

2023 Fall Economic Statement Update

Mechanical Contractors Association of Canada



Fall Economic Statement Moves to Address Canadian Doubts About Housing Supply

Today's Fall Economic Statement contained few surprises. Political watchers were expecting a focused document that was light on new spending for anything outside of housing. Leaks over the weekend confirmed the government's priority now is the high cost and lack of availability of housing.

The government has been trumpeting the success of attracting hundreds of thousands of new Canadians each year as a pillar of economic growth, but has been late to the party on providing supports to get housing built. That changed today, and it will be up to Canadians to decide in two years or less if the new expenditures are too little, too late.

The government's solution on housing is costly, but not as large an expenditure as many housing advocates had been pushing for. Many other initiatives contained in the document are reannouncements of spending that the government had already committed to, or commitments that they will do something relevant in the near future. Often, that approach is designed to placate stakeholders who want to know the government is still committed to following through on their promises.

Three marquee initiatives define today's release:

- \$15 Billion in loan funding starting in 2025-2026 for the Apartment Construction Loan Program. (expected to help deliver 30,000 additional new homes across Canada);
- \$1 Billion over three years starting in 2025-2026 for the Affordable Housing Fund. (Supporting non-profit, co-op, and public housing providers to build more than 7,000 new homes by 2028); and
- Legislation that will deny income tax deductions for expenses incurred to earn short-term rental income in areas that have prohibited short-term rentals.

The only initiative that will add new units to the housing supply in the near-term is the tax deduction measure. That will either cause short-term rental owners to give up their properties so they can become long-term housing, or create higher revenue for the government on income claimed by people running those businesses through platforms like Airbnb or VRBO.

Two key themes are emerging in how the government is marketing its success. First, rather than comparing its track record to when they first took office, the start of the pandemic is the new baseline for work. Second, the taming of inflation largely driven by interest rate increases at the independent Bank of Canada are their other metric of progress. Inflation is projected to further slow, reaching an average of 2.5% at the end of Q2, 2024.

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Other indicators, like expected 1.1% GDP growth will not grab headlines, but they probably should. A lack of economic growth means that it will be more difficult for the government to make new commitments to Canadians in the lead up to the anticipated election in 2025 (or 2024, depending how things go). Minister Freeland and Prime Minister Trudeau will have to be exceptionally creative in squeezing out funding for new strategies, programs, and initiatives that support families and businesses without resorting to further government cuts in the budget, and especially in any forthcoming Liberal platform.

The Liberals were depending on strong GDP growth, and “growing the pie” in order to be able to spend more on social programs over the years ahead. The Fall Economic Statement confirms that strategy will no longer work.

Government Fiscal Overview

- Over a million more Canadians are employed compared to when the pandemic hit, and wage growth has outpaced inflation for the past nine months.
- After growing by 3.8 per cent in 2022 and 2.6 per cent in the first quarter of 2023, the Canadian economy contracted modestly in the second quarter.
- Headline inflation in Canada fell from its June 2022 peak of 8.1 per cent to 3.8 per cent in September 2023, while food price inflation has fallen from 11.4 per cent in January 2023 to 5.8 per cent in September 2023.
- The economy is expected to avoid a recession, instead seeing “subdued growth” in the coming quarters, with a gradual return to stronger growth than expected throughout 2024.
- Real GDP growth is expected to be 1.1% in 2023 and .4% in 2023 - higher than Budget 2023 projections. Growth is expected to reach 2.2% by 2025.
- The unemployment rate is expected to reach 6.5% in Q2 of 2024, attributed more so to slower hiring than layoffs.
- Economists expect inflation to remain at or above 3% throughout Q1 of 2024, and fall below 3% in Q2 to an average of 2.5% in 2024 and 2.1% in 2025.
- Economists expect no further interest rate hikes above the current overnight rate of 5%, and predict the first full rate cut in Q2 of 2024, declining to 3.75 by Q4 and an average 2.9% in 2024.

With softer growth expected in the near term, the government’s fiscal objectives in preparing for Budget 2024 include maintaining the 2023-24 deficit at or below the Budget 2023 projection of \$40.1 billion and maintaining a declining debt-to-GDP ratio going forward.

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Funding and Program News

New Investments

Increased Investment Tax Credit for Clean Electricity and Clean Technology

- To reduce biowaste and support new affordable electricity and heat generation in Canada, the 2023 Fall Economic Statement proposes to expand eligibility for:
 - The 30-per-cent Clean Technology investment tax credit to include systems that produce electricity, heat, or both electricity and heat from waste biomass. This expansion of the Clean Technology Investment Tax Credit would be available to businesses investing in eligible property that is acquired and becomes available for use on or after the date of the 2023 Fall Economic Statement.
 - The 15-per-cent Clean Electricity investment tax credit to include systems that produce electricity or both electricity and heat from waste biomass, which would be available as of the date of Budget 2024 for projects that did not begin construction before March 28, 2023.

Creation of the Department of Housing, Infrastructure and Communities

- In recognition of the link between housing and infrastructure, the government proposes to introduce legislation to establish the Department of Housing, Infrastructure and Communities (currently Infrastructure Canada). Through this legislation, the government will clarify the department's powers, duties and functions as the federal lead for improving housing outcomes and enhancing public infrastructure.

Right to Repair

- In support of Canadians' right to repair, the federal government will also amend the Competition Act in order to prevent manufacturers from refusing to provide the means of repair of devices and products in an anti-competitive manner.

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New Investments

Mandatory Climate Disclosures

- To expand the coverage of mandatory climate disclosures, the 2023 Fall Economic Statement announces that the Department of Finance; Innovation, Science and Economic Development Canada; and Environment and Climate Change Canada will develop options for making climate disclosures mandatory for private companies.

Removing Barriers to Internal Labour Mobility

- The 2023 Fall Economic Statement announces that in the coming months, the federal government will advance the next phase of its work to remove the barriers to internal labour mobility, including by leveraging federal transfers, and other funding, to encourage provinces and territories to cut the red tape that impedes the movement of workers, particularly in construction, health care and child care, within Canada. This work will include:
 - **Working with provinces and territories towards full interprovincial labour mobility for construction and health care workers to meet labour market needs;**
 - **Expanding on the success of the Red Seal Program to improve the mobility of tradespeople and eliminate further barriers, such as duplicative credential recognition; and,**
 - Ensuring provinces and territories welcome health care professionals from anywhere in Canada by leveraging the nearly \$200 billion federal health care funding deal announced in February 2023.

GST Exemption on Psychotherapy and Counselling

- The 2023 Fall Economic Statement proposes to exempt professional services rendered by psychotherapists and counselling therapists from the GST/HST.

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Analysis

First Lake Analysis for MCAC

Today's budget contained the less new funding for the skilled trades in than some previous budgets and economic statements. This is a reflection of a deteriorating fiscal situation, as well as a sense among government officials that a tight labour market will an overheated construction sector should level off when interest rate hikes start to bite in the infrastructure space. There is a strong hesitation against doing anything that would quickly pour fuel on that fire and new funding could only lead to further tightening and increased labour costs for construction businesses.

There was no new information on regulatory issues, whether focused on harmonization or reducing barriers to doing business. That is not unusual for a fiscally focused document. Overall, it is positive that the government is staying the course while initiatives to harmonize regulations are underway through the Regulatory Cooperation Table and in other arenas, behind the scenes. Nothing in today's budget will have a detrimental effect on doing business, particularly for small and medium-sized enterprises.

The opportunity for MCAC going forward will be to own the discussion on ICI sector energy efficiency through new builds and retrofit, emphasizing the importance of skilled trades workers to do this critical work. The government will need skilled trades workers to execute the promises made through their housing funding commitments.

The government's inclusion of interprovincial labour mobility for construction workers and the expansion on the success of the Red Seal Program to improve the mobility of tradespeople and eliminate further barriers, such as duplicative credential recognition highlights the government's emphasis on skilled trades workers, and should be considered a win by MCAC for their advocacy efforts.

Large investments were committed in attempt to shape Canada's industrial policy. If successful, we will see more economic activity from domestic businesses and governments, as well as foreign investments by businesses in Canadian infrastructure. The resulting economic activity could create long-term opportunities for members of MCAC over the coming decades.

Next steps

- MCAC will submit a Pre-Budget Submission for Budget 2024 to the Department of Finance once consultations open;
- We will continue to advocate on critical issues such as the skilled trades labour shortage and the importance of training and credential recognition; and
- We will emphasize MCAC's knowledge and experience in the sector and continue to establish and foster relationships with politicians, political staff, and civil servants through our advocacy events such as our Hill Day.