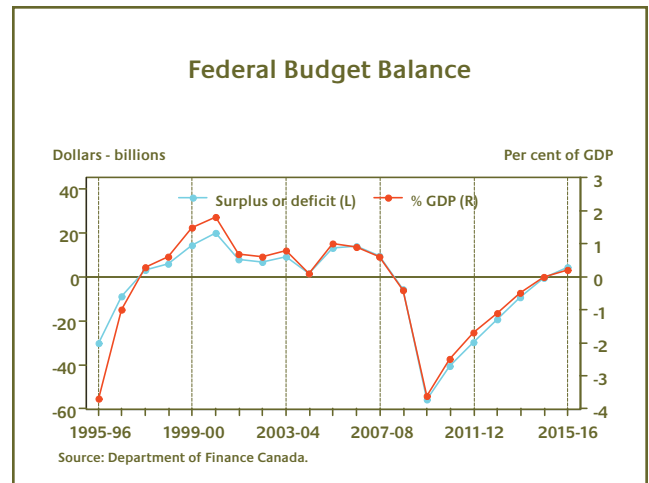


Summary: The federal budget pursued a deficit reduction path with a large sprinkling of small measures to encourage or support a variety of economic and social activities. The big story though was not about the government’s fiscal plan but rather about political maneuverings which likely results in the dissolution of Parliament and a spring election. This budget may not come into effect, though it could re-appear at a later date.

The fiscal plan’s revenue projections are conservative and expense control is a key element generating the deficit reduction and eventual surplus. Revenue surprises will be on the upside and there is a good chance of a surplus emerging one year earlier than in the fiscal plan. Actual debt levels look to come in lower than planned as well. The budget deficit for the current fiscal year ending March 31, 2011 likely comes in below \$40 billion.

Fiscal Plan: The budget deficit is projected at \$40.5 billion in the current fiscal year down from \$55.5 billion in the previous year. The deficit steadily declines by about \$10 billion per year until a small surplus emerges in 2015/16. The federal debt rises each year in the fiscal plan reaching \$615.2 billion in 2014/15.



Economic Forecast: Budget 2011 uses a more conservative economic growth or nominal GDP projection than the consensus or private sector forecast survey. The approach is to lower the level of nominal GDP by \$10 billion in the first year and then grow the economy at the same rate as the private sector forecasts through to 2015.

Budget 2011 contains a buffer of \$1.5 billion in each year of the fiscal plan which represents a less than 1% cushion for any revenue or expense surprises. By

Summary Statement of Transactions							
	Actual	Projection					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Budgetary revenues (\$ billions)	218.6	235.6	249.1	264.4	281.2	296.8	309.2
Program expenses	244.8	245.2	245.7	247.3	252	257.7	265.6
Public debt charges	29.4	30.8	33.0	36.5	38.6	39.4	39.4
Total expenses	274.2	276	278.7	283.8	290.7	297.2	305
Budgetary balance	-55.6	-40.5	-29.6	-19.4	-9.5	-0.3	4.2
Federal debt*	519.1	556.4	586.0	605.4	614.9	615.2	611.0
Per cent of GDP							
Budgetary revenues	14.3	14.5	14.6	14.8	15.0	15.1	15.1
Program expenses	16.0	15.1	14.4	13.8	13.4	13.1	12.9
Public debt charges	1.9	1.9	1.9	2.0	2.1	2.0	1.9
Budgetary balance	-3.6	-2.5	-1.7	-1.1	-0.5	0.0	0.2
Federal debt	34.0	34.3	34.4	33.8	32.7	31.3	29.7

Federal Budget 2011. *Accumulated deficit

Percentage Growth in Key Fiscal Plan Elements							
	Actual	Projection					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Budgetary revenues	-6.2	7.8	5.7	6.1	6.4	5.5	4.2
Program expenses	17.8	0.2	0.2	0.7	1.9	2.3	3.1
Public debt charges	-5.1	4.8	7.1	10.6	5.8	2.1	0.0
Total expenses	14.8	0.7	1.0	1.8	2.4	2.2	2.6
Federal debt*	10.9	7.2	5.3	3.3	1.6	0.0	-0.7

Federal Budget 2011. *Accumulated deficit

Budget 2011 Planning Assumption for Nominal GDP					
	2011	2012	2013	2014	2015
	(billions of dollars)				
March 2011 private sector survey	1,716	1,801	1,890	1,975	2,064
Budget 2011 fiscal planning assumption	1,706	1,791	1,880	1,965	2,054
Adjustment for risk	-10	-10	-10	-10	-10
Revenue effect of risk adjustment	1.5	1.5	1.5	1.5	1.5
Nominal GDP growth (per cent)					
March 2011 private sector survey	5.8	5.0	4.9	4.5	4.5
Budget 2011 fiscal planning assumption	5.2	5.0	5.0	4.5	4.5

Federal Budget 2011, Central 1 Credit Union

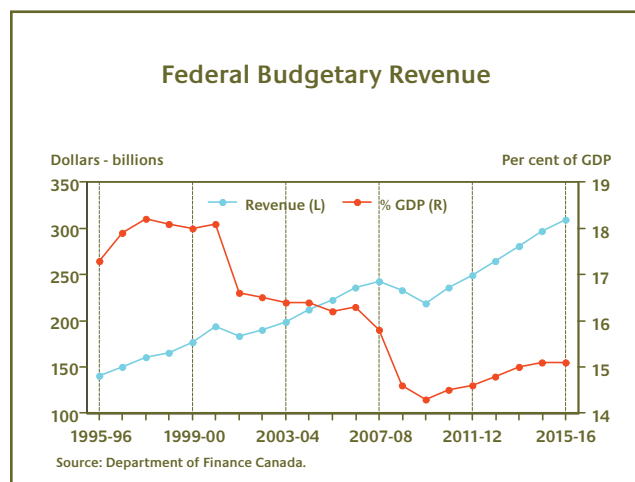
comparison to the B.C. or Ontario provincial budgets, this is a relatively smaller buffer. The private sector average and the Budget’s economic growth forecasts will likely prove to be conservative in any case, but a \$250 billion plus annual budget needs a larger buffer either as a contingency reserve or forecast allowance as a normal part of the fiscal plan.

The fiscal plan appears driven by a limited number of economic factors led by nominal GDP and supported by about one-half dozen other economic factors listed in the Average Private Sector Forecasts table. This is a most general backdrop to a complex interaction between government revenues and spending and the economy though no doubt the behind-the-scenes efforts involve detailed analyses. It would be useful to know the budget’s forecasts for personal income, corporate profits, retail sales, residential construction, and employment, for example. By comparison, the B.C. and Ontario budgets provide a far more complete set of economic background material and assumptions.

While the revenue projections are reasonable, the expense projections for 2011/12 and 2012/13 incorporate 1.0% and 1.8% increases, respectively, which is among the smaller increases seen in previous years,

and potentially difficult to attain. Expense increases in the remainder of the fiscal plan are below the rate of inflation and population growth.

Revenue: Total revenue is projected to grow 7.8% in 2010/11 though there is upside potential and a 9% gain is quite possible based on data for the first nine months of the fiscal year and the improvement in the economy during the first quarter of 2011. Total revenue growth projections are in the 5.5 to 6.5% range annually with the outer year’s projection looking on the low side at 4.2%.



Revenue Outlook

	Actual	Projection					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Income taxes (\$ billions)							
Personal income tax	103.9	113.3	119.9	128.1	136.5	144.9	151.5
Corporate income tax	30.4	28.6	32.1	32.7	35.1	37.1	38.9
Non-resident income tax	5.3	5.4	5.8	6.3	6.8	7.3	7.7
Total income tax	139.6	147.3	157.8	167.1	178.4	189.2	198.1
Excise taxes/duties							
Goods and Services Tax	26.9	29.1	30.1	31.8	33.3	35.0	36.8
Customs duties/other excise	13.7	14.3	14.8	14.9	15.1	15.3	15.6
Total excise taxes/duties	40.6	43.4	44.9	46.7	48.4	50.3	52.4
Total tax revenues	180.2	190.7	202.7	213.8	226.9	239.5	250.5
E.I. premium revenues	16.8	17.5	18.9	20.8	22.8	24.5	24.8
Other revenues	21.7	27.3	27.5	29.8	31.5	32.8	33.8
Total budgetary revenues	218.6	235.6	249.1	264.4	281.2	296.8	309.2
Per cent of GDP							
Personal income tax	6.8	7.0	7.0	7.2	7.3	7.4	7.4
Corporate income tax	2.0	1.8	1.9	1.8	1.9	1.9	1.9
Goods and Services Tax	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Total tax revenues	11.8	11.8	11.9	11.9	12.1	12.2	12.2
E.I. premium revenues	1.1	1.1	1.1	1.2	1.2	1.2	1.2
Other revenues	1.4	1.7	1.6	1.7	1.7	1.7	1.6
Total budgetary revenues	14.3	14.5	14.6	14.8	15.0	15.1	15.1

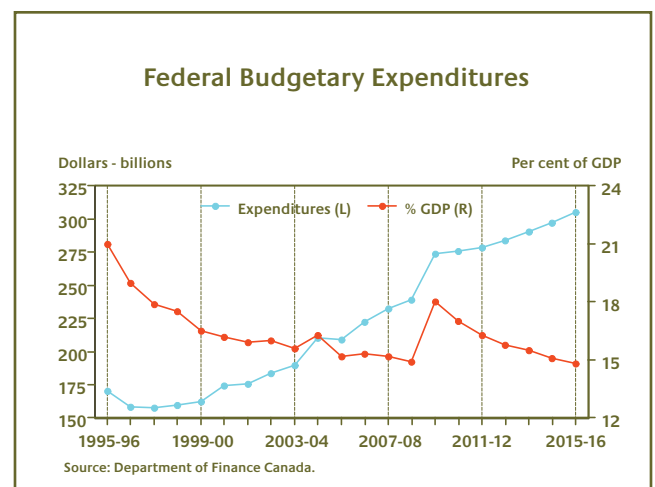
Federal Budget 2011

The 12.2% jump in corporate income tax projected in 2011/12 reflects one-time payments and an accounting change that boosted revenues in 2009–10 making for a low 2010/11 revenue base. The low percentage increase in 2012/13 is partly due to the planned cut in the corporate tax rate to 15% from 16.5% in 2011.

The Goods and Services Tax (GST) revenue for the current fiscal year likely exceeds the 8.2% increase slotted into the budget. Next year's 3.4% increase is also low since consumer spending is seen growing about 5% in nominal terms.

Employment Insurance (EI) premium revenues jump 8% in 2011/12, 10% in 2012/13, 9.6% in 2013/14, and 7.5% in 2014/15 partly due to the premium rate rising 5 cents per \$100 of insurable earnings in 2011 and 10 cents in subsequent years. These increases come after a two-year freeze to assist the economy during the recession. The budget introduced a one-time credit of up to \$1,000 for small businesses to help compensate for increased premiums in 2011.

Expenses: Program spending grows a slight 0.2% in the current fiscal year and the actual result at yearend is likely a slight decline from last year. Program expenses are planned for increases of 0.2% in 2011/12 and 0.6% in 2012/13. The last three years of the fiscal plan projects increases between 2 to 3% annually. Spending restraint falls almost entirely on



Program Expense Outlook							
	Actual	Projection					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Major transfers to persons (\$ billions)							
Elderly benefits	103.9	113.3	119.9	128.1	136.5	144.9	151.5
EI benefits	30.4	28.6	32.1	32.7	35.1	37.1	38.9
Children's benefit	5.3	5.4	5.8	6.3	6.8	7.3	7.7
Total	139.6	147.3	157.8	167.1	178.4	189.2	198.1
Major transfers to other levels of government							
Health and social programs	35.7	37.2	38.7	40.7	42.7	44.7	47.0
Fiscal arrangements	16.2	16.4	16.9	17.8	18.7	19.5	20.4
Other	5.1	-0.6	0.4	-1.0	-1.3	-1.5	-1.8
Total	57.0	53.0	56.0	57.5	60.1	62.7	65.6
Direct program expenses							
Transfer payments	39.9	40.6	36.9	34.0	31.9	30.6	30.7
Capital amortization	4.3	4.5	4.7	5.0	5.2	5.4	5.6
Other operating expenses	21.7	22.0	23.5	24.4	25.3	25.8	26.7
Op. expenses subject to freeze	53.4	56.4	54.1	53.9	54.9	56.2	57.6
Total	119.2	123.5	119.1	117.3	117.2	118.0	120.5
Total program expenses	244.8	245.2	245.7	247.3	252.0	257.7	265.6
Per cent of GDP							
Major transfers to persons	4.5	4.2	4.1	4.0	4.0	3.9	3.9
Major transfers to government	3.7	3.3	3.3	3.2	3.2	3.2	3.2
Direct program expenses	7.8	7.6	7.0	6.6	6.2	6.0	5.9
Total program expenses	16.0	15.1	14.4	13.8	13.4	13.1	12.9

Federal Budget 2011

direct program expenses while leaving transfers to persons and to other governments largely, but not completely, unaffected.

EI benefits payments jump 12.2% in 2011/12 due to the extension of existing or recently terminated work-sharing agreements by up to 16 weeks so that companies can avoid layoffs by offering EI benefits to workers willing to work a reduced work week while their company recovers and to renewing the Best 14 Weeks and Working While on Claim Employment Insurance pilot projects for one year. A declining unemployment rate during the next four years should result in less demand for benefits though the fiscal plan has a 19% increase in total payments between 2012/13 to 2015/16. The unemployment assumptions behind these projections are not provided.

Strategic reviews of program spending and government department activities form the main thrust of spending restraint in the fiscal plan amounting to projected savings of about \$15 billion between 2010

and 2015. The remaining savings, about \$2.1 billion, come from tax fairness or closing tax loopholes measures. Some of these measures are the deferral of partnership income reported on an accrual basis, and anti-avoidance rules will be introduced for Registered Retirement Savings Plans and Registered Retirement Income Funds based largely on the Tax-Free Savings Account anti-avoidance rules.

The impact of the strategic and operating reviews is evident in the direct program expense projections in the fiscal plan. The projected decline reflects the ending of stimulus, the termination of transfers to provinces following the expiry of the Canada-U.S. Softwood Lumber Agreement in 2013-14, decreasing natural resource revenue transfers to the provinces from projected declines in offshore oil production, and a reduction in activity under the Building Canada Fund. Expenses subject to the operating freeze include the wages and salaries of federal employees and other operating expenses.

Budget 2011 Savings Measures

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	(millions of dollars)						
2010 strategic reviews		194	271	569	525	534	2,094
Tax fairness – closing tax loopholes		240	730	1,095	1,040	990	4,095
Tax savings in Budget 2011	0	434	1,001	1,664	1,565	1,524	6,189
Strategic and Operating Review			1,000	2,000	4,000	4,000	11,000
Total savings	0	434	2,001	3,664	5,565	5,524	17,189

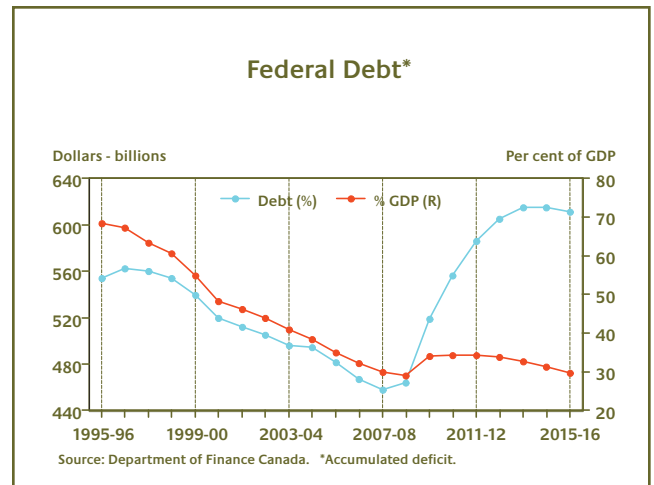
Federal Budget 2011

Federal Debt: The federal debt as measured by the accumulated deficit (gross debt less financial and non-financial asset values) climbs to \$556.4 billion in the current fiscal year and each year through to 2014/15 peaking at \$615.2 billion. In relation to the size of the economy, the debt-to-GDP ratio rises to 34.4% in the coming fiscal year and is projected to decline to 29.7% at the end of the fiscal plan.

The interest bite, or cents per revenue dollar, to service the gross debt rises to 13.8 cents in 2012/13 from 13.1 cents in 2010/11 due to a combination of more debt and higher interest rates. Interest bite slides down to 12.7 cents at the end of the plan, which would be the lowest since 1975/76.

Some new tax and spending measures:

- Extending the accelerated capital cost allowance treatment for investments in manufacturing and processing machinery and equipment for two years.
- Extending the temporary 15% Mineral Exploration Tax Credit for additional year (until March 31, 2012).
- Provide \$60 million in 2011–12 to help forestry companies innovate and develop new markets.
- Funding of almost \$100 million over two years for research, development and demonstrations of clean energy and energy efficiency.
- Provide \$50 million over five years, beginning in 2012–13, to the Perimeter Institute for Theoretical Physics in Waterloo
- Provide \$20 million over two years to renew the Eastern Ontario Development Program.
- Top-up benefit to the Guaranteed Income Supplement (GIS) for those seniors who rely almost exclusively on their Old Age Security and the



GIS of up to \$600 annually for single seniors and \$840 for couples.

- A Hiring Credit for Small Business of up to \$1,000 against a small firm’s increase in its 2011 EI premiums. The estimated cost is \$165 million spread over 525,000 businesses for an average credit of \$314.
- Introducing a Family Caregiver Tax Credit (15% non-refundable credit up to \$2,000 expenses) and Children’s Arts Tax Credit (15% up to \$500 of expenses).
- Provides about \$870 million over two years to address climate change and air quality, including the extension of the ecoENERGY Retrofit – Homes program.

Measures aimed at financial services industry:

- Introduce legislation to reinforce the stability of Canadian housing finance and strengthen the mortgage insurance regime.
- Task Force on Financial Literacy recommendations implemented and appointment of a Financial Literacy Leader.

- Increase consumer protection by banning unsolicited credit card cheques and developing measures related to network-branded prepaid cards.
- A five-year review of federal financial institutions legislation.
- Develop a legislative framework for covered bonds

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