

Economic Development Winnipeg

WEEKLY ECONOMIC DIGEST



AN ECONOMIC ANALYSIS: CANADA'S FEDERAL BUDGET THE ECONOMIC IMPLICATIONS FOR MANITOBA AND CANADA

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Bottom Line

Canada is facing several major challenges that can become opportunities if addressed boldly. These challenges include **recovering from the worst of the pandemic economically**—which includes boosting productivity, helping people reskill, and using fiscal policy to address inflation arising from the pandemic-driven supply shocks. **Our healthcare system also needs to recover** from the effects of the pandemic—and to achieve this, it's important to help provinces clear surgical and diagnostic backlogs and make Canada more robust against future pandemics.

Another challenge Canada is facing is dealing with the security and economic issues of a **partial roll-back of globalization**—this includes addressing supply chain challenges laid bare during the pandemic and challenges to the international order such as Russia's invasion of Ukraine. These challenges affect Manitoba industries, with companies deciding to re-shore or near-shore more of their inputs after the sharp supply and supply chain challenges affecting their production.

(continued).

Bottom Line (Continued)

Canada also needs to continue implementing policies and making investments to **achieve our net zero goals**. This is an enormous challenge, and one of the greatest investment opportunities to come along in decades as the world rolls-out the necessary transitions across multiple industries around the world.

The federal government's 2022 budget proposes to address these issues via three major pillars:

- Investing in Canadians and making life more affordable
- Investing in economic growth and innovation
- Investing in a clean economy

After enormous COVID-19 driven deficits in the last two fiscal years—\$327.7 billion in 2020–2021 and \$113.8 billion in 2021–2022—the budget projects a much smaller deficit of \$52.8 billion for 2022, and projects it to decrease even more to \$8.4 billion by 2026–2027.

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Pillars of the Canadian Federal Budget 2022

On April 7, 2022, the Honourable Chrystia Freeland, Deputy Prime Minister and Minister Finance released **Budget 2022**. The budget named the government's fiscal anchors, which are a **declining debt/GDP ratio** and a **declining deficit/GDP ratio**. It also stated three pillars that dictate what the government intends to do in Budget 2022. All these pillars apply to Manitoba, as well as the rest of Canada.

1. Investing in Canadians and making life more affordable

The first pillar includes several factors:

- **Housing** investments include expanding housing supply, reducing barriers to building housing and investing in rental housing.
- **Worker and worker skills** include ensuring we have enough workers and ensuring Canadians have the skills they need. The budget also aims to make it easier for skilled newcomers to do the job they trained for, support labour mobility within Canada and continue working with the provinces and territories to roll-out **affordable childcare programs**.
- Continuing actions of **reconciliation with Indigenous Peoples**.

2. Investing in a clean economy: The green transition

The second pillar also includes several factors:

- The continuing roll-out of the **National Price on Pollution (carbon tax)**.
- Incentives for developing **cleantech**.
- Incentives also apply for **carbon capture, utilization, and storage (CCUS)**—using an **Investment Tax Credit for CCUS** and other actions.

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The budget also aims to make it more affordable to buy zero emission vehicles for individuals and businesses, continue to build/expand a national network of zero emission vehicle charging stations and make new investments in clean energy. [1]

Box 1: Manitoba Connections to the Green Transition

Jane McDonald, Executive Vice President of **the International Institute for Sustainable Development (IISD)** was the keynote speaker at The Winnipeg Chamber of Commerce event, Climate Change Conversations, on April 28, 2022. She addressed how Manitoba households and organizations can act here in Manitoba to reduce our province's carbon footprint. She noted that many actions can be taken today, using off the shelf technology. Others need investment to scale, which is being addressed by the federal budgets in 2022, and related items in various provincial or municipal budgets.

This includes converting more of our energy use to electricity - particularly buildings, transportation, and industrial use. Energy efficiency is very important, as is converting to heat pumps, adopting low carbon fuels (such as hydrogen and biofuels), and decarbonizing heavy industry (e.g., steel, aluminum) inline with US and EU plans. This will mean a significant increase in electricity demand, and require a build out of electricity infrastructure, including electrical vehicle charging stations. These are items mentioned in the federal budget, and/or climate plan, released March 29, 2022. [2]

3. Investing in Economic Growth and Innovation

The third pillar [3] aims to lead to economic growth and innovation. The pillar includes launching the **Canada Growth Fund**, with the purpose of building a net zero economy by 2050. To achieve a net zero economy, the budget proposes to attract more private investment to go alongside the fund's investments. It is estimated that Canada will need \$125 to \$140 billion of investment each year between 2022 and 2050 to achieve net zero. The fund is to be capitalized at \$15 billion over the next five years. This will apply to Manitoba projects as well, so investigate how this fund could work for your organization.

[1] These are some of the actions being taken by Canada to meet our net zero obligations. For some in-depth discussion of actions that government can take to meet net zero obligations (within a broader context). See for example: Mark Carney (April 12, 2022) "Climate Policy is Macro Policy," Brookfield Asset Management, [memo](#), or its version as a presentation at NABE Conference March 22, 2022, [link](#), or more in-depth: Mark Carney's 2021 book, Value(s): Building A Better World for All, [link](#). Obviously, some of Mark's takes are from a financial system, insurance, and monetary policy perspective.

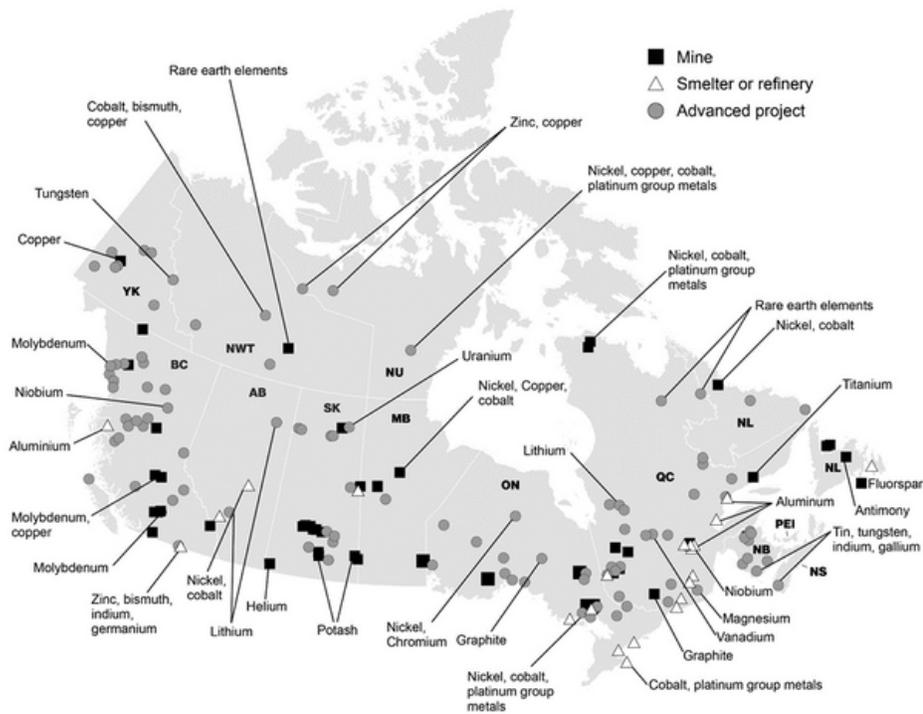
[2] See the federal climate plan: <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan.html>.

[3] See Chapter 2 of Budget 2022 for further details, particularly chapter 2.1 and 2.2. <https://budget.gc.ca/2022/report-rapport/chap2-en.html#m27>. Canada recently launched an electric vehicle initiative. <https://www.canada.ca/en/innovation-science-economic-development/news/2022/03/government-of-canada-welcomes-largest-investment-in-canadas-auto-industry-with-the-first-large-scale-domestic-ev-battery-manufacturing-facility.html>. New Flyer Industries is getting major contracts to supply hybrid electric or electric buses to various transit authorities, putting a made in Manitoba spin on the electric vehicle transition. <https://www.masstransitmag.com/bus/vehicles/hybrid-hydrogen-electric-vehicles/press-release/21264709/nfi-group-ttc-awards-contracts-for-up-to-565-new-flyer-buses>.

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The third pillar also intends to launch a market-oriented **Canadian Innovation and Innovation Agency** by the fall, after a consultation period. This is inspired by the [Finnish TEKES](#) and [Israeli Innovation Authority](#). The **Scientific Research and Experimental Development (SR&ED)** program will be reviewed to ensure it is effective, and to modernize and simplify it. SR&ED credits are important for a variety of Manitoba industry sectors, including manufacturing.

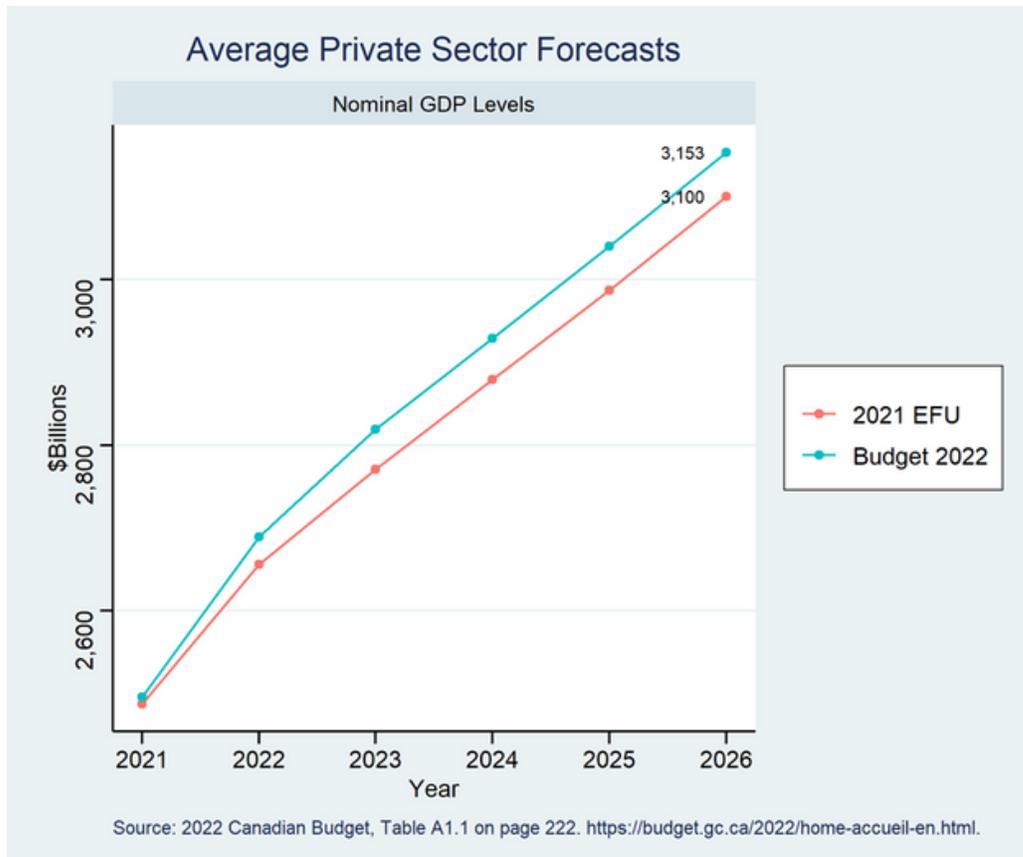
Further, the budget highlights actions to support economic growth and stable supply chains. It also outlines supplying up to \$3.8 billion over eight years to implement Canada's first **Critical Minerals Strategy**. This will include up to \$1.5 billion for infrastructure to supply the development of these critical minerals supply chains. This map from the budget shows where some mines are in Canada, including Manitoba. [4]



The budget introduced a 30 per cent **Critical Mineral Exploration Tax Credit** for expenses incurred in Canada. At the same time, up to \$1.5 billion will be targeted at attracting players in the manufacturing, processing, and recycling of critical mineral industries to Canada—via Innovation, Science and Economic Development Canada's Strategic Innovation Fund.

[4] See Federal Budget 2022, page 65.

REVIEWING BUDGET 2022 NUMBERS

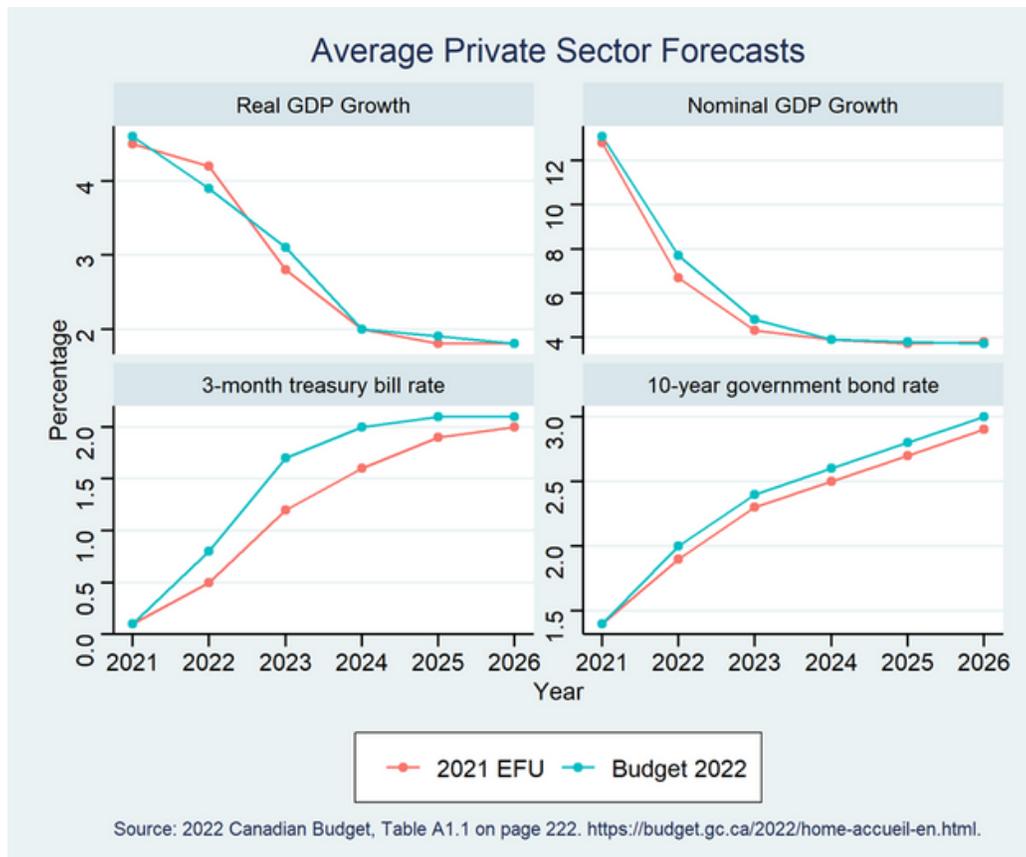


Canadian Economic Outlook

The federal budget is extremely important for understanding elements of the Manitoba provincial budget and elements of municipal budgets. This is because there are significant joint programs and transfers to the provincial government. Select infrastructure projects receive funding from the federal, provincial and municipal governments, for example.

The Canadian budget uses a survey of private sector forecasters projections of a variety of economic variables. For the 2022 budget, we can see that Nominal GDP is projected to rise to be \$3,153 billion in 2026, which is up \$53 billion compared to the 2021 Economic and Fiscal Update (**2021 EFU**). This implies a strengthening economy, as we recover economically from the pandemic's effects. Some of the gain is inflation driven.

REVIEWING BUDGET 2022 NUMBERS (CONT'D)



Nominal GDP growth rates are projected to be slightly stronger in Budget 2022 in the first three years than in the 2021 EFU.

Three-month treasury bill rates are projected to rise more rapidly than in the 2021 EFU, particularly in 2023 through 2025. This is driven by the expected rise of the Bank of Canada's overnight rate over the next few years. 10-year bonds are expected to creep up a slower pace, but to a higher level than in the 2021 EFU—this also implies a flatter forward curve for Canadian debt markets. [5]

A conservative 66 to 80 US\$/barrel is used for West Texas Intermediate (WTI) through the budget. This may result in more revenues than predicted over the projection period, which is preferable to an exuberant estimate for WTI, given that crude oil is our largest export in dollar value. [6]

[5] See the [2022 Budget](#) documents, for other forecasts in Table A1.1, page 222.

[6] See WED, Vol. 3, Issue 4, on page 4.

REVIEWING BUDGET 2022 NUMBERS (CONT'D)

Description /2	2021 - 2022	2022 - 2023	2023 - 2024	2024 - 2025	2025 - 2026	2026 - 2027
Budget Balance – EFU 2021	-144.5	-58.4	-43.9	-29.1	-22.7	-13.1
Economic & fiscal actions since EFU 2021	36.1	14.3	11.7	7.5	8.5	7.4
Policy actions since EFU 2021	-3.1	-1.3	-0.6	0.6	0.4	0.3
Total Budget 2022 measures	-2.2	-7.4	-7.1	-6.7	-4.8	-3.0
Net change in budget balance	30.8	5.6	4.0	1.4	4.1	4.7
Budget Balance – Budget 2022	-113.8	-52.8	-39.9	-27.8	-18.6	-8.4
Federal Debt /3	1,160.8	1,213.7	1,253.6	1,281.4	1,300.0	1,308.4
Nominal GDP - budget 2022 /1	2,496	2,689	2,819	2,929	3,040	3,153
As a percent of nominal GDP						
Budgetary Balance	-4.6%	-2.0%	-1.4%	-0.9%	-0.6%	-0.3%
Federal Debt	46.5%	45.1%	44.5%	43.7%	42.8%	41.5%
/1 From Table A1.1, page 222.						
/2 From Table A1.2, page 223, unless stated otherwise.						
/3 From Table A1.4, page 226.						

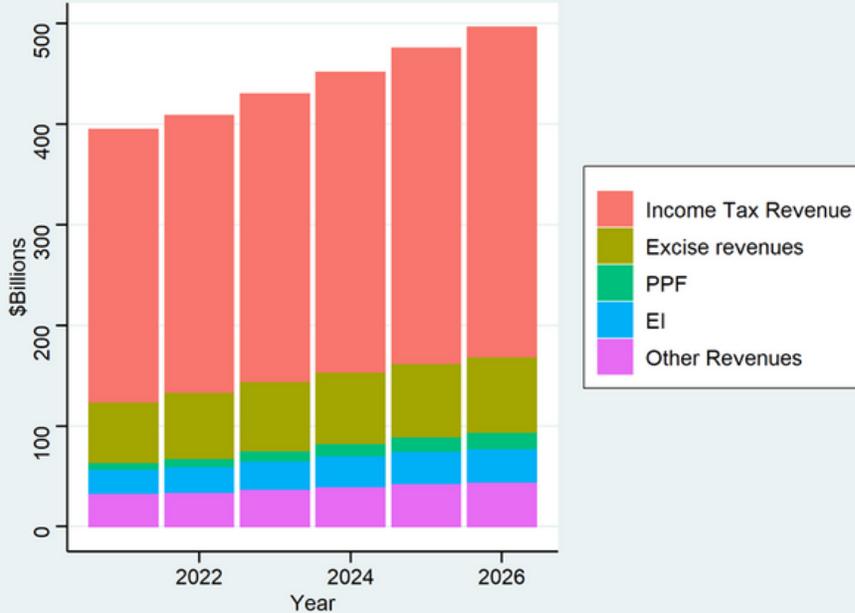
Changes to the Fiscal Outlook Since EFU 2021

Since the 2021 EFU, government revenues have improved, and net policy actions have resulted in most of these gains projected to be spent in 2022–2023 through 2026–2027. If WTI prices are stronger than forecast, this could result in a smaller deficit than projected.

When we consider the deficit as a share of nominal GDP, it is projected to fall from 4.6 per cent in 2021–2022 to 0.3 per cent in 2026–2027. The debt/GDP ratio is projected to fall from 46.5 per cent to 41.5 per cent by 2026–2027.

REVIEWING BUDGET 2022 NUMBERS (CONT'D)

Budget 2022 - The Revenue Outlook
by Revenue Type (\$Billions)

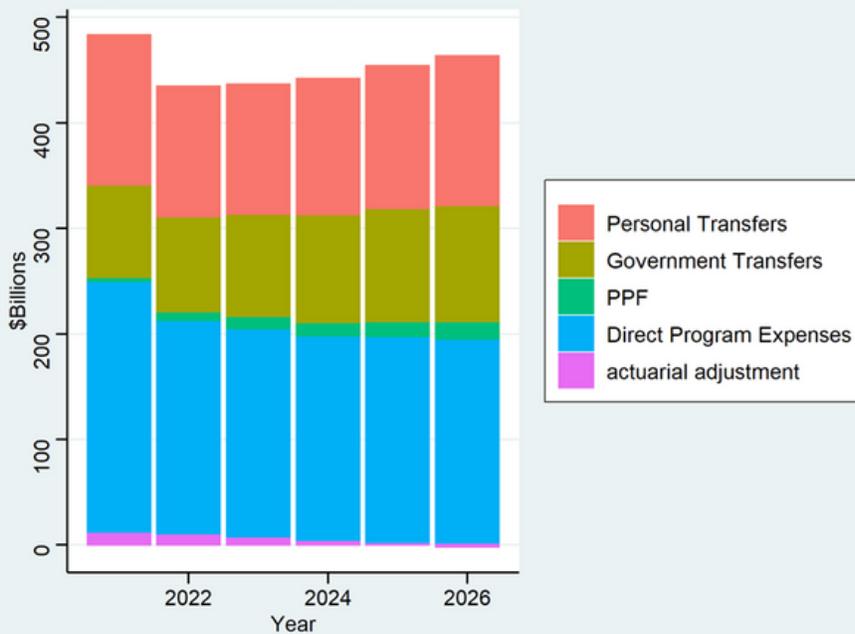


Source: 2022 Canadian Budget, Table A1.5 on page 227. <https://budget.gc.ca/2022/home-accueil-en.html>.

Budget Revenues

Federal revenues are projected to grow from \$394 billion to \$496 billion over 2021-2022 to 2026-2027, or up \$103 billion over the period. Income taxes, excise tax and duty revenues form the lion share of revenues. Pollution pricing framework (PPF) revenues are passed onto Canadians, and EI (Employment Insurance) revenues are held within the program for use, so they are shown in their own categories. [7]

Budget 2022 - The Expense Outlook



Source: 2022 Canadian Budget, Table A1.6 on page 232. <https://budget.gc.ca/2022/home-accueil-en.html>.

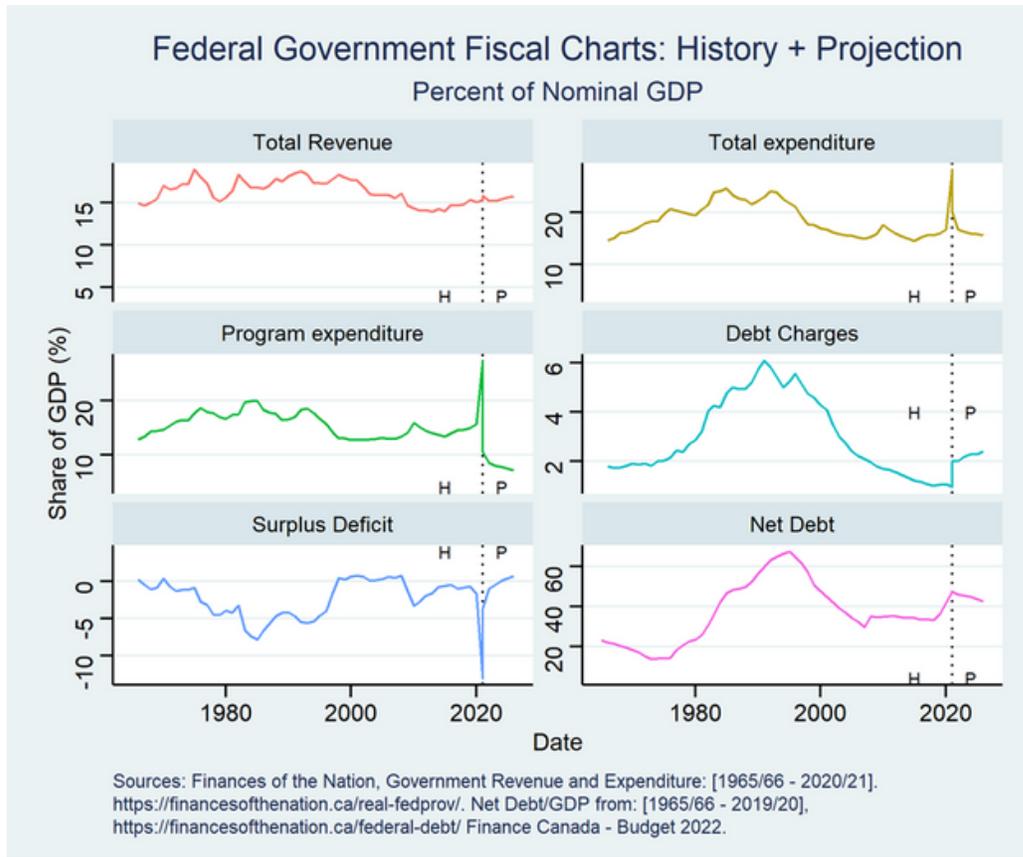
Budget Expenses

Expenses in 2021-2022 are projected to \$473 billion, and then fall sharply to \$425.4 billion in 2022-2023. The main differences are COVID-19 transfers of \$38.6 billion and elevated EI expenses.

After extracting these extraordinary expenses, the budget shows growth for personal and government transfer payments. Personal and business transfers are projected to represent about 55 per cent of the federal budget, with direct program expenses projected to represent approximately 42 per cent of the budget. [8]

[7] The PPF revenues in Table A1.5 of the budget are paid out and show up as expenses in Table A1.6 of the budget.

[8] This is particularly relevant to provincial governments. As we will see in a future issue, the Manitoba government receives 32 per cent of its revenues as transfers from the federal government.



History and Projections

We can see that total and program expenditures spiked upwards early in the pandemic as a share of Nominal GDP (NGDP) but is expected to fall compared to NGDP in the projection period. The deficit likewise expanded significantly against NGDP but is projected to narrow. Net Debt/NGDP is projected to fall as well. Debt charges/NGDP are projected to rise, given rising expectations for interest rates.

INQUIRIES AND CONTACTS

If you require help accessing government programs, contact our YES! Winnipeg team through the [Help us help you form](#).

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