

2023

Federal Budget Update

Canadian Institute of Plumbing and Heating & Mechanical Contractors Association of Canada

MCAC



The Hon. Chrystia Freeland delivered the 2023-2024 Budget on March 28, 2023 in Ottawa. The Deputy Prime Minister and Minister of Finance produced a fiscal plan that falls between the most optimistic scenario and the ‘downside scenario’ from the Fall Economic Statement released just four months ago. While many economic indicators remain strong, there have been decreases in government revenue and increased costs of debt servicing due to higher interest rates. The Budget makes clear a hesitation to spend large sums of new money in this context. Not only is there a concern for the fiscal stability of Canada, but also that spending large amounts of new money would contribute more inflationary pressure. There is a clear expectation in the budget that Canada will experience a small, short-term recession later in 2023 with a return to growth in early 2024. For context, it is expected that the economic decline will be approximately 90% less severe than the Great Recession of 2008 for Canada.

In global terms, Canada has fared well compared to G7 economies on gaining employment since COVID-19 and on curbing the worst effects of inflation since 2022. Minister Freeland gives the sense that she wants to maintain this trajectory and has no desire to make things worse by borrowing heavily to finance new investments.

At the same time, the federal government is making commitments to invest in new, long-term solutions that the government believes will put Canada in a more competitive position in the global economy. The government’s plan for “Investing Responsibly in Canada’s Future” is to grow the economy and create good jobs, strengthen universal public health care and provide dental care, and protect the environment. These pillars are the big picture, but they are not the ‘story’ of the budget. Following today’s budget, the government is advancing 6 key areas to support its narrative:

- Making Life More Affordable and Supporting the Middle Class
- Investing in Public Health Canada and Affordable Dental Care
- A Made-in-Canada Plan for Affordable Energy, Good Jobs, and a Growing Clean Economy
- Advancing Reconciliation and Building a Canada That Works for Everyone
- Supporting Canada’s Leadership in the World
- An Effective Government and a Fair Tax System

Major news items in this budget will relate to consumer support and sentiment, including a grocery rebate (increase to the GST rebate), restrictions on predatory lending, investments in clean, green energy, building affordable housing, and supporting students and seniors financially. There are also substantially beneficial investments for Indigenous reconciliation, national defence, and tax changes for large, publicly traded businesses.

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Fiscal and Economic News

Government Fiscal Situation

"Our plan is going to mean good-paying jobs—good careers—for everyone, everywhere—from big cities to small towns. From Toronto, Ontario to Peace River, Alberta... For our skilled tradespeople expanding our clean energy grid, and building thousands and thousands of affordable energy efficient homes."

- Hon. Chrystia Freeland

- Canada's economy is now 103% the size it was before the pandemic
- a record high of 80% of Canadians aged 15 to 64 years are now participating in the workforce
- 2.7 million fewer Canadians are living in poverty, a 56% decrease
- With a decline of 0.4%, the contraction in real GDP is significantly smaller than during the 2008-09 recession (-4.4 percent) and is less severe than the 1.6 per cent decline considered in the 2022 Fall Economic Statement downside scenario.
- On an annual basis, real GDP growth is projected to decelerate from 3.4% in 2022 to 0.3% in 2023, before rebounding to 1.5% in 2024
- Compared to the Fall Economic Statement of 2022, which expected a budget surplus by 2027-2028, Finance Canada now projects a deficit of \$14 billion by that time

Economic Realities

- Private sector economists expect Canada's economy to slow more than was projected in the *2022 Fall Economic Statement*, and project a "shallow recession".
- Deficit is 1.4% of GDP, the lowest deficit of all G7 countries.
- The unemployment rate is at 5%, which means 830,000 more people are working in Canada than before the pandemic.
- Inflation is at 5.2% year-over-year for February 2023, down from 8.1% in June 2022.
- The Bank of Canada expects inflation to decline to 2.6% by December 2023.
- The economy is slowing both in Canada, and globally
- There is a race underway to build clean economies and critical supply chains
- People with lower incomes face greater challenges adjusting to high rates of inflation.
- People with fixed incomes like those receiving provincial social assistance, Old Age Security, The Guaranteed Income Supplement and student loan recipients are among the hardest hit by inflation.

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Funding and Program News

New Investments

Investment Tax Credit for Clean Electricity

- 15 per cent refundable tax credit for eligible investments in:
 - Non-emitting electricity generation systems: wind, concentrated solar, solar photovoltaic, hydro (including large-scale), wave, tidal, nuclear (including large-scale and small modular reactors);
 - Abated natural gas-fired electricity generation (which would be subject to an emissions intensity threshold compatible with a net-zero grid by 2035);
 - Stationary electricity storage systems that do not use fossil fuels in operation, such as batteries, pumped hydroelectric storage, and compressed air storage; and,
 - Equipment for the transmission of electricity between provinces and territories.
- To be available the day of Budget 2024 and until 2034.
- Expected to cost \$6.3 billion over four years starting in 2024-25, and an additional \$19.4 billion from 2028-29 to 2034-35.

Canada Infrastructure Bank - Clean Energy Priority Area

- The Canada Infrastructure Bank will invest at least \$10 billion through its Clean Power priority area, and at least \$10 billion through its Green Infrastructure priority area. This will allow the Canada Infrastructure Bank to invest at least \$20 billion to support the building of major clean electricity and clean growth infrastructure projects. These investments will be sourced from existing resources.

Doubling the Tradespeople's Tool Deduction

- Budget 2023 proposes to double the maximum employment deduction for tradespeople's tool expenses from \$500 to \$1,000.
- This change would take effect for the 2023 taxation year and would reduce federal revenues by \$11 million over six years, starting in 2022-23.

Increased Funding for Labour Market Transfer Agreements

- Budget 2023 proposes to invest an additional \$625 million in 2023-24 in the Labour Market Transfer Agreements to ensure Canadians continue to have access to the supports they need to get their next job.

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New Investments

Fair Pay for Workers Who Build the Clean Economy

- Budget 2023 announces details on labour requirements for the Clean Technology and Clean Hydrogen Investment Tax Credits:
 - To be eligible for the highest tax credit rates, businesses must pay a total compensation package that equates to the prevailing wage. The definition of prevailing wage would be based on union compensation, including benefits and pension contributions from the most recent, widely applicable multi-employer collective bargaining agreement, or corresponding project labour agreements, in the jurisdiction within which relevant labour is employed.
 - Additionally, at least ten per cent of the tradesperson hours worked must be performed by registered apprentices in the Red Seal trades.

Housing - Construction and Affordability

- Budget 2023 will allow the National Housing Co-Investment Fund to transfer funding from its Repair Stream to its New Construction Stream, as needed, to boost the construction of new affordable homes for the Canadians who need them most.
- Budget 2023 proposes to commit \$4 billion over seven years starting in 2024-2025 to implement a co-developed Urban, Rural, and Northern Indigenous Housing Strategy.

Implementing the 988 Suicide Prevention Line

- Budget 2023 proposes to provide \$158.4 million over three years, starting in 2023-24, to the Public Health Agency of Canada to support the implementation and operation of 988.

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Analysis

First Lake analysis for MCAC & CIPH

Today's budget contained the least new funding or initiatives for the skilled trades in recent memory. 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. 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. Generally, this budget places less emphasis on new investments in housing, retrofitting housing stock, or in heating and cooling technologies for household consumers. While there was a substantial push on electrification, the investments are focused on the grid and on decreasing emissions from generation and transmission of electricity, rather than changing consumer incentives. The opportunity for MCAC and CIPH going forward will be to own the discussion on ICI sector energy efficiency through new builds and retrofits. It is likely that heat pumps will continue to dominate the market transformation discussions for households, but many high-efficiency alternatives exist for larger scale construction and the government needs help to realize the potential of that market segment.

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 CIPH and MCAC over the coming decades.

MCAC wishes to applaud today's announcement that will see the implementation of the 988 Suicide Prevention Phone Line in Canada. Derek Ermen, President of MCAC stated "Unfortunately the construction industry offers grim statistics with respect to suicide. This is an important step to provide access to resources and support that could save lives."

Next steps

- CIPH and MCAC will redefine priorities for advocacy for our Day on the Hill in light of budget investments
- We will engage Natural Resources Canada and Environment and Climate Change Canada to further emphasize our expertise in energy efficiency for the ICI sector of construction