



ONTARIO - Shifting down to cruising speed

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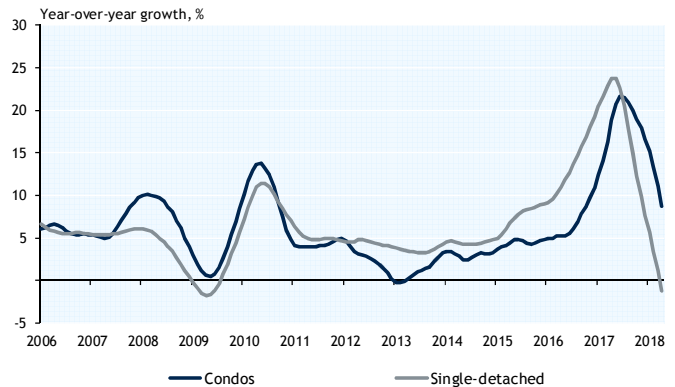
Ontario's economy is coming off four years of above-potential economic growth and going forward some of this strength will ebb as the economy reaches cruising speed. The provincial housing market, led by developments in Toronto, will be impacted by recent regulatory action and rising interest rates. Barring a major change in fiscal direction following the June 7 provincial election, the government sector will be adding to growth both through program and capital spending, forestalling economic growth slowing toward its potential rate. After growing at an estimated 2.7% in 2017, we expect Ontario's economy to grow near the national average at 2.0% and 1.7% in 2018 and 2019 respectively.

The province's housing market reacted sharply to a package of provincial and federal housing measures last year and early this year. Initially it caused a drop in listings and then prices, which have been concentrated among single-detached houses. More stringent mortgage rules may also be pushing buyers into cheaper options, namely condos, the prices of which are still up strongly year over year. This will also be reflected in homebuilding which will continue to shift from single-detached to multiple units. Residential investment is currently running at a very high rate, but is likely to slow over time as rising interest rates and poor affordability begin to bite into homebuyer demand.

By contrast, non-residential investment shows signs of a stronger profile in the coming years. As the pool of available labour dries up, firms show signs of turning to capital investment to boost output. Yet, the lion's share of new non-residential investment spending is in the public sector. The recently-passed 2018 provincial budget includes billions in new investment pushing expected spending up 13% over 2017. Still, the outlook is far from clear. NAFTA concerns may be causing firms to hold off on investment plans limiting their ability to respond to higher demand over time.

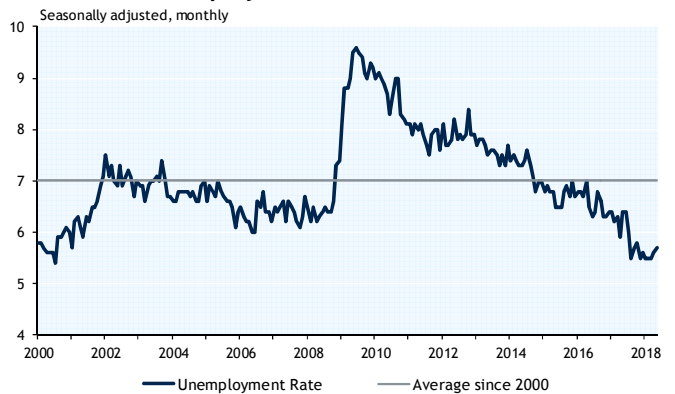
Ontario's strong economic growth has been a fire under job growth and that flame has begun burning lower in recent months. Far from a sign of weakness however, this is a reflection of strength. Ontario's unemployment rate is 1.5 percentage points below its long-run average and there are few potential workers left on the sidelines. In this context, government spending remains on track to add to employment growth over the next two years, as it pursues deficits. Barring an economic or policy shock, we expect employment to expand at the rate of the labour force keeping the unemployment rate stable at a low level. Prolonged tightness in the labour market will exert upward pressure on wages and employee compensation which are also getting a shot in the arm from legislated increases in the minimum wage.

Ontario: House prices



Source: Brookfield RPS, RBC Economics Research

Ontario: Unemployment rate



Source: Statistics Canada, RBC Economics Research

Ontario forecast at a glance

% change unless otherwise specified

	2015	2016	2017F	2018F	2019F
Real GDP	2.9	2.6	2.7	2.0	1.7
Nominal GDP	5.0	4.3	4.7	3.9	3.9
Employment	0.7	1.1	1.8	1.1	0.6
Unemployment Rate (%)	6.8	6.5	6.0	5.6	5.5
Retail Sales	5.3	6.9	7.7	4.7	4.3
Housing Starts (thous of units)	70.2	75.0	79.1	75.4	70.0
Consumer Price Index	1.2	1.8	1.7	2.5	2.0