Ottawa preparing upbeat economic update, but no major changes to deficit trend, official says

By Bill Curry

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The Liberal government's fall update will present an upbeat forecast for the Canadian economy, but that rosy assessment will not translate into a much smaller deficit.

Ottawa's fiscal forecast will be broadly in line with the 2018 budget projection that the federal deficit – which was $19-billion last year – will gradually decline in size, a senior government official told The Globe and Mail on Friday.

The size of the federal debt will also be presented as shrinking over time as a share of GDP, according to the official, who was granted anonymity because they were not authorized to speak publicly on the matter.

Wednesday's update is also expected to include measures to support Canada's news media and targeted tax breaks for business to encourage investment, both of which have been previously signalled by the government.

Finance Minister Bill Morneau met on Friday with private sector economists in Toronto.

"What I heard from the private sector economists is both a sense that the economy is doing very well right now, but a concern that we think about how we respond to global challenges around trade, U.S. challenges around taxes and think about the big challenge we have right now in Alberta with the oil-price differential," he said.

Canada's heavy-oil benchmark traded at record lows this week and at deeply discounted rates compared with the North American benchmark. Mr. Morneau did not indicate whether Ottawa is planning any action in response, but suggested that the sector's problems are an exception to an otherwise positive story regarding the Canadian economy.

The fiscal update will provide a sense of the Liberal government's direction in an election year. Mr. Morneau said the 2019 budget will include a focus on skills training for young Canadians.

The Conservative Party will use an opposition day on Monday in the House of Commons to trigger a day-long debate on a motion calling on the government to set a clear date for when the deficit will be erased.

Conservative finance critic Pierre Poilievre said the Liberals promised in the 2015 campaign to balance the books by 2019 and it is time for the government to lay out its plans. He said the government's decision to run larger-than-promised deficits hinders its ability to respond to competitive pressures.

"I think the government has put itself in an impossible situation," he said. "If it doesn't reduce taxes, we risk losing jobs to the Americans, and if it does reduce taxes, then we risk ballooning our already large deficit."

When Mr. Morneau tabled his February, 2018 budget, it was at a time of tremendous uncertainty over the future of Canada's relationship with the United States, its largest trading partner. The threat of an all-out trade war has since eased, although irritants remain in the form of U.S. tariffs on steel and aluminum.

The February budget promised a review of the impact of U.S. tax cuts approved earlier this year by U.S. President Donald Trump and the Republican-led Congress. Those tax cuts effectively erased Canada's competitive advantage in terms of corporate tax rates and included various short-term tax incentives to encourage business investment.

The government official said the fall update will not lower Canada's corporate tax rates, but will include measures to encourage business investment. Mr. Morneau has been signalling for some time that he is open to expanding existing programs that allow businesses to write off business-investment expenses more quickly.

While Canadian business groups are urging Mr. Morneau to lower business taxes to boost Canadian competitiveness with the United States, questions are being raised south of the border over the sustainability of those tax cuts in light of a sharp increase in the size of the U.S. deficit.

Former Federal Reserve chair Janet Yellen made headlines recently when she told a public conference that the U.S. debt load was not sustainable in the face of demographic trends as more baby boomers retire.

"If I had a magic wand, I would raise taxes and cut retirement spending," Ms. Yellen said at a conference in Washington late last month.

Canadian private-sector economists have already submitted their estimates to the Finance Department for economic growth, which are used to produce Ottawa's fiscal projections.

Mr. Morneau's February, 2018 budget was based on expectations that the Canadian economy would grow by 2.2 per cent in 2018 and 1.6 per cent in 2019. Since then, the private-sector average forecast for GDP growth − as compiled by Consensus Economics − has dipped slightly for 2018 to 2.1 per cent while the outlook for 2019 has improved to 2.0 per cent.