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## Federal tax cuts: The timing couldn't be better for Central Canada

**With Ontario and Quebec having a hard time balancing their own budgets, more money in taxpayers' pockets and federal infrastructure spending will ease some of the pain**

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The Canadian economy has been very resilient during the "Great Recession," due to many factors. Demand for commodities has been sustained during the global recovery and demographic growth has been positive, helped in large part by Canada's "glow" factor that helps it attract and retain qualified immigrants. Also, and quite importantly, our housing market was able to avoid falling into the subprime mortgages trap.

The end result to all this is that Canada has officially become the first country in the Group of Seven to get back to a balanced budget at the federal level. This is clearly a development that Canadians can be proud of, as it tells a lot about the quality of our administration of the economy. The return to balance means that Canada can now become one of, if not the only, developed country to regain its fiscal resources as a means to generate sustainable economic growth.

Just last week, the Bank of Canada prudently painted a bittersweet picture of the Canadian economy. In short, it sees the recovery as gaining breadth, mostly from the positive effects of the devaluation of the loonie on Central Canada's merchandise trade. This really is a positive shift as, after a few years of exchange-rate parity, our non-energy exports had been left battered and bruised. On the flip side, the bank still sees household debt as an issue and reiterates that lower prospects for oil prices should shave about 0.3 percentage points off of gross domestic product growth in 2015.

As we wrote in last month's column, lower oil prices cannot be a positive for the country as a whole, given Canada's position as a net oil exporter. But since Canadians do not have much control on global energy demand or prices, now is the perfect time for government spending and tax breaks to come in and give the Canadian economy a much needed lift.

The Conservative government's announcement of higher spending on infrastructure is a welcome measure, not only because Ontario and Quebec's premiers have been pushing for it, but also because our country is in dire need of infrastructure improvements. This can even be seen in the World Economic Forum's latest Global Competitiveness Report, which ranks our infrastructures as the world's 14th most efficient, down from sixth in 2008. These investments will not only create much needed jobs, but will act as a springboard for the next economic expansion phase.

In our view, aside from household indebtedness, one of the most worrying facets of the Canadian economy is annual employment growth. The U.S. saw a sharp fall during the recession, followed by an equally sharp rebound that is still gaining steam, as observed in the past few employment reports. In Canada, less damage was done during the recession, but momentum is now clearly fizzling (see chart). The fact that the Canadian economy is having a very hard time putting together two consecutive positive employment reports shows an economy in dire need of stimulus. Since the private sector has not been able to fill the bill, it is good news that the public sector is now willing and able to step in.

The announced tax breaks are also coming at a perfect time because both Ontario and Quebec, which make up more than half of the country's population, are having a hard time balancing their own budgets

and will be patching their respective holes with higher taxes and tariffs. Thus, more money in consumer pockets from lower federal taxes and lower prices at the pump will be a key ingredient to sustaining growth in Central Canada.

Six years after the beginning of the worst recession of our generation, Canada's return to fiscal surplus is definitely something to celebrate, assuming of course that oil prices won't drop much further than they are now. The last federal government's Update of Economic and Fiscal Projections assumed that a fall to $81 (U.S.) a barrel would have a net impact of $16-billion on GDP in 2015 (or 1 per cent of GDP) and on, so Canada's surplus is clearly at risk if prices remain in the current $65 range for a while.

Still, looking back, our country was able to navigate through the storm with sound fiscal and monetary policies and the balance of risks seems to have remained well under control throughout. It is no wonder that the prestigious Bank of England chose previous Bank of Canada governor Mark Carney as its new general, or that our country remains in the very select triple-A credit-rating club. Canada has been showing the way and is ready to reap the rewards with the most solid fiscal stance in the G7. And now Canadians can benefit from their fiscal tool again, which is indeed very good news.

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