Congressional Budget Office, Department of Finance Canada, Oxford Economics and Ontario Ministry of Finance.

# Long-Term Growth Projections

## Prices and Nominal GDP Growth

Ontario annual consumer price index (CPI) inflation is projected to be at the Bank of Canada's 2.0 per cent target range, on average, over the long-term projection. The GDP deflator is projected to average growth of 1.8 per cent annually, consistent with the historical relationship with CPI inflation. This is slower than the average rate of CPI inflation over time of 2.0 per cent due, in part, to differences in the calculation of the price indices. Nominal GDP is expected to expand at an annual average rate of 3.9 per cent over the projection period, slower than the historical average of 5.2 per cent per year.

Chart 2.6  
**Nominal GDP Growth Projected to Slow**



Note: Numbers may not add due to rounding.  
Sources: Statistics Canada and Ontario Ministry of Finance.

## Ontario Projected Potential Output Growth

Table 2.1  
Summary of Key Economic Variables  
(Annual Average Per Cent Change)

	1982–2019	Long-Term Projection
<b>Nominal GDP</b>	5.2	3.9
<b>Real GDP</b>	2.5	2.0
<b>GDP Deflator</b>	2.6	1.8
<b>Consumer Price Index</b>	2.8	2.0
<b>Labour Force</b>	1.4	0.9
<b>Participation Rate (Per Cent)</b>	67.1	62.1
<b>Productivity Real GDP per Hour Worked</b>	1.1*	1.1

\*Average between 1998 and 2018.

Sources: Statistics Canada and Ontario Ministry of Finance.

## Global Economic Environment

Ontario is part of an integrated global economy, connected with the rest of Canada, the United States and the world. Ontario has access to open and efficient markets which connects the province to global capital and trade flows.

The projections in this report assume that over the long term, after the global economy recovers from the impacts of COVID-19, the external environment evolves in a manner consistent with trends leading up to the pandemic (alternative scenarios and risks are described later in the chapter).

The long-term projection assumes global real GDP growth to average 2.9 per cent annually while U.S. real GDP growth is expected to advance at an average annual pace of 2.0 per cent. Emerging market economies are expected to continue growing robustly but at a slightly more moderate pace than in the previous decade.

Other important external factors which impact the projections are the outlook for the Canada/U.S. dollar exchange rate, interest rates, oil prices and rest of Canada real GDP growth.

Details of these are outlined in the table below.

**Table 2.2**  
**Key External Economic Assumptions**

(Annual Average)

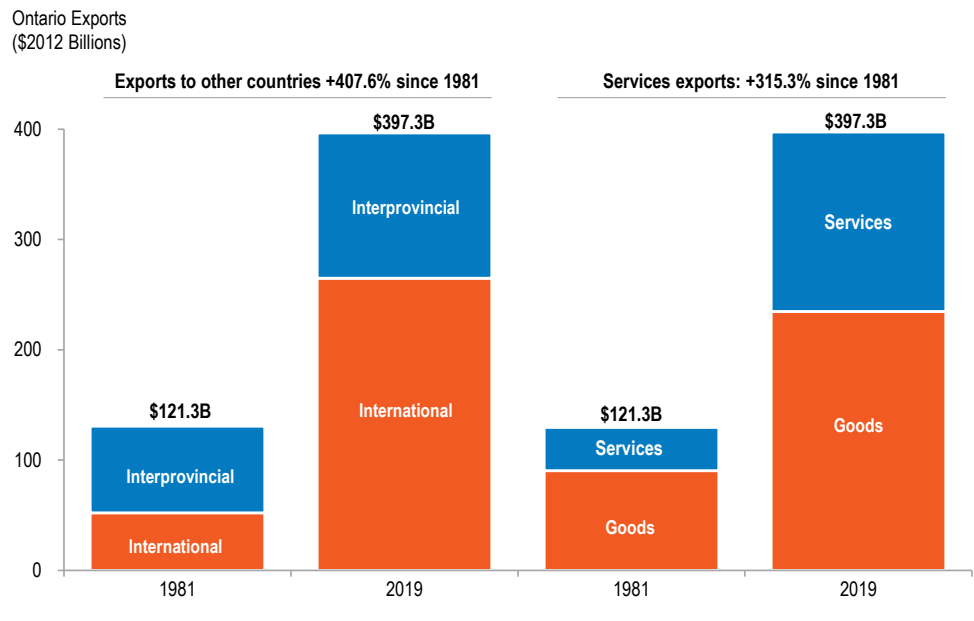
	1982–2019	Long-Term Projection
<b>Rest-of-Canada Real GDP (Per Cent Change)</b>	2.2	2.0
<b>U.S. Real GDP (Per Cent Change)</b>	2.7	2.0
<b>Canadian Dollar (Cents US)</b>	80.1	83.2
<b>90-Day Treasury Bill Rate (Per Cent)</b>	4.8	2.7
<b>10-Year Government of Canada Bond Rate (Per Cent)</b>	6.0	3.5
<b>U.S. 90-Day Treasury Bill Rate (Per Cent)</b>	3.9	2.7
<b>10-Year U.S. Government Bond Rate (Per Cent)</b>	5.7	3.5
<b>U.S. Real West Texas Intermediate Oil Price (2019 US\$ per Barrel)</b>	56.7	64.3

*Sources:* Statistics Canada, Bank of Canada, U.S. Energy Information Administration, Federal Reserve and Ontario Ministry of Finance.

External trade — the net balance of the value of goods and services exported to and imported from other provinces and countries — is projected to be a modest contributor to real GDP growth. Ontario’s exports are projected to rise by an average annual pace of 2.1 per cent over the long-term projection, driven by growing U.S. and global demand. Imports are expected to advance at an average annual pace of 2.0 per cent over the outlook, supported by steady growth in domestic incomes and consumer demand.

In the past few decades, external trade has evolved considerably. While overall trade has increased, exports of services has grown at a relatively stronger pace than goods exports. As well, international exports have increased more quickly than interprovincial exports. As a result, Ontario’s international exports and services exports are now a larger share of overall exports than was the case in 1981.

**Chart 2.7**  
**Exports to Other Countries and Services Exports Have Grown Strongly**



Sources: Statistics Canada and Ontario Ministry of Finance.

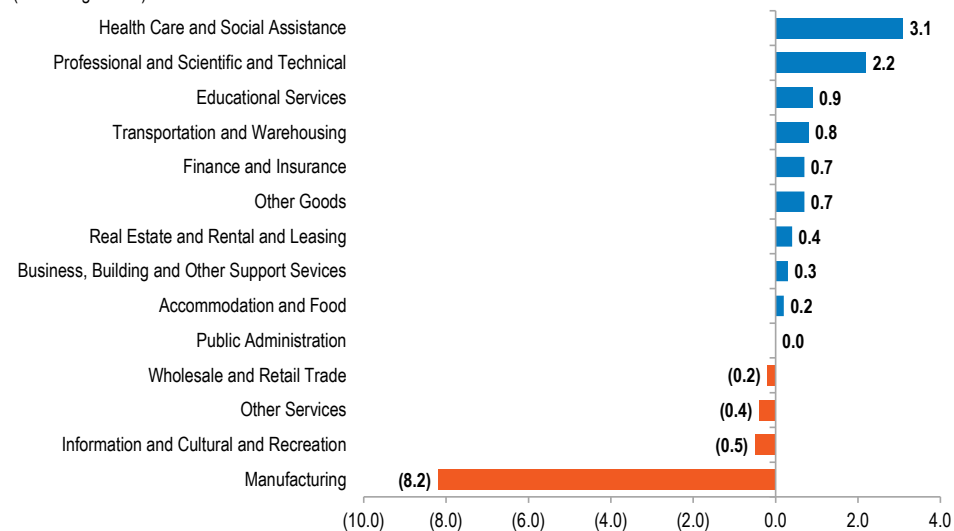
There have been significant changes in the global trade landscape which have impacted Ontario’s exports. Trade agreements and technological innovations have lowered trade costs, encouraging emerging market economies to integrate in the global economy and making global value chains (GVCs) economically viable. The emergence of GVCs has allowed countries to specialize in service-orientated tasks and increased the tradability of modern services such as telecommunications, information services and financial intermediation. In Ontario, service-based exports have grown in importance as the economy shifts from goods-producing to service-producing industries. However, this has helped exacerbate a slowdown in made-in-Ontario manufacturing.

## Continued Shifts in the Composition of Economic Activity

While Ontario's economy is highly diversified, it has undergone a major restructuring over the past two decades. The most significant change has been the decline in the proportion of output and employment in the manufacturing sector, as services sectors have been growing at a relatively stronger pace. Since 1999, the health care and social assistance share of total Ontario employment has increased 3.1 percentage points and the professional, scientific and technical services share has increased 2.2 percentage points over the same period. In comparison, the manufacturing share of total Ontario employment has declined 8.2 percentage points between 1999 and 2019.

Chart 2.8  
**Shifting Structure of Ontario's Economy**

Change in Industry Share of Total Ontario Employment, 1999 to 2019  
(Percentage Point)



Sources: Statistics Canada and Ontario Ministry of Finance.



## Other Perspectives on Long-Term Growth

Projected long-term economic growth in this report is comparable to other forecasts. The lowest projection is from the Parliamentary Budget Officer (PBO) who projects growth of 1.7 per cent annually on average, while the University of Toronto projects average annual growth of 2.2 per cent over the long term. The Ontario Ministry of Finance's projection falls within the range of these projections.

Table 2.3

### Comparison with Other Long-Term Real GDP Projections

(Annual Average Per Cent Change)

	Real GDP
University of Toronto	2.2
<b>Ontario Ministry of Finance</b>	<b>2.0</b>
Financial Accountability Office of Ontario	2.0
Conference Board of Canada	1.8
Parliamentary Budget Officer of Canada	1.7

Sources: Policy and Economic Analysis Program, University of Toronto *Long-Term Forecast* (2019), Financial Accountability Office of Ontario *Long-Term Budget Outlook: 2020-2050* (2020), Conference Board of Canada *Provincial Outlook Long-Term Economic Forecast: Ontario* (2020), Parliamentary Budget Officer of Canada *Fiscal Sustainability Report* (2020) and Ontario Ministry of Finance.

## Alternative Scenarios and Risks

The path of long-term economic growth in Ontario is based on trends and assumptions that are subject to uncertainty and risk. The section below outlines the key risks and trends that could impact the economy, and how changes in key factors could influence Ontario's long-term growth.

### Labour Force Growth

As outlined in *Chapter 1: Demographic Trends and Projections*, there are potential alternative paths for population growth in Ontario. Stronger rates of growth in the working-age population would lead to stronger growth in Ontario's labour force. Conversely, slower rates of growth in the working-age population would lead to slower growth in the labour force.

Though Ontario's labour force growth is expected to be slower over the long-term projection than in the past, this slowing in growth could be offset by stronger population growth through immigration. Real GDP growth would be directly impacted by different rates of growth in the labour force related to the alternative paths for population growth. The table below describes these changes.

Table 2.4  
**Alternate Labour Force Scenarios**

	Long-Term Projection		
	Low Labour Force Growth	Base Case Potential	High Labour Force Growth
<b>Real GDP Growth (annual average)</b>	1.6	2.0	2.4
<b>Population Growth (annual average)</b>	0.6	1.1	1.6
<b>Labour Force Growth (annual average)</b>	0.5	0.9	1.3

Source: Ontario Ministry of Finance.

## Productivity Growth

Another factor that could be different is the province's long-run productivity growth. There have been periods when Ontario labour productivity growth experienced significant variations. Over a 20-year projection period, under a high productivity scenario leading to average annual real GDP growth of 2.3 per cent, the end-of-period level of real GDP would be 7.9 per cent higher than the base case potential scenario. In contrast, under a low productivity scenario with real GDP growth averaging 1.7 per cent annually, the end-of-period level real GDP would be 7.4 per cent lower than the base case potential scenario.

Table 2.5  
**Alternate Labour Productivity Scenarios**

	Long-Term Projection		
	Low Productivity	Base Case Potential	High Productivity
<b>Real GDP Growth (annual average)</b>	1.7	2.0	2.3
<b>Labour Force Growth (annual average)</b>	0.9	0.9	0.9
<b>Labour Productivity Growth (annual average)</b>	0.8	1.1	1.4

Source: Ontario Ministry of Finance.

## Global Economic Environment

In the long run, Ontario's economic growth will be influenced by developments in the global economy. A different pace of global economic growth, particularly in the United States, would have an impact on growth in Ontario. In addition, Ontario's growth could be heavily influenced by changes in the terms of trade. As commodity prices rise globally, Canada's terms of trade generally improve as the value of the country's exports rise relative to the price of imports. However, as a net importer of commodities, notably energy goods, higher commodity prices negatively affect Ontario's terms of trade. As well, higher commodity prices also cause the value of the Canadian dollar to appreciate, which has in the past negatively impacted the competitiveness of Ontario exports abroad.

## Potential Implications of COVID-19 on Ontario's Long-Term Economic Growth

The COVID-19 pandemic has had an unprecedented impact on the global economy. The large and abrupt reductions in economic activity, uncertainty regarding the future path of the pandemic and the related easing of the necessary measures related to its containment have created a unique economic environment. The adverse economic impact of COVID-19 will depend primarily on how long activity remains suppressed which, in turn, will depend on the evolution of the pandemic and the measures taken to suppress it.

Economic recovery from the global pandemic will occur. However, the timing and pace of the recovery will depend on a broad range of factors. Recovery will mainly be shaped by the decline and end of the pandemic, the corresponding easing and ultimate removal of measures taken to suppress it, as well as the success of policy measures taken by all levels of government to mitigate the associated economic impact.

The pace of Ontario's economic recovery will be influenced in part by its trading partners' response to COVID-19. For example, the United States remains Ontario's primary destination for international merchandise exports. Ontario is also a major destination for U.S. exports, with the province being the number one trading partner with 19 states and the second largest trading partner with nine others in 2019.

As the situation evolves in the coming months, the full impact of COVID-19 on the economy will become clearer. Past Ontario economic downturns have always been followed by a period of relatively strong and sustained growth. Historical experience suggests that average annual real GDP growth eventually resumes at or close to its pre-recession pace, as was the case following the recessions in Ontario in the early 1990s and 2008–09.

# Appendix: External Environment

## *Global Economic Environment*

The composition of global growth is expected to vary from region to region over the long-term projection. While countries like the United States are expected to post moderate growth, other regions like Europe and Japan are expected to post relatively slower economic growth.

Emerging markets such as China and India are expected to continue to post strong rates of economic growth over the long-term projection but at a slightly more moderate pace than in the previous decade.

Over the long-term projection, declining labour force growth due to an aging population is expected to slow global economic growth and will continue to be a key challenge to longer-term growth prospects globally.

## *Canadian Dollar*

Long-term trends in the Canada/U.S. exchange rate are a consideration in the economic projection given that the United States will continue to be the largest international market for Ontario's exports. As of 2019, the United States was the destination for 77 per cent of Ontario's merchandise exports and the source of 54 per cent of Ontario's merchandise imports. The Canada/U.S. exchange rate is expected to average 83 cents US over the long-term projection, consistent with modestly rising world commodity prices.

## *United States*

The long-run outlook for potential U.S. real GDP growth is expected to moderate according to the Congressional Budget Office (CBO). The CBO has modestly revised down U.S. long-term growth in recent years to 1.6 per cent average annual growth. This is due to trade barriers and a notable slowdown in labour force participation rates to just above 60 per cent by 2030.

## ***Europe, Asia and Emerging Markets***

Like the experience of the United States, major economies in Europe (European Union and United Kingdom) are expected to experience a moderation in economic growth over the long-term projection. The main factor behind this moderation in economic growth is the expected slowing of growth in the working-age population, which will adversely impact long-term economic prospects in Europe as well as in other economies in Asia and North America.

Over the long-term projection, economic growth in Japan is expected to be among the slowest of major advanced economies. Emerging market economies such as China will continue to account for a rising share of the global economy while posting more moderate rates of economic growth than in the recent past.

## ***Rest of Canada***

The rest of Canada is an important destination for Ontario exports. This report assumes that real economic growth in the rest of Canada will average 2.0 per cent annually over the long-term projection, in line with Ontario's projected long-term economic growth rate. Rest of Canada economic growth is expected to be supported by moderate economic growth in the United States as well as modestly rising commodity prices.

# Chapter 3: Implications of Demographic and Economic Trends for the Public Sector and Fiscal Policy

---

## Introduction

This chapter describes the potential impact of demographic and economic trends on the public sector and Ontario's fiscal policy. Based on the demographic and economic projections presented in the previous chapters, there are three key implications for the future:

1. Rising demand for certain public services due to demographic and economic factors;
2. Lower revenue growth than in the past arising from slower than historical economic growth; and
3. Ongoing measures will be required to support sustainability of the province's finances.

The near-term fiscal outlook has been heavily impacted by COVID-19. The government's immediate priority is to ensure that the health care system has the resources required to respond to this pandemic, and that actions are taken to protect people and jobs and supporting economic recovery. The purpose of this report is to focus on long-term economic and demographic trends following the recovery from the COVID-19 pandemic. A discussion of the potential implications of COVID-19 for Ontario public services and fiscal policy over the long term is included later in this chapter.

## Past Trends in Ontario Government Services and Finances

Historical revenue and spending developments provide context and have implications for future trends in the province's public finances. This section discusses historical trends in:

- i. Demand for public services;
- ii. Government revenues;
- iii. Government deficits;
- iv. Government debt; and
- v. Debt financing costs.

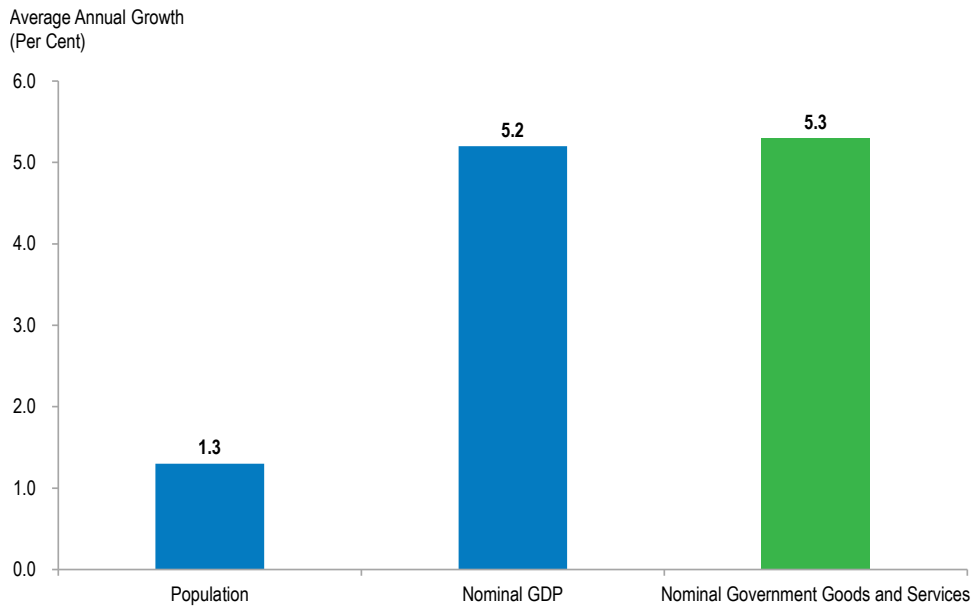
### Demand for Public Services

The key drivers of demand for public services are demographic factors such as population growth and its age composition. Utilization rates, the introduction of new programs and changes to the cost of delivering services have also played a role historically.



Spending by all levels of government in the province has grown at an average annual rate of 5.3 per cent over the past nearly four decades. This is a faster pace than the province's population growth and modestly faster than overall average annual nominal economic growth during this period. This is due to a broad range of factors including an aging population, demand for services rising with public expectations and increasing service delivery costs.

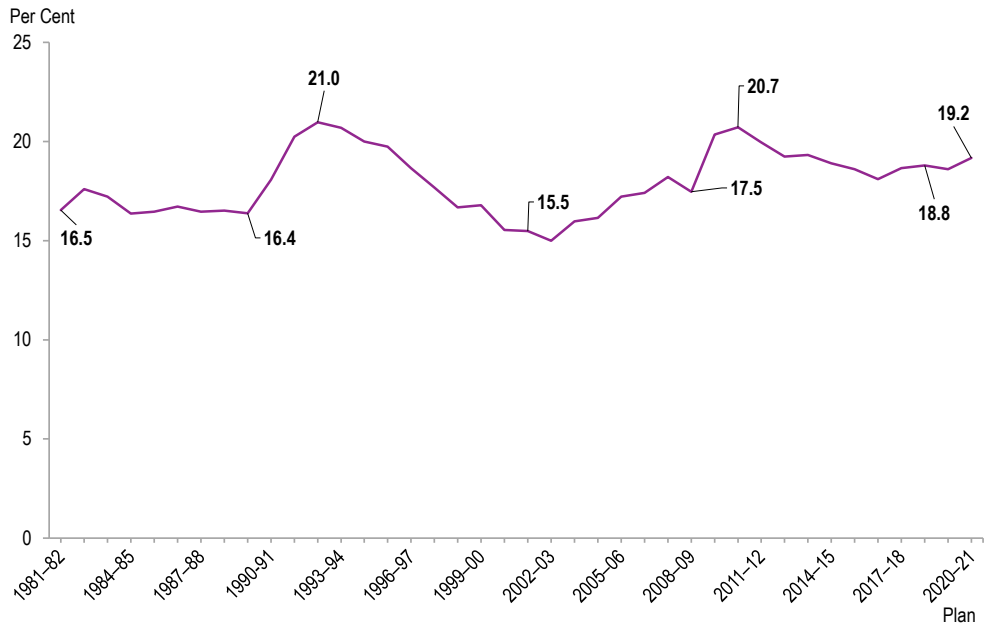
**Chart 3.1**  
**Past Trends in Government Services, Ontario, 1982 to 2019**



Sources: Statistics Canada and Ontario Ministry of Finance.

Over time, total expenses have risen as a share of the economy, rising from 16.5 per cent of GDP in 1981–82 to a projected 19.2 per cent of GDP in 2020–21.

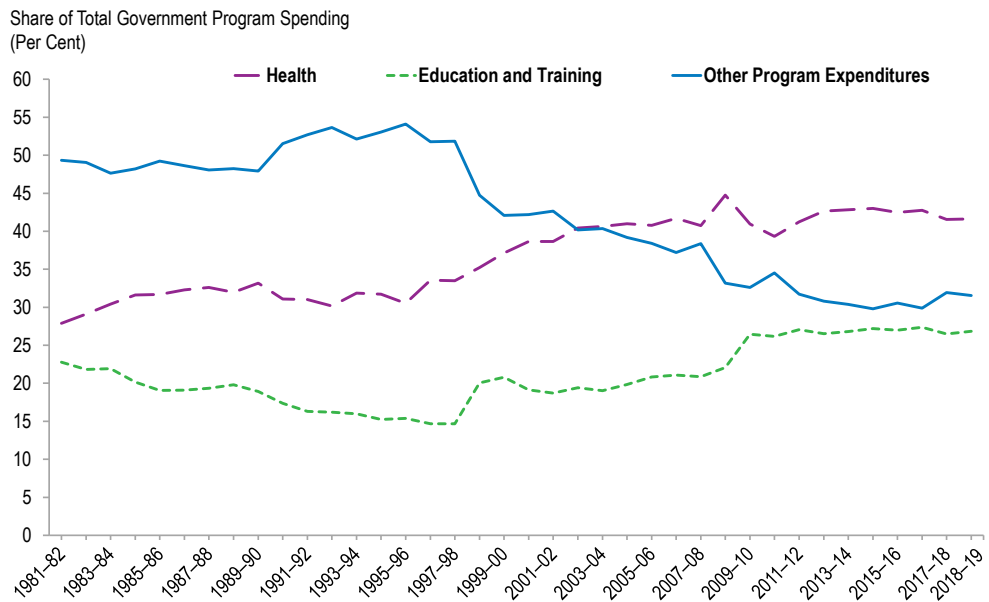
**Chart 3.2**  
**Ontario Total Expense to GDP, 1981–82 to 2020–21**



Sources: Statistics Canada and Ontario Ministry of Finance.

In 2018–19, the health care sector constituted the largest share of total program spending (42 per cent), followed by education and training (27 per cent). Over the past two decades the combined share of health and education, in total government expenditures, has been increasing while that of other program expenditures has declined.

**Chart 3.3**  
**Ontario Government Program Spending, 1981–82 to 2018–19**

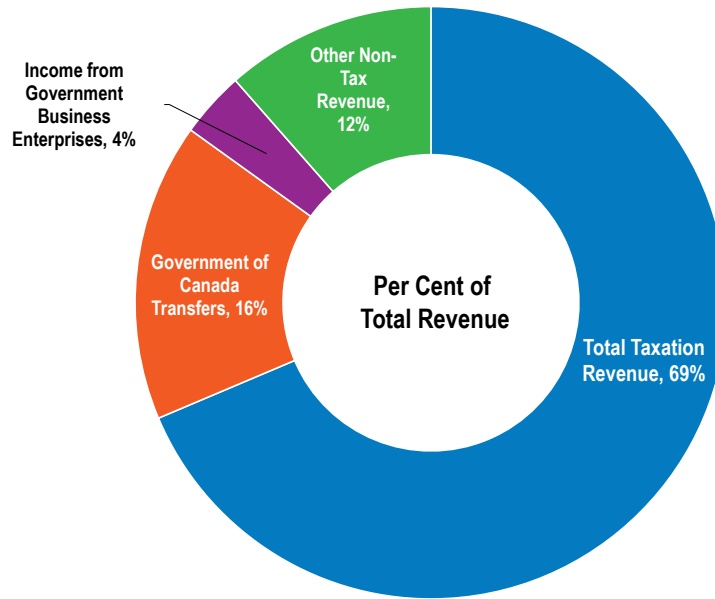


Sources: Ontario Treasury Board Secretariat and Ontario Ministry of Finance.

## Government Revenues

Taxation revenues represented 69 per cent of Ontario government revenues in 2018–19, followed by federal transfers to Ontario at 16 per cent. Federal transfers include major Government of Canada transfers, such as the Canada Health Transfer and the Canada Social Transfer, along with funding for infrastructure projects and labour market programs. Net income from government business enterprises (GBEs) comprised about 4 per cent of total provincial revenues in 2018–19. Other non-tax revenues which cover a large variety of revenue sources such as vehicle and driver registration fees, licences and permits, and royalties for the use of Crown resources, comprised about 12 per cent of total provincial revenues in 2018–19.

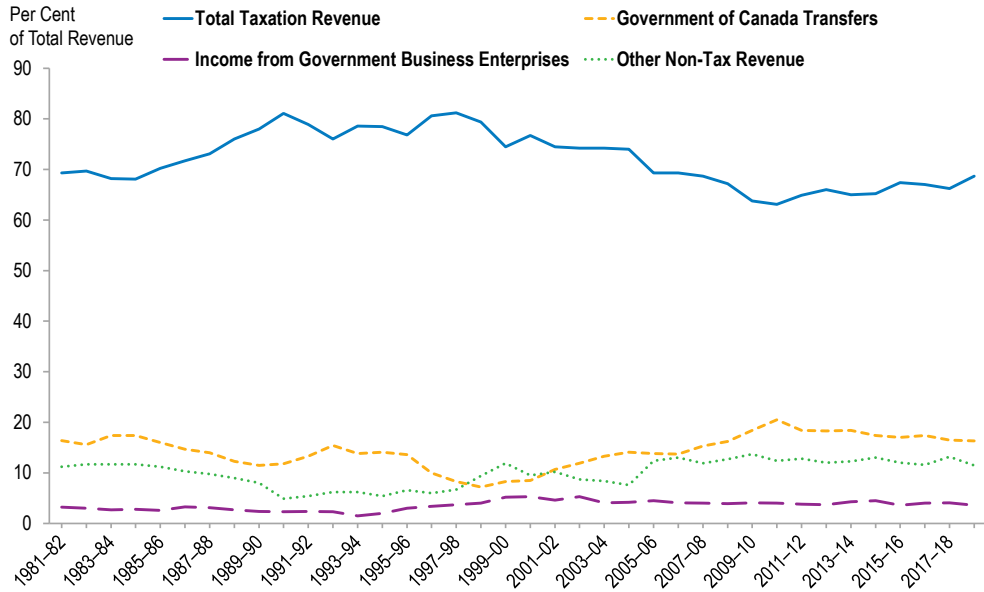
Chart 3.4  
**Ontario Government Revenues, 2018–19**



*Note:* Numbers may not add due to rounding.  
*Source:* Ontario Ministry of Finance.

Since the early 1990s, total taxation revenues have declined as a share of total government revenues. Over the same period, non-tax revenues as a share of total government revenues have trended higher. Since 2010–11, federal transfers to Ontario have not kept pace with overall economic and revenue growth.

**Chart 3.5**  
**Ontario Government Revenues, 1981–82 to 2018–19**

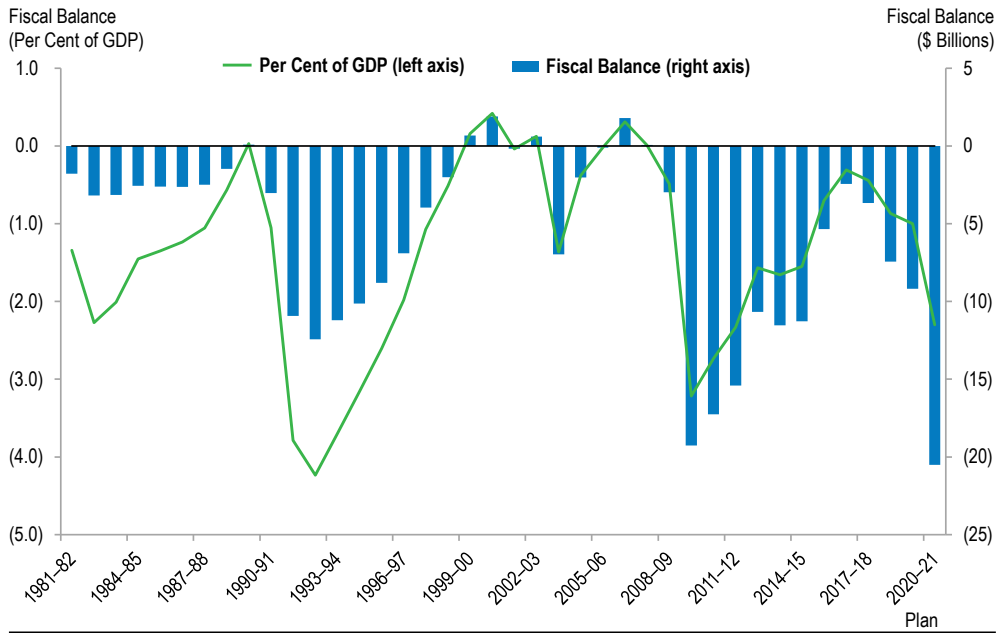


*Note:* Revenues have been restated to reflect reporting changes and reclassifications.  
*Source:* Ontario Ministry of Finance.

## Government Deficits

Between 1981–82 and 2018–19, the province’s finances have been in deficit in 32 out of the 38 years. There has been a tendency for large deficits as a consequence of economic downturns, such as in 1992–93 and 2009–10, with a movement towards balanced budgets over the subsequent growth period. As a result of the response to the COVID-19 outbreak, the government is planning for a deficit of \$20.5 billion in 2020–21 as presented in the *March 2020 Economic and Fiscal Update*. Achieving long-term fiscal balance is an important goal to ensure the province is positioned to respond to crises such as COVID-19, and as a foundation on which to build long-term growth and prosperity.

**Chart 3.6**  
**Fiscal Balance, 1981–82 to 2020–21**



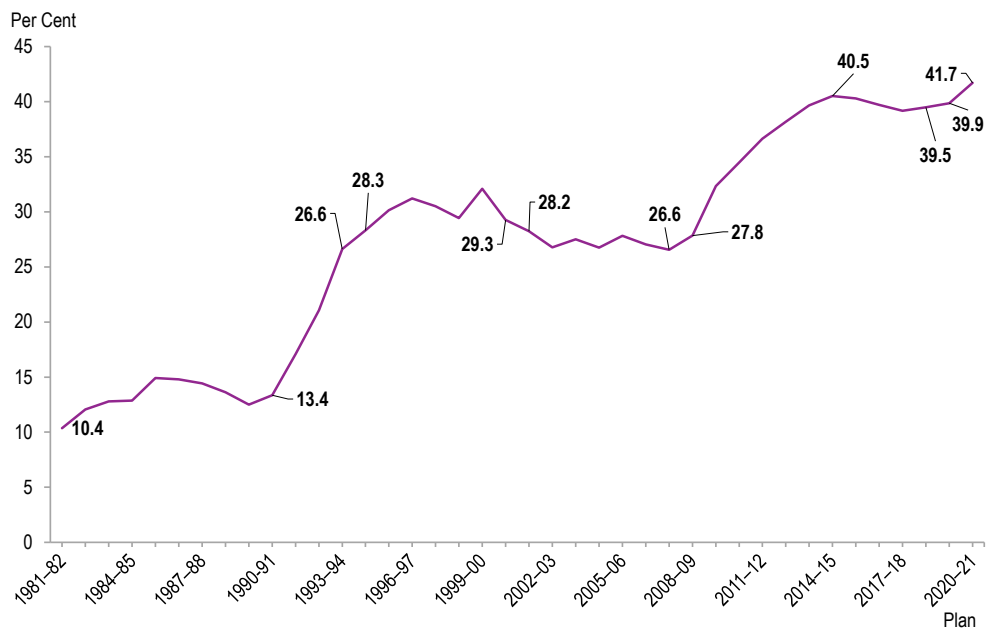
Sources: Statistics Canada and Ontario Ministry of Finance.

## Government Debt

One of the key implications of persistent provincial government deficits has been growth in Ontario's net debt. Rising debt levels have been a trend among governments globally, notably in the aftermath of the global 2008–09 recession. Ontario's net debt has doubled in the past decade alone and is projected to grow to \$379 billion in 2020–21. Unfortunately, Ontario continues to have the largest subnational debt in the world.

There has also been a trend in Ontario over the last 30 years for net debt measured as a ratio of the size of the provincial economy to rise substantially as a result of every major recession, edging down slightly afterwards and never returning to pre-recessionary levels. Ontario's net debt-to-GDP rose from 10.4 per cent in 1981–82 to a peak of 40.5 per cent in 2014–15, before declining slightly to 39.5 per cent in 2018–19. It is projected to rise to 41.7 per cent in 2020–21.

Chart 3.7  
**Ontario Net Debt-to-GDP, 1981–82 to 2020–21**



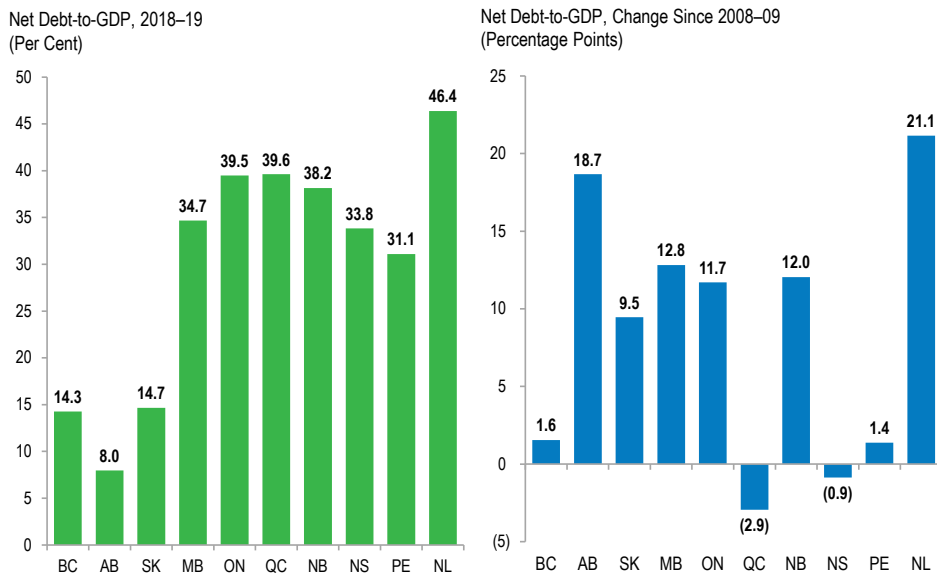
Sources: Statistics Canada and Ontario Ministry of Finance.

## Provincial Net Debt-to-GDP Comparisons

As shown on the left chart below, Ontario’s net debt-to-GDP ratio in 2018–19, at 39.5 per cent, was one of the highest among Canadian provinces. Newfoundland and Labrador had the highest ratio at 46.4 per cent and Alberta the lowest at 8.0 per cent.

The right chart shows the change in percentage points for Canadian provinces net debt-to-GDP ratios since the 2008–09 recession. The net debt-to-GDP ratio rose significantly across most provinces. Ontario experienced an increase of 11.7 percentage points with Newfoundland and Labrador rising the most among all the provinces by 21.1 percentage points. Quebec experienced the largest decline of 2.9 percentage points, only one of two provinces to see the ratio decrease during this period.

Chart 3.8  
Provincial Net Debt-to-GDP Comparisons



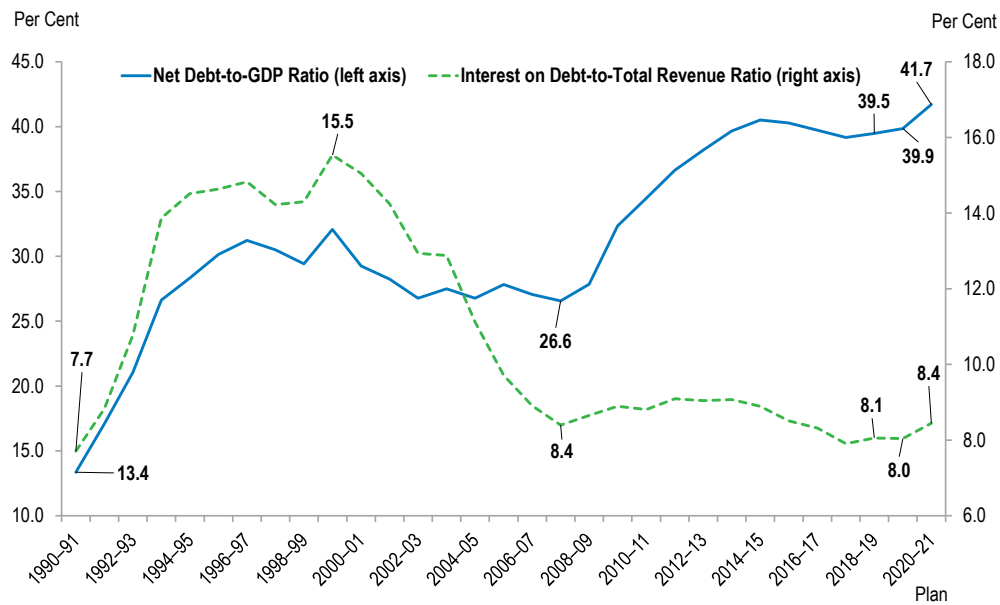
Sources: Statistics Canada and Department of Finance Canada.



## Debt Financing Costs

Interest rates since the 2008–09 global recession have been historically low. As a result, relative debt service costs have also remained low with very little change in the interest on debt-to-total revenue ratio, despite substantial growth in Ontario’s net debt in both absolute terms as well as relative to GDP. Ontario is forecast to pay \$13.2 billion in interest costs in 2020–21, as presented in the *March 2020 Economic and Fiscal Update*. This is up from \$8.9 billion in 2008–09 and makes interest payments on debt Ontario’s fourth largest line item after health care, education and social services. Every dollar spent on interest servicing the province’s debt is a dollar not returned to people through investments in health care, infrastructure or lower taxes.

Chart 3.9  
**Growing Provincial Debt Supported by Low Interest Rates**



Sources: Statistics Canada and Ontario Ministry of Finance.

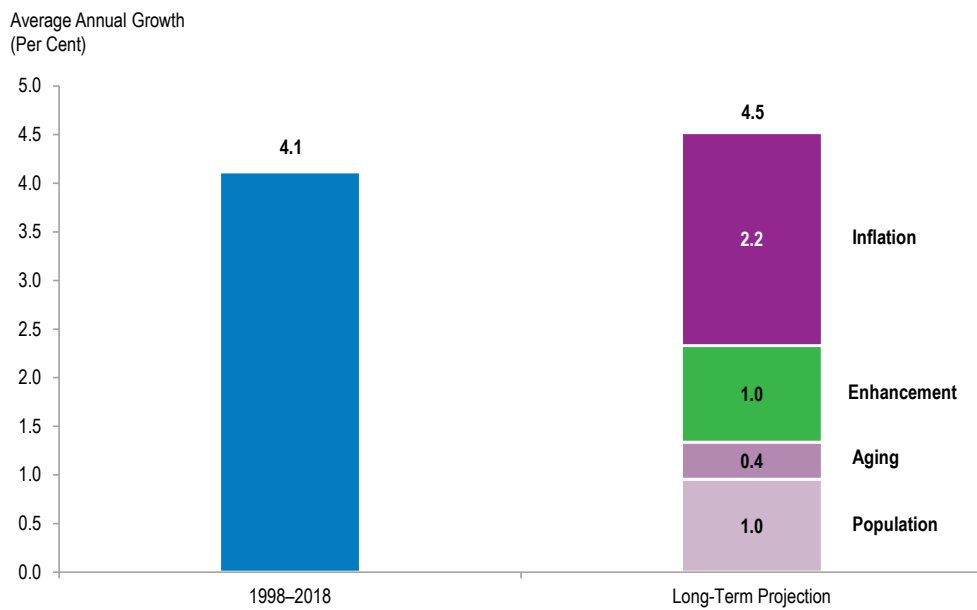
# 1. Implications of Demographic and Economic Trends for Public Services

This section examines how projected demographic and economic trends would influence the future demand for public services, and the corresponding implications for provincial government finances.

## Demand for Public Services

Total demand for government services is projected to advance at an average annual pace of 4.5 per cent over the long term. This total demand projection is based on four main components: underlying demographic demand; additional demands related to an older population; a continuation of past trends to enhance programs; and cost inflation. This compares to an average annual pace of growth of 4.1 per cent between 1998 and 2018.

Chart 3.10  
Demand for Public Services Expected to Rise



Note: Numbers may not add due to rounding.  
Sources: Statistics Canada and Ontario Ministry of Finance.

## Population

*Chapter 1: Demographic Trends and Projections* described how Ontario's population is expected to continue rising over the next quarter century. Population growth is expected to be driven largely by immigration while growth in the core working-age population is expected to be relatively slower. Over the longer term, population growth in Ontario is expected to average 1.0 per cent annually.<sup>1</sup>

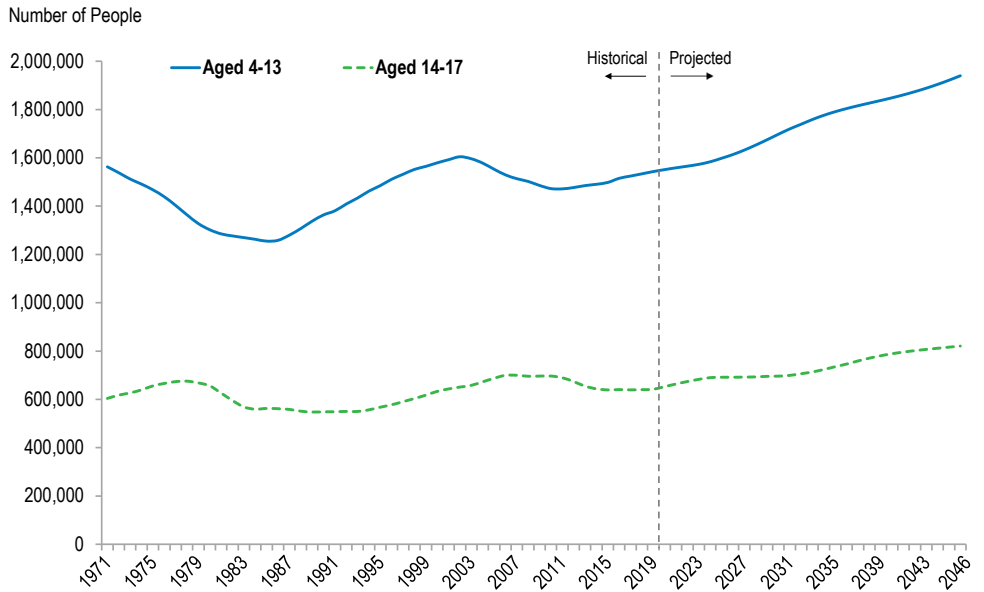
The population growth of specific age groups will influence demand for sector-specific public services. For example, from 2019 to 2046, the number of elementary school-age children is projected to rise by about 0.9 per cent annually, on average. The 4 to 13 age group is projected to grow by 25.7 per cent from 1.54 million in 2019 to 1.94 million in 2046 — significantly greater than the 1.4 per cent, or 22,000 decline seen over the past 20 years.

---

<sup>1</sup> Demographic estimates between 2025 and 2045 are used to assess long-term demand for public services.

The secondary school-age group (aged 14 to 17 years) is projected to continue growing in the short term, and to reach 821,000 by 2046 — 27.9 per cent higher than today’s level of 642,000. Due to regional variations in the growth of the children’s population, school enrolment will rise in some regions and fall in others.

**Chart 3.11**  
**School-Age Population in Ontario, 1971 to 2046**



Sources: Statistics Canada for 1971–2019 and Ontario Ministry of Finance projections.

## Aging

Ontario's population is projected to experience an overall aging due to low fertility rates, aging of large cohorts of baby boomers and rising life expectancy. This is outlined in more detail in *Chapter 1: Demographic Trends and Projections*. One of the key implications of this is increasing demand for health care services.

Spending per person on health care for seniors is significantly higher than the remaining population. In Ontario, government health spending per person on seniors (65 years and above) was \$10,964 per person in 2017 relative to the average amount of \$4,133 per person for the entire population.

**Table 3.1**  
**Ontario Health Spending by Age Group**

<b>Age Group</b>	<b>Spending per Person, 2017 (\$)</b>	<b>Share of Population, 2017 (per cent)</b>	<b>Share of Population, 2046 (per cent)</b>
<1	12,374	1.0	1.0
1-4	1,801	4.1	3.9
5-14	1,536	10.9	9.8
15-44	2,299	39.5	37.9
45-64	3,712	27.9	24.0
65-84	9,098	14.4	17.9
85+	23,025	2.2	5.5
<b>Total</b>	<b>4,133</b>	<b>100.0</b>	<b>100.0</b>

Sources: Canadian Institute for Health Information and Ontario Ministry of Finance

Some partial offset to rising program expenses from aging-related health care demand is projected to come from slower demographic demand growth in some other sectors such as elementary and secondary education, which is expected to grow at a slightly slower pace than the overall population. Regardless, the aging population will be a factor increasing the demand for certain public services over the projection period.

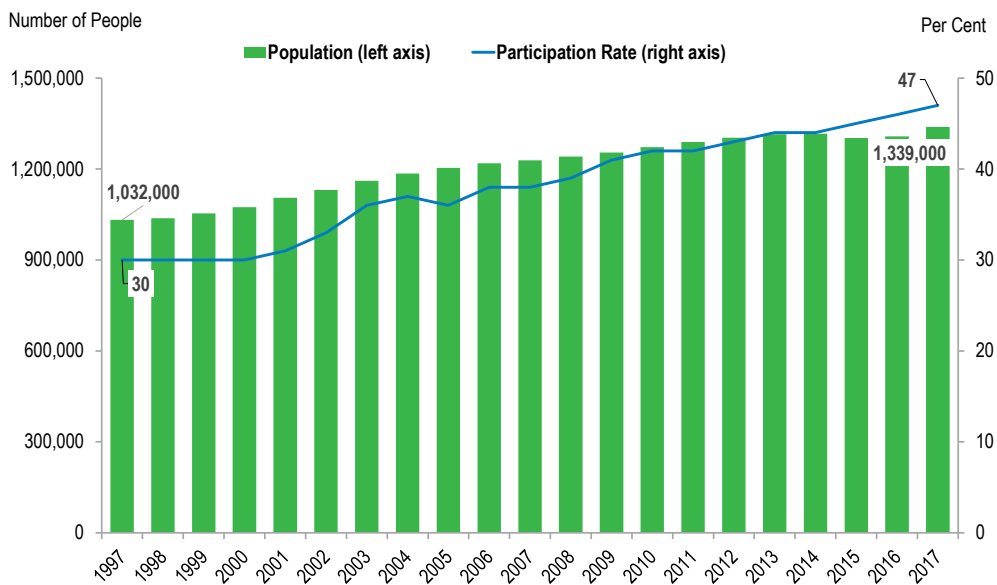
## Service Enhancement

Historically, demand for public services has risen faster than overall population growth. Over the projection period, enhanced demand for public services is projected to rise in line with growth in overall real GDP per capita.

Demand for postsecondary education and training provides an example of historical service enhancement. In the postsecondary sector, demographics play a somewhat smaller role in determining enrolment than in the primary and secondary education system because participation is not universal.

In Ontario, the postsecondary education participation rate has increased from 30 per cent to 47 per cent over the past two decades. Postsecondary enrolment will continue to be highly influenced by a combination of demographics and demand, reflecting both economic conditions and the skills needed for future employment.

**Chart 3.12**  
**Postsecondary Participation and Population, Ages 18 to 24**

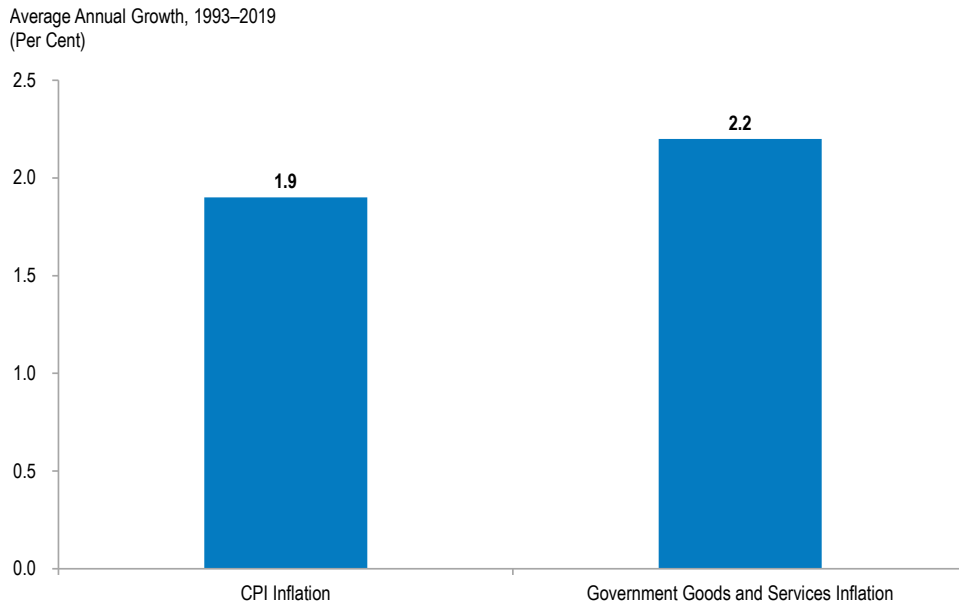


*Note:* The postsecondary participation rate includes both domestic and international students in Ontario.  
*Sources:* Statistics Canada and Ontario Ministry of Finance.

# Inflation

Demand for public services is also impacted by cost inflation. Historically, inflation for government goods and services has risen at a slightly faster pace than consumer price index (CPI) inflation. Higher relative government-sector inflation was driven by health care costs, generally attributed to higher labour costs and new technologies.

**Chart 3.13**  
**Past Trends in Ontario Government Price Inflation, 1993 to 2019**



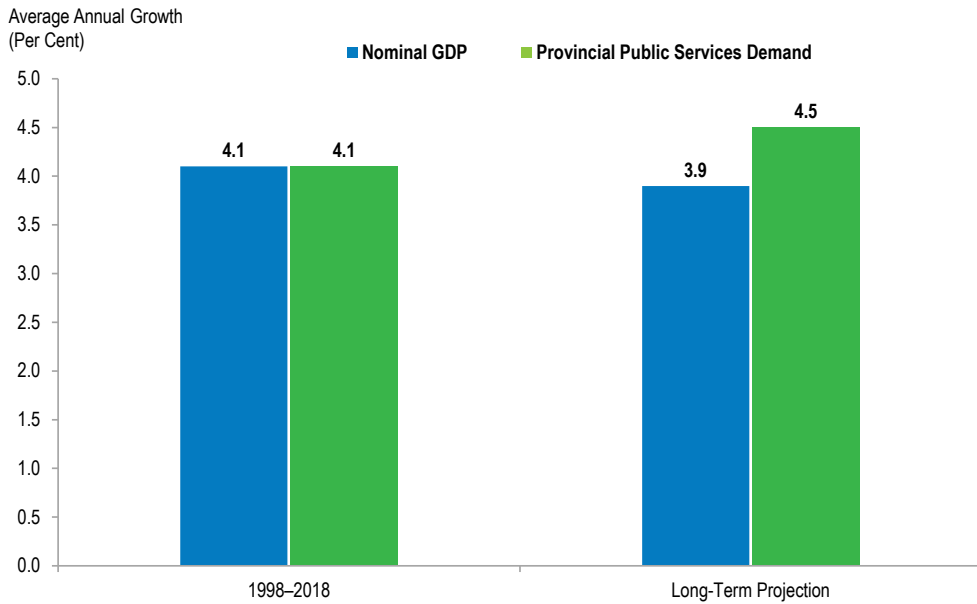
Sources: Statistics Canada and Ontario Ministry of Finance.

Over the projection period, average annual inflation for public services, at 2.2. per cent, is projected to rise modestly faster than CPI inflation of 2.0 per cent, reflecting this trend.

## Future Fiscal Pressures

Over the long term, demand for public services is projected to rise at a faster pace than overall economic growth. As outlined earlier in this chapter, this is mainly due to the expected rise in health care demand arising from the pressures of an aging population.

**Chart 3.14**  
**Demand for Public Services Expected to Rise**

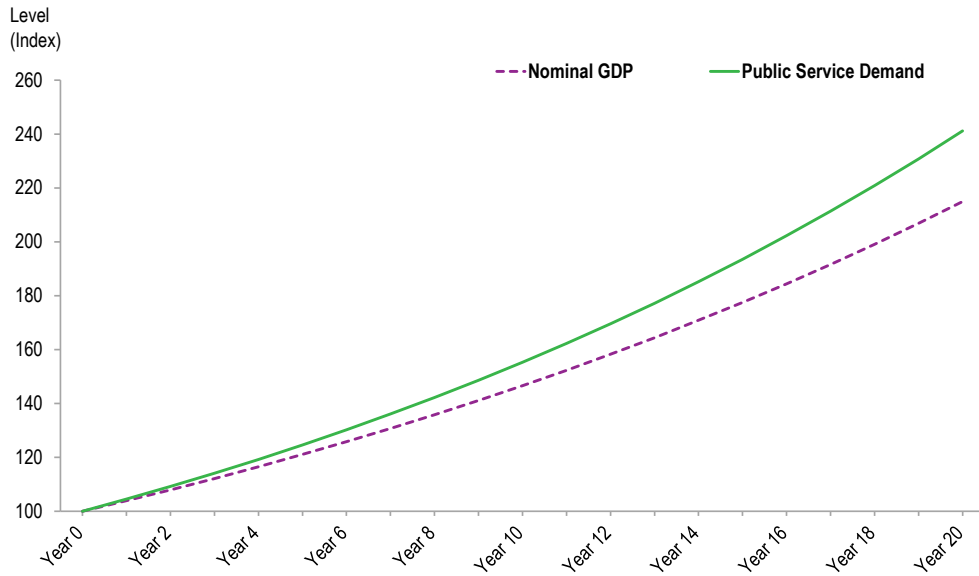


Sources: Statistics Canada and Ontario Ministry of Finance.



Overall growth in demand for public services is expected to rise by an average of 4.5 per cent annually over the long term. Left unaddressed, this would lead to demand for public services exceeding nominal GDP by over 12 per cent at the end of a 20-year projection period.

**Chart 3.15**  
**Demand for Public Services Expected to Outpace GDP Growth**



Source: Ontario Ministry of Finance.

A key challenge in the future will be to manage sustainable provision of public services in a manner that does not increase public services as a share of the economy. More spending on services could be offset by responsible, more prudent management of public finances. Growth in services could be maintained at a rate closer to underlying demographic demand with fewer new programs or service enhancements, and the review, modernization or phase-out of ineffective programs. Increased productivity in the provision of public services, such as through increased use of digital service delivery, would allow growing demand to be met without ongoing increases in the proportion of the province's economic and financial resources being devoted to supporting higher demand. Moderating public-sector price inflation will also play a role in sustainably providing public-sector services.

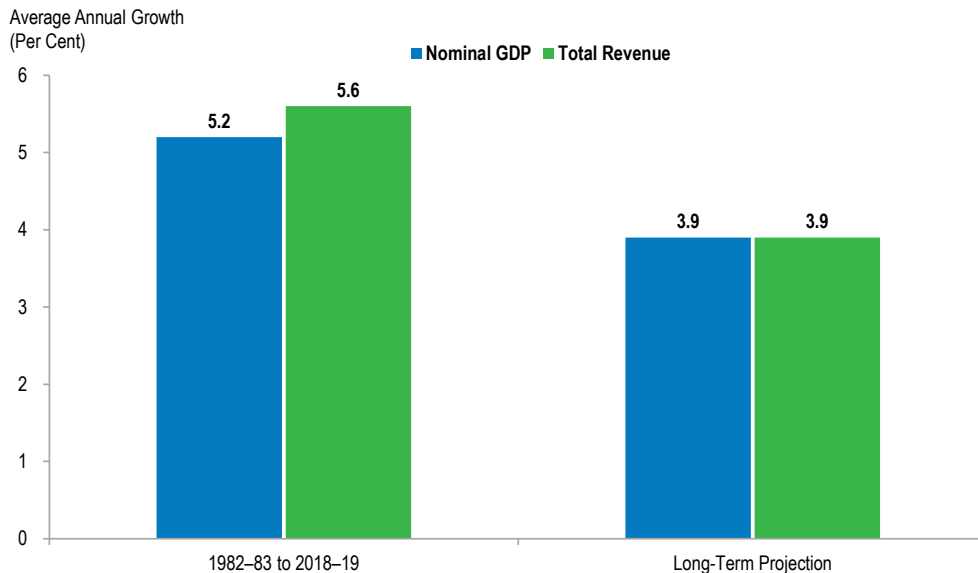
## 2. Implications of Demographic and Economic Trends for Revenue Growth

This section examines how projected demographic and economic trends would influence future revenue growth, and the corresponding implications for provincial government finances.

### Revenue Growth Driven by Economic Growth

Over the longer term, total revenues are projected to grow in line with the economy. Because of the slower projected pace of economic growth, revenues are expected to grow at a slower rate than in the past.

Chart 3.16  
**Nominal GDP Growth and Total Provincial Revenue**



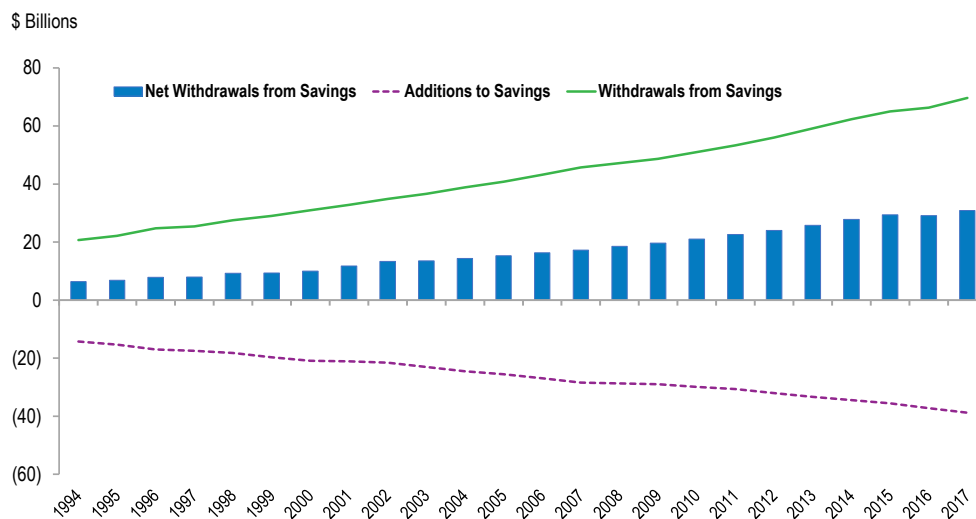
Sources: Statistics Canada and Ontario Ministry of Finance.

## Income from Retirement Savings Withdrawals

Many people in Ontario have benefited significantly from provisions of the tax system regarding retirement income savings. Tax treatment of contributions to the Canada Pension Plan, workplace Registered Pension Plans, and personal Registered Retirement Savings Plans, along with the deferred tax on the income earned in those plans, results in billions of dollars of deferred tax for individuals every year.<sup>2</sup> Individuals are assessed income tax when the incomes related to these retirement savings are realized.

As a consequence of the aging population and their past savings, the Province is increasingly seeing a rise in the income related to past savings. This trend is expected to continue, leading to an increasing taxable income base.

Chart 3.17  
**Select Retirement Savings and Related Income, 1994 to 2017**



Notes: Additions to savings include Canada Pension Plan (CPP) premiums paid by employees and those self-employed, Registered Retirement Savings Plan (RRSP) income tax deductions and deductions for the employee portion of Registered Pension Plan contributions. Withdrawals from savings are shown as positive amounts and include reported income from CPP/Quebec Pension Plan, RRSP and other pension income.  
Source: Ontario Ministry of Finance.

<sup>2</sup> See *Taxation Transparency Report, 2019*, for more details - <https://budget.ontario.ca/2019/fallstatement/transparency.html#section-4>

Income from these savings withdrawals increased at an average annual pace of 5.4 per cent over the past 23 years, outpacing overall income growth by 1.4 percentage points. This trend is likely to be more pronounced in the long term as seniors, who will make up a larger share of the population, draw on their retirement savings.

### **3. Ongoing Measures Will Be Needed to Support Fiscal Sustainability**

A long-term approach to fiscal management is important. Prudent management will ensure that governments have the resources available to provide effective public services that residents can rely on both now and in the future, the flexibility to manage unexpected changes that may arise, and the capacity to limit the debt burden on future generations.

Prudent spending will require a sustained effort with a continued focus on financial management throughout the medium- to long-term time horizon.

#### **Sustainability of Government Finances**

Sound government finances are a cornerstone in ensuring ongoing, sustainable provision of public services over the long term.

A high debt-to-GDP ratio with no plan to reduce the debt burden will lower confidence in the province's finances, impacting business confidence and investment. This results in a higher risk premium on borrowing and contributes to a higher cost of borrowing. Responsible fiscal management will lower the risk premium on government debt and reduce the interest on debt burden.

Sustainable public finances provide increased fiscal room that allows the government to respond to adverse economic and fiscal events, such as an economic downturn, natural disaster or a pandemic. High debt levels increase the public interest burden, reducing money available for other areas of fiscal policy, particularly when fiscal stimulus may be needed most.

There are also considerations with respect to intergenerational fairness. High levels of debt-funded operating spending will raise the debt burden for future generations who may not benefit from these public expenditures.

## ***Ontario's Debt Sustainability***

Fiscal sustainability, as measured by the sustainability of public debt, represents the ability of a government to manage public finances in a way that ensures resources are available to fund public services over the long term, while maintaining flexibility to address unforeseen circumstances and service the debt.

The Institute of Fiscal Studies and Democracy's *Fiscal Sustainability Report, 2017*, recognizes the need for governments to plan over an extended time horizon: "a government's fiscal rectitude must not only be judged on the here and now, but also on how it has positioned itself over the long term and across generations."<sup>3</sup>

While the COVID-19 pandemic has introduced significant uncertainty for global economic prospects, the Ontario government has produced *Ontario's Long-Term Report on the Economy* (Long-Term Report) in recognition of the continued need for a long-range assessment of the province's economic and demographic trends and their implications for fiscal policy. This analysis is one of the fundamental inputs to responsible, forward-looking fiscal and budgetary planning and reporting. In particular, it helps in understanding the province's potential future economic path and implications for government finances.

## **Office of the Auditor General of Ontario *Annual Report 2019: Debt Sustainability Commentary and Recommendations***

As an acknowledgment of the government's priority of responsible fiscal management, the Office of the Auditor General of Ontario (OAGO) noted in its *Annual Report 2019* the expanded requirements in the *Fiscal Sustainability, Transparency and Accountability Act, 2019* (FSTAA), as compared with the earlier *Fiscal Transparency and Accountability Act, 2004*.

In a value-for-money audit featured in the same *Annual Report 2019*, the OAGO highlighted the importance of fiscal sustainability from the perspective of managing public debt. OAGO recommendations centred on actions towards achieving long-term sustainability of Ontario's debt.

---

<sup>3</sup> Bartlett, R. & Lapointe, D. (2017). *Fiscal Sustainability Report, 2017*. Ottawa, ON: Institute of Fiscal Studies and Democracy.

## Office of the Auditor General of Ontario *Annual Report 2019:* Value-for-Money Debt Sustainability Recommendations

### Recommendation 1

To increase the ability of the Ministry of Finance (Ministry) to achieve long-term sustainability for the provincial debt, we recommend that the Ministry:

- Clearly define “extraordinary circumstances” as set out in the *Fiscal Sustainability, Transparency and Accountability Act, 2019*;
- Identify relevant measures to assess debt sustainability;
- Develop formal, evidence-based long-term targets and plans to meet them; and
- Monitor these measures and assess the impact on the province’s current and projected financing needs, and the cost of debt.

### Recommendation 2

So that the Ministry of Finance (Ministry) is better informed about the province’s ability to withstand potential new economic shocks and about potential scenarios to consider when faced with new significant economic impacts, we recommend that the Ministry request that the Ontario Financing Authority:

- Develop and test scenarios that consider the impacts of potential economic shocks (for example, the 2008 financial crisis); and
- Use the information from these tests to advise the Ministry on optimal borrowing levels and on the response strategies, such as fiscal and economic policies, it could apply in the event of economic shocks.

Recognizing the importance of maintaining the long-term sustainability of the province’s finances and debt, the Long-Term Report is responding to the OAGO recommendations by:

- Developing long-term demographic and economic scenarios for the province;
- Defining the current COVID-19 pandemic as an extraordinary circumstance, and navigating the economic shock presented by the crisis; and
- Discussing relevant measures to assess the province’s debt sustainability.

Government policy responses to the analysis featured in the Long-Term Report would be considered as part of priority setting and decision making for future budgetary and fiscal publications.

### ***Long-Term Economic and Demographic Scenarios***

Developing demographic and economic scenarios provides the government with needed insight into the province's ability to withstand various risks and potential outcomes. It also helps to inform the potential range for Ontario's long-term fiscal sustainability, including impacts on the province's funding and borrowing requirements, and debt and cost of debt outlook. The scenario and implications analysis can help to shape future fiscal and economic policies, including targeted response strategies in the event of an unforeseen scenario materializing.

Economic and demographic projections, including alternative scenarios, are presented in *Chapter 1: Demographic Trends and Projections* and *Chapter 2: Economic Trends and Projections*.

### **Extraordinary Circumstance of COVID-19**

The COVID-19 pandemic has introduced significant uncertainty to global economic conditions.

In *Ontario's Action Plan: Responding to COVID-19*, the government outlined a \$17 billion initial response, prioritizing supports to ensure the health care system, communities and the economy are positioned to weather the challenges and uncertainty ahead. These supports underlie the government's \$20.5 billion deficit projected in the *March 2020 Economic and Fiscal Update* for 2020–21, a deficit representing 2.3 per cent of forecasted GDP. Following on the requirement from the FSTAA and the recommendation of the OAGO, the government is defining the extraordinary circumstance for the planned 2020–21 deficit as the COVID-19 pandemic and the necessary suite of government response measures.



## **Navigating the Crisis**

Despite this economic shock and financial market volatility, the Province has maintained its ability to borrow in the face of uncertainty, a sign of Ontario's ongoing financial stability and debt sustainability. In the month following the release of the *March 2020 Economic and Fiscal Update*,<sup>4</sup> the Province completed \$13.1 billion in long-term public borrowing. That is 55 per cent more than the Province's previous largest month of borrowing. This ongoing demand for Ontario bonds has demonstrated the Province's fiscal and debt sustainability, with investors in Canada and globally, enabling Ontario to finance both known obligations and unanticipated urgent needs stemming from its COVID-19 response.

### ***Measures of Debt Sustainability***

Net debt, expressed as a ratio of GDP, is widely acknowledged in literature and among financial experts, including the Office of the Parliamentary Budget Officer and the OAGO, as the primary indicator by which to measure debt sustainability. The ratio measures the relationship between a government's obligations and its capacity to raise the funds needed to meet them, indicating the burden of government debt on the economy. This is why the government's debt burden reduction strategy, required in the annual budget under FSTAA, must include Ontario's specific objectives for the projected ratio of provincial net debt to Ontario's GDP.

---

<sup>4</sup> Between March 26, 2020 and April 24, 2020.

The government, however, recognizes the importance of transparency with respect to the affordability of Ontario's debt, and accepts the OAGO recommendation to identify other relevant measures to assess debt sustainability. Drawing on past OAGO commentary regarding useful measures to assess government debt levels, as well as measures considered by bond rating agencies, other relevant measures under consideration for Ontario which were included in the *March 2020 Economic and Fiscal Update* consist of the following:

- **Ratio of net debt-to-total revenue:** indicates how much time it would take to eliminate the debt if the Province spent all its revenues only on debt repayment. Projected at 242.6 per cent for 2020–21, this means it would take almost 2.5 years to eliminate Ontario's net debt if all revenues were devoted to it over that period.
- **Ratio of interest on debt expense-to-total revenue:** represents the amount of every dollar the government receives that goes towards interest to service the province's debt load. As highlighted by the OAGO, "the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for spending in other areas." This measure is highly sensitive to interest rate risk. Historically low interest rates over the past decade have helped to keep Ontario's interest on debt-to-revenue ratio steady around 8 to 9 per cent. It was projected at 8.4 per cent for 2020–21.

The identification of relevant measures represents a starting point to develop potential targets and the plans to meet these targets, and these are planned to be introduced in the *2020 Budget* along with a multi-year fiscal outlook. This would be followed by ongoing monitoring and assessment of the fiscal implications of changing trends in these measures.

## Enshrining the Importance of Fiscal Sustainability in Legislation

An important component of the government's commitment to prudent financial management is modernizing the framework that governs fiscal planning through the recently enacted *Fiscal Sustainability, Transparency and Accountability Act, 2019* (FSTAA). The FSTAA puts sustainability at the centre of Ontario's fiscal planning as a guiding principle — it enhances transparency and public reporting, and includes provisions that bolster oversight and compliance measures for elected officials.

The FSTAA also requires a debt burden reduction strategy as part of the government's fiscal plan, effectively making debt sustainability a key consideration in all government decisions.

The Parliamentary Budget Officer's (PBO) *Fiscal Sustainability Report*, released in February 2020, recognized Ontario's commitment to long-term sustainability and identified Ontario as one of four provinces with sustainable fiscal policy over the long term.

## Alternative Scenarios and Risks

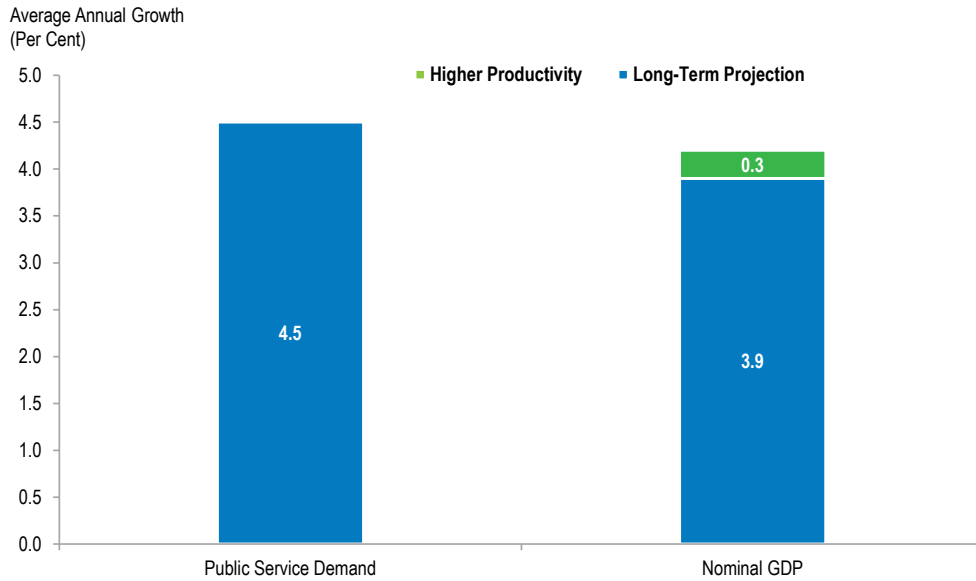
There are opportunities to more sustainably manage the growth in resources required to provide public services. These include reducing program enhancement growth below historical trends and improving the productivity of service delivery.

As outlined in *Chapter 2: Economic Trends and Projections*, productivity growth plays a significant role in driving overall economic growth. As government revenues are driven by economic growth, future fiscal sustainability could be heavily influenced by productivity.

The economic projection assumes productivity growth of 1.1 per cent annually over the long term. In contrast, the high productivity scenario assumes growth of 1.4 per cent and the low productivity scenario assumes growth of 0.8 per cent.

Maintaining and enhancing productivity growth is essential to generating revenues necessary to fund public services. Under a high productivity scenario, Ontario's higher average annual productivity growth of 0.3 percentage points compared to the base case projection would be expected to raise nominal GDP growth to 4.2 per cent, therefore providing important support to the projected 4.5 per cent growth in public services demand.

Chart 3.18  
**Higher Productivity Growth Could Help Fund Public Services**



Source: Ontario Ministry of Finance.

Alternatively, low productivity growth would lead to weaker revenue growth and fewer financial resources to meet the demand for public services, creating the potential for higher deficits that would increase the debt burden.

## Potential Implications of COVID-19 on Ontario's Finances

The COVID-19 pandemic could have significant and long-lasting consequences on government finances. A broad suite of unprecedented actions has been taken by governments and central banks in all parts of the world in order to prevent COVID-19 from spreading further, and to protect the economy from facing an even deeper economic decline and sustained damage. As a result, government debts in many parts of the world are rising to unprecedented levels.

In the *March 2020 Economic and Fiscal Update*, the Ontario government announced immediate measures in order to respond to COVID-19, including additional health care resources and contingencies, and direct support for people and jobs. The government's plan also includes higher-than-usual reserve and contingency funds as a measure of prudence to protect against additional unforeseen adverse changes to revenue and expense.

For Ontario, the net result of these factors is a projected increase in the provincial debt over the near term. Rising debt levels, in both absolute terms and as a percentage of GDP, suggest that future debt servicing costs will be higher than they otherwise would have been. Potential lower future interest rates could mitigate this impact; however, interest rates are already historically low and cannot be expected to remain at current levels for extended periods of time. An eventual increase in interest rates, along with a larger debt portfolio arising from near-term deficits, will increase how much Ontario needs to spend on interest for every revenue dollar received. Effectively, a greater share of revenue will be required to service the province's debt, leaving less revenue to fund the increasing demand for public services.

The full impact of COVID-19 on government finances is subject to considerable uncertainty. Governments around the world face similar pressures and the eventual path to managing debt sustainability will require policy coordination across all levels of government.

## Conclusion

---

This report presented an evaluation of Ontario's future demographic, economic and fiscal environment. Each of the three chapters focussed on a specific aspect of this long-term assessment.

In *Chapter 1: Demographic Trends and Projections*, demographic trends observed in the province during the past 50 years were presented, along with anticipated changes in Ontario's population to 2046.

Over the long term, Ontario's population is projected to continue growing, driven by immigration. There will also be a further concentration of population growth in the largest urban areas of the province, particularly the Greater Toronto Area (GTA).

Population aging is projected to continue as fertility rates remain low, life expectancy continues to increase, and more baby boomers become seniors. Both the number and the proportion of seniors in Ontario's population are projected to rise significantly. As the largest cohorts of baby boomers turn age 65 during the 2020s, a period of slower growth in the core-age population is also projected. In addition to presenting key implications of the demographic outlook, alternative scenarios as well as a discussion of the potential impact of COVID-19 on Ontario's population growth were also discussed.

*Chapter 2: Economic Trends and Projections* presented analysis about how Ontario's future growth in potential real GDP will be slower than the pace observed over the past 25 years.

Ontario's future economic performance will be driven by the demographic outlook and labour force participation trends. Over the long term, a gradual decline in the labour force participation rate combined with moderating growth in the core working-age population will result in slower labour force growth. Labour productivity, a key determinant of potential economic growth over the long term, is expected to continue growing at its historical average.

The evolving global economic environment will also impact future economic growth in the province through trade and other important external factors such as the Canada/U.S. dollar exchange rate, the price of oil and interest rates. It is assumed that over the long term, after the global economy recovers from the impacts of COVID-19, the external environment evolves in a manner consistent with the trends leading up to the outbreak.

*Chapter 3: Implications of Demographic and Economic Trends for the Public Sector and Fiscal Policy* described the past progression of demand for government services and highlighted the potential impact of demographic and economic trends on the public sector and on Ontario's fiscal policy.

Spending by all levels of government in Ontario has been growing at a faster pace than the province's population due to factors such as the rising demand for public services and the aging population. Ontario has typically been in a fiscal deficit situation since 1981. This has resulted in a rising provincial net debt-to-GDP, which now stands as one of the highest among the Canadian provinces. Despite the increase in the province's debt burden, reflected by the increase in net debt-to-GDP, provincial debt service costs as a proportion of revenues have remained relatively low as a result of historically low interest rates over the last decade.

In the future, demand for public services will be influenced by underlying demographic growth; demands related to an older population; continuation of past trends to enhance programs; and inflation. However, slower projected economic growth is expected to result in a slower pace of increase in government revenues. These projected trends imply the need for continued government measures in order to support fiscal sustainability.

The long-term perspectives presented in each of the three chapters of this report provided important context for planning towards the opportunities and challenges likely to face the province in the coming decades.

These challenges are being exacerbated by the current COVID-19 pandemic, resulting in increased demand for government action to support health care, people and jobs. This will contribute to a higher government debt burden resulting in increased debt servicing costs that could consume a higher share of the province's revenues.





ISBN 978-1-4868-4562-0 (Print)  
ISBN 978-1-4868-4563-7 (HTML)  
ISBN 978-1-4868-4564-4 (PDF)

© Queen's Printer for Ontario, 2020