

November 24, 2006

Government Presents Economic and Fiscal Update

HIGHLIGHTS – ECONOMIC AND FISCAL UPDATE

November 23, 2006

On November 23, 2006, the Honourable Jim Flaherty, Minister of Finance, presented his government's Economic and Fiscal Update for 2006 to the House of Commons Standing Committee on Finance.

This is not a budget but a summary of the current situation as the government sees it and the government's plans for the future. For this reason, the statement is long on rhetoric and short on concrete deliverables and actions.

The Current Picture

The statement outlines the current economic situation in Canada, which includes the following:

The unemployment rate is nearly the lowest it has been in over 30 years, with 260,000 full-time jobs created over this year.

Manufacturing investment in machinery and equipment is up and production is higher than in 2002, when the Canadian dollar began to appreciate.

The manufacturing sector is facing particular challenges, including a higher Canadian dollar and an increase in exports from emerging overseas economies.

Canada can expect the economy to grow at a rate of more or less 2¾ per cent in each of the next two years.

Prices of many commodities such as oil and gas are well above historical norms and remain volatile.

Short-term interest rates are projected to average 4.1% in 2006. Long-term interest rates will average 4.3% in 2007 and 4.6% in 2008.

Private forecasters expect real GDP to grow by 2.8% in 2006.

The Government's Plan

Advantage Canada is the federal government's long-term economic plan. It covers five areas:

Tax Advantage – reducing taxes for all Canadians

Fiscal Advantage – eliminating Canada's total government (federal, provincial/territorial and municipal) net debt in less than a generation

Entrepreneurial Advantage – reducing unnecessary regulation and red tape and increasing competition in the Canadian marketplace

Knowledge Advantage – creating the best-educated, most skilled and most flexible workforce in the world

Infrastructure Advantage – building a modern infrastructure.

Relevant Highlights for Printing and Graphic Communications Industry

The following are the key aspects of *Advantage* Canada that are relevant to the printing and graphic communications industry. The federal government will:

Work with the Canadian Federation of Independent Business to develop a plan for reducing the paper burden on businesses by at least 20%

Establish the lowest tax rate on new business investment in all G7 countries – 18.5% by 2011

Reduce the Employment Insurance premium rate, effective January 1, 2007 – the 2007 premium rate has been set at \$1.80 per \$100 of insurable earnings, down from the 2006 rate of \$1.87

Reduce the GST further, to 5%, no later than 2011.

Concerning human resources development, the government recognizes that skilled workers are the most critical contributors to a successful economy in the long run. Its main strategy to attract and keep skilled workers rests on two key policy areas: lowering personal income tax rates and improving opportunities.

The government proposes to reduce personal income taxes in order to:

Encourage more Canadians to realize their full potential and improve their standard of living here in Canada

Encourage all workers to invest in training and education to fuel growing segments of the economy

Provide incentives to firms that employ highly skilled workers to invest in Canada.

It also proposes to improve the opportunities for Canadians by moving forward on three fronts:

Quantity – increasing the participation of Canadians and immigrants in the workforce to meet current and future labour shortages by eliminating barriers to labour force participation for under-represented groups; improving labour market programming to help Canadians develop the skills they need and employers want; making improvements to the Temporary Foreign Worker Program; and, looking at ways to make it easier for foreign students and temporary foreign workers to stay in Canada.

Quality – enhancing the quality of education, skills development and training, and developing interest and excellence in research in Canada through the provision of stable and predictable post-secondary education funding to the provinces; the development of shared objectives and targets; modernization of the student financial assistance program; encouraging more foreign student enrollment; encouraging employer investment in training, reducing taxes and making training and skills development more widely available.

Efficiency – facilitating workforce mobility and providing the information necessary to make informed labour market choices.

What Does It All Mean?

As mentioned at the beginning, this is not a budget but a summary of the current economic situation and the government's plan for the future. However, it is a signal of the direction that the government intends to take over the next year. Details and concrete actions and deliverables will be presented in the Federal Budget, which will likely be presented to the House of Commons in February or March 2007.

For the entire text of the documents, click here www.fin.gc.ca