NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

Canada - Fall economic statement

MARKET REPORT

January 2023

Summary

- Amidst inflation and with a looming recession, Deputy Prime Minister and Minister of Finance Chrystia Freeland presented Canada's Fall Economic Statement on 3 November.
- This delivered on several promises from the Budget in April, as well as announcing some limited spending on several new initiatives, with the two themes of making life more affordable and investing in inclusive jobs, growth and economy.
- Its narrative charts a plan to strengthen industry and build a net-zero economy with opportunities and jobs, across the economy.

Report

On 3 November 2022, Deputy Prime Minister and Minister of Finance Chrystia Freeland gave an address to the House of Commons introducing the 2022 Fall Economic Statement. The 96 page document was described by Freeland as “focused on building an economy that works for everyone… which makes life more affordable for Canadians”. The document is split into three chapters (following an economic overview) – making life more affordable; jobs growth and an economy for everyone; and a fair and effective government.

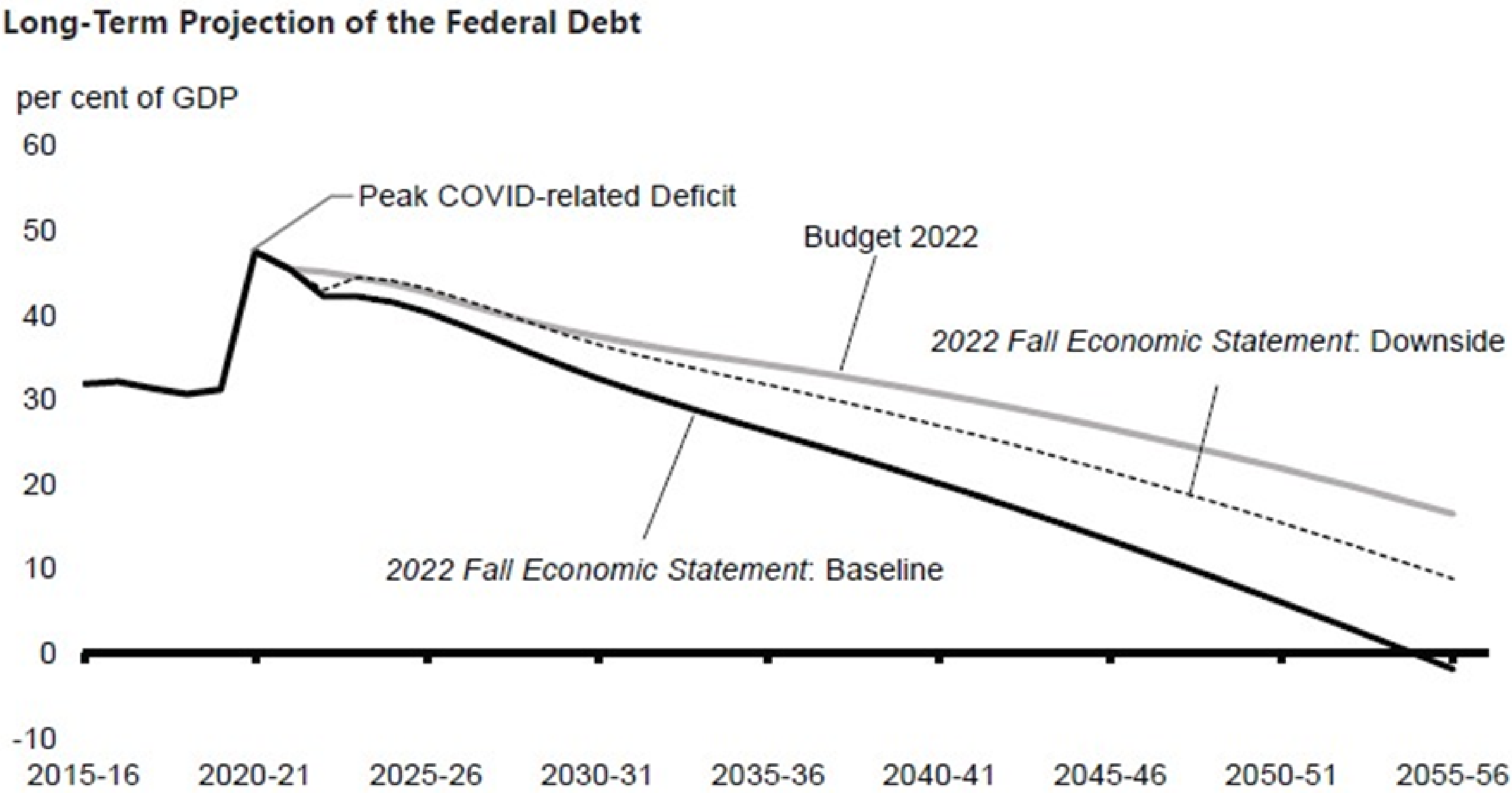
It announces $22.1 billion in new spending over 6 years, (on top of $31.2 billion of new spending announced in the budget in April). It includes an additional $8.5 billion during that period for “anticipated near-term pressures” – presumably a veiled reference to an impending recession.

Inflation - a global problem

In mid-October, Statistics Canada reported that the Consumer Price Index rose 6.9% in September year-over-year, essentially the same rate as the previous two months, and that food prices grew by 11.4 per cent, the fastest pace in over 40 years. In response, the Bank of Canada has raised interest rates six times between 2 March and 25 October, from 0.5% to 3.75%. Freeland acknowledged this in her speech - “interest rates are rising as the Bank of Canada steps in to tackle inflation”- then emphasised that this is a universal problem - “global inflation is not created by the decisions of any one government alone, but by the combined aftershocks of two-and-a-half years of historic turmoil”.

Economic overview

Throughout the pandemic, critics were asking Canada for its ‘fiscal anchor’ given such a large increase in spending for COVID relief. In 2021, Freeland labelled the **Debt to GDP ratio** as the economic barometer for her government. The Fall statement projects the federal debt-to-GDP ratio to continuously decline over the next three decades, on a steeper downward track than projected in Budget 2022. It also highlights that Canada has the lowest deficit and the lowest debt-to-GDP ratio in the G7.



The federal **deficit** for the last fiscal year was $90.2 billion, significantly smaller than the government's April projection of $113.8 billion. This was due to higher federal revenues pushed by higher energy prices and inflation and an economy that outperformed earlier expectations. The deficit for the current year is forecast to be $36.4 billion, about 1.3% of GDP – lower than the Budget commitment of 2%. The statement explains that it is expected to shrink over the next four years before turning into a budget surplus of $4.5 billion, or about 0.1% = of GDP, during the 2027-28 fiscal year. The deficit for this year is $16.4 billion lower than originally forecast in the spring federal budget.

Finance Canada included a "hard landing scenario" in the Statement, projecting impacts of a potential recession. In this, Consumer Price Index inflation is 1.8% above the September 2022 numbers in 2023, and stays above 3 % until the first quarter of 2024, reaching 2% by the end of 2024. The statement emphasises that "most private sector economists continued to expect that Canada would avoid a "hard landing"—that is, inflation will moderate without a recession".

New programmes of note

The new initiatives being funded are centred on two key themes - making life more affordable (chapter 1) and investing in inclusive jobs, growth and economy (chapter 2).

A) Making life more affordable

$2.7 billion (over five years) has been announced to **permanently eliminate interest on federal student and apprentice loans**. This includes those currently being repaid, beginning on April 1, 2023. There had been a similar COVID-19 support measure in place, which was set to expire, so this will continue the policy. A Repayment Assistance Plan will still be available to students to pause repayments if making less than $40,000 per year and reduce payments if earning slightly above that threshold.

A new, quarterly **Canada Workers Benefit** (CWB) with automatic advance payments has been given $4 billion over six years, starting in 2022-23. This is a refundable tax credit that supplements the income of low- and modest-income workers, which is currently a credit claimed on tax returns at the end of the tax year. This change will provide more timely support to the 4.2 million CWB beneficiaries who qualify for the benefit in the previous year (but the programme itself remains the same). Any additional entitlement for the year, will be provided when they file their current-year tax return. Advance payments will be issued automatically starting in July 2023 for the 2023 tax year.

Four key **housing support measures** to target the housing ecosystem were announced through new legislation. This includes a new Tax-Free First Home Savings Account, giving prospective first-home buyers the ability to save up to $40,000 tax free. Canada proposes also to double the First-Time Home Buyers' Tax Credit, which would provide up to $1,500 in direct support to home buyers, starting in 2022. Another is introducing a new, refundable Multigenerational Home Renovation Tax Credit, which would provide up to $7,500 in support for constructing a secondary suite for a family member who is a senior or an adult with a disability, starting January 1, 2023. Finally, Canada looks to ensure that profits from flipping properties held for less than 12 months are fully taxed, starting in 2023.

The government intends to **lower credit card transaction fees for small business** through entering into negotiations with payment card networks, financial institutions, acquirers, payment processors, and businesses. The statement makes clear that if the industry cannot come to an agreed solution, the draft legislative proposals to the Payment Card Networks Act (just released on 3 November), will be introduced in 2023 to ensure fees are reduced.

Canada has a **GST Credit**, a tax-free quarterly payment that helps low- and modest-income individuals and families offset the GST they pay. The government has announced that these credits will double for the next six months (providing an extra $2.5 billion in targeted support). Current GST credit recipients (estimated at 11 million people) will receive the support automatically.

B) Investing in inclusive jobs, growth and economy

Governance and mandate details of the **Canada Growth Fund** were provided in the statement, after it was announced as a centrepiece of the Budget in April. The Fund will be launched by the end of 2022, initially as a subsidiary of the Canada Development Investment Corporation (CDEV), to begin to make the critical investments needed to meet Canada's climate and economic goals. It will spend to de-risk green investments by the private sector, including the expansion of carbon capture, utilization and storage (CCUS) projects. The government will take steps to put in place a permanent, independent structure for the Growth Fund in the first half of 2023.

Funding in the form of $6.7 billion for a **cleantech investment tax credit** (ITC) was presented, having also been announced in the Budget. This is a proposal for a refundable tax credit equal to 30% of the capital cost of investments in certain clean technologies, when companies adhere to certain labour conditions (those that do not will only be eligible for a 20% credit). Similarly, the government is proceeding to establish a refundable investment tax credit to support investments in **clean hydrogen** production. The lowest carbon intensity tier that meets all eligibility requirements is proposed to receive an investment tax credit of at least 40%. These are aimed to both create jobs and push Canada towards its net zero transition. Relatedly, $250 million over five years (starting in 2023-24) has been given to Employment and Social Development Canada to help ensure Canadian workers can thrive in the net zero economy (with $1.1 billion for **youth employment and net zero skills** strategies).

All $ figures are in CAD.

More info

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get email alerts when new reports are published, go to our subscription page.

To learn more about exporting to this market, New Zealand Trade & Enterprise's comprehensive market guides cover export regulations, business culture, market-entry strategies and more.

To contact the Export Helpdesk

email exports@mfat.net

call 0800 824 605

visit Tradebarriers.govt.nz

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author's own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.