

## NOVEMBER 2012

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## Fall Economic Update

By Cyrus Reporter

### Introduction

The Honourable Jim Flaherty, Canada's Minister of Finance, delivered the annual Fall Economic Update, or more formally; the Update of Economic and Fiscal Projections, to a business luncheon in Fredericton, New Brunswick on November 13, 2012. The Minister used this opportunity to highlight the fact that though Canada continues to be on track for modest economic growth and a balanced budget in the medium term, the Canadian economy is not immune to outside global forces. These forces, coupled with elevated levels of household debt domestically, have prompted the Government of Canada to revise its previous fiscal projections.

### Key Highlights

- Compared with most advanced economies, Canada is in a relatively strong position. For example, Canada's performance on job creation over the economic recovery period has been the best in the Group of Seven (G7). Additionally, Canada has recovered economic output to levels prior to the global recession.
- Canada is not immune to risks coming from outside its borders. Specifically, these are the sovereign debt and banking crisis in the euro area, a relatively modest economic recovery in the United States, and the so-called American "fiscal-cliff," or fiscal contractions which could take place as of next year should legislated expenditure reductions and tax increases come into effect in the United States.

- Domestically, the biggest risk to the Canadian economy continues to be elevated levels of household debt.
- The federal deficit will increase by \$5 billion this year, higher than the previous March forecast, to a total of \$26.2 billion.
- As a result of falling revenues, falling commodity prices, global economic uncertainty, and moderate economic growth, the government does not project a balanced budget until 2016/2017, a year later than had been previously predicted. A balanced budget may be possible sooner should anticipated fiscal risks not materialize, as projections include a \$3 billion margin of error or “risk adjustment.”
- While Canada has the best debt-to-GDP ratio amongst the G7 countries, Minister Flaherty emphasized that Canada is not immune to a shaky global economy and is especially vulnerable to low commodity prices, including the oil from which Canada generates royalties.
- Minister Flaherty projects that nominal GDP, the broadest measure of the government’s tax base, for 2012 to 2016 will be on average \$25 billion, or 1.3 per cent, lower than he had estimated in last March’s budget, a substantial drop. However, he said the average outlook for economic growth of 2.3 per cent over five years is unchanged since Budget 2012.
- During the question and answer period, the Minister stated that the Government of Canada has contingency plans ready should the European debt crisis “unravel in a disorderly way,” as well as in the event of a U.S. “fiscal –cliff.”

## Conclusion

Though some previous Fall Economic Updates have been used as “mini-budgets,” the Government has returned to their traditional

function of updating the public on federal revenue and spending projections post March budget period. This is the fourth year Minister Flaherty delivered such an update in a location outside the House of Commons.

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