

Ontario's Next Chapter

Ontario has elected a majority Progressive Conservative government, following a Liberal administration since 2003 (side table). The Conservatives, NDP and Liberals offered quite different visions for Ontario. The majority result for the Conservatives reduces some of this uncertainty and points to a smaller public-sector role than the NDP and Liberals proposed.

The Conservatives' election platform, titled *For the People—A Plan for Ontario* ([here](#)) starts with a \$2¼ billion middle class income tax cut. To reinforce that the province is “open for business”, the Conservatives promise to drop Ontario's general corporate income tax rate from 11.5% to 10.5%, with a similar decrease for its 10.0% manufacturing/processing rate and a lower small business tax. The Conservatives would trim provincial levies on gasoline by 10¢/litre, lower power prices by 12% for households, farmers & small business and stabilize industrial hydro rates. Their commitment to streamline regulation includes establishing a single-window access and a one-year timeline for approvals. A populist approach is mirrored in a number of measures, such as removing income tax for minimum wage workers.

To afford lower costs for taxpayers, the Conservatives expect red ink for fiscal 2018–19 (FY19) after the March *Budget* estimate of a modest FY18 surplus. The Conservatives' promise to subsequently regain balanced books on “a responsible time frame” will likely prove challenging, even with their more limited spending initiatives (discussed [here](#)). Revenues in FY18 were boosted by events such as the first five carbon allowance auctions (side chart), but the slower growth expected over the next half decade will restrain revenue gains. Over the summer as the FY18 *Public Accounts* are prepared, the Conservatives will have to address issues raised by Ontario's Auditor General that *Budget* expenditure estimates: 1) do not incorporate the full financial impact of the *Fair Hydro Plan's* electricity rate reduction; and 2) are underreporting pension expense, though the latter concern was refuted by a Pension Asset Expert Advisory Panel early in 2017 (discussed [here](#)). To limit red ink, the Conservatives promise to delay its business tax cuts to year 2 and the personal income tax cut to year 3 and implement a 4% expenditure cut, but substantive adjustments to the platform plans are likely.

The major restructuring proposed by the Conservatives for Ontario's power sector and its climate change strategy represents extended adjustments. This process and the Conservatives' decisions on the pace and prioritization of capital spending will be key, alongside the deficit reduction plan, in the path to stabilizing the Province's net debt burden, once again.

Out of power for 15 years, the anticipated *Budget* this fall will likely represent a first step towards a fuller roll-out of the new administration's plans in its *Budget* next spring for FY20. In addition, Ontario, like the other Provinces, will be responding over the next couple of years to major federal policy initiatives such as national pharmacare. US trade actions and negotiations are presently top of mind, but in the wings are other issues such as Ontario's mid-term competitiveness. Uncertainty still remains significant for Ontario.

CONTACTS

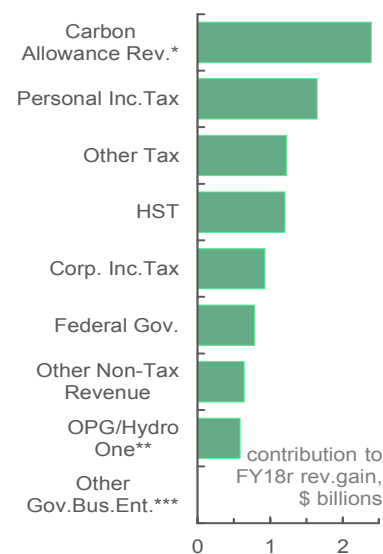
Mary Webb
416.866.4202
Scotiabank Economics
mary.webb@scotiabank.com

Ontario Election Results, Preliminary

| | Number of Seats | Popular Vote, % share |
|---------------|-----------------|-----------------------|
| Conservatives | 76 | 40.6 |
| NDP | 40 | 33.7 |
| Liberals | 7 | 19.3 |
| Green Party | 1 | 4.6 |
| Other | 0 | 1.8 |
| Total | 124 | 100.0 |

Source: CBC.

Ontario's Revenue Growth



*FY18: first 5 auctions. **Ontario Power Generation ***Change y/y: -\$10mn.
Source: Ontario Finance.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.