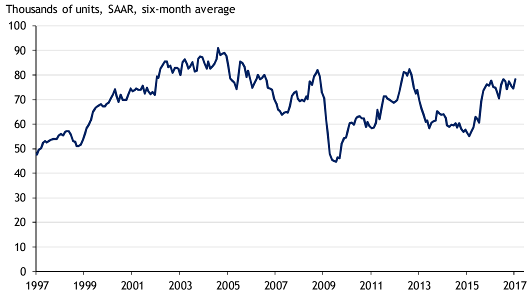
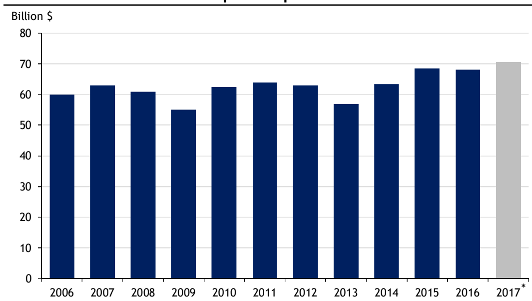
# Ontario

Ontario: Housing starts




Source: Canadian Mortgage Housing Corporation, RBC Economics Research

Ontario: Non-residential capital expenditures




*Intentions
Source: Statistics Canada Non-residential Capital and Repair Expenditures Survey, RBC Economics Research

Ontario forecast at a glance

% change unless otherwise indicated

| | 2013 | 2014 | 2015 | 2016F | 2017F | 2018F |
|---|---|---|---|---|---|---|
| Real GDP | 1.5 | 2.7 | 2.5 | 2.6 | 2.5 | 2.0 |
| Nominal GDP | 2.2 | 4.7 | 4.9 | 4.4 | 4.3 | 3.7 |
| Employment | 1.8 | 0.8 | 0.7 | 1.1 | 1.3 | 0.9 |
| Unemployment rate (%) | 7.6 | 7.3 | 6.8 | 6.5 | 6.3 | 6.1 |
| Retail sales | 2.3 | 5.0 | 4.2 | 4.7 | 4.0 | 3.8 |
| Housing starts (units) | 61,085 | 59,134 | 70,156 | 74,952 | 79,300 | 68,000 |
| Consumer price index | 1.1 | 2.3 | 1.2 | 1.8 | 2.4 | 2.1 |

**Robert Hogue**
Senior Economist

## Taking centre stage

In a world of slower economic growth, Ontario's performance in the past three years—an average of growth rate of 2.6% annually—is probably as good as it gets for a large, mature and diversified economy. Yet, such performance was greeted with little fanfare in part because it was overshadowed by British Columbia putting out even stronger numbers (average growth rate of 3.3% over the same period). We believe that Ontario will get more attention in 2017 as it poised to lead the country in growth this year for the first time since 2000. Ironically, this would coincide with a projected easing of growth in the province relative to the past three years to 2.5% (we anticipate the slowing to be comparatively more pronounced in British Columbia). We expect the pace of Ontario's economy to be restrained by a moderation in housing market activity in 2017 and increased uncertainty with respect to trade with the United States. Our outlook calls for further modest deceleration in growth to 2.0% in 2018.

### Positive tone remains as 2017 gets underway

The tone of economic indicators has been generally positive recently, consistent with our view that most sectors of Ontario's economy firmly remain in expansion mode. Sustained job creation—employment has risen by more than 100,000 in the six months ending in January 2017—and a downwardly trending unemployment rate—to an eight-year low of 6.2% in recent months—instill a fair degree of confidence among households. This can be seen in retail sales, which continue to grow at one of the faster rates (3.9% year-over-year in the fourth quarter of 2016) in the country. Ontario consumers are especially fond of new motor vehicles—auto dealer sales are off to a strong start in 2017 following a record year in 2016. Data on the provincial manufacturing sector continue to show that the recovery remains on track overall, albeit at a measured pace. Strength in residential construction is unrelenting as housing starts continue to surprise us on the upside—prompting us to revise our forecast for 2017 starts upwardly to 79,300 units from 72,500 units previously. Clearly, the scarcity of homes available for sale in the Greater Toronto Area (GTA) maintains intense pressure on home builders to boost supply. A wave of in-migration in the past year no doubt has contributed to such pressure.

### Rising capital expenditures to add support;…

The economic expansion in Ontario will get added support from capital investment in 2017. The 2017 CAPEX survey indicated that private firms and public-sector organizations intend to boost their spending by 4.0% this year, thanks in large part to a strong 10.3% increase by public administrations (led by municipal and region governments). Firms in the real estate and manufacturing sectors also plan to ramp up their capital spending noticeably by 19.8% and 8.3%, respectively.

### …slower housing market activity to take some away

Despite only tenuous evidence of a slowdown in activity since the fall of 2016, we continue to expect that the pace of home resales will moderate in Ontario in 2017. We believe that intense affordability stress in the GTA and prospects for higher interest rates are bound cool demand down. Should these factors fail and GTA home prices accelerate further out of control as a result, we would expect policy makers to intervene.