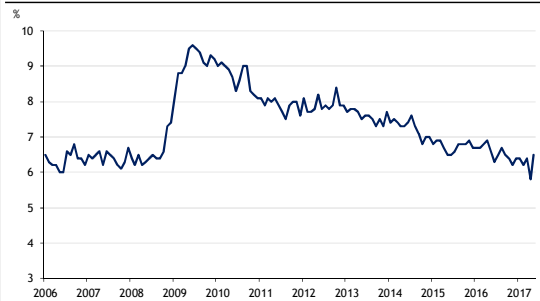
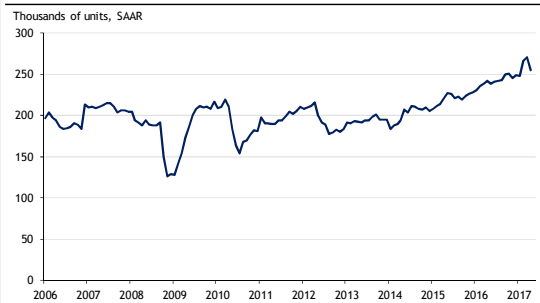


Ontario: Unemployment rate



Source: Statistics Canada, RBC Economics Research

Ontario: Home resales



Source: CREA, 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	2.7	2.7	2.0
Nominal GDP	2.2	4.7	4.9	4.5	4.8	3.8
Employment	1.8	0.8	0.7	1.1	1.4	0.9
Unemployment rate (%)	7.6	7.3	6.8	6.5	6.1	5.8
Retail sales	2.8	5.8	5.5	7.1	6.4	4.6
Housing starts (units)	61,085	59,134	70,156	74,952	86,700	76,500
Consumer price index	1.1	2.3	1.2	1.8	2.1	2.2

Robert Hogue
Senior Economist

Housing setting the tone

Ontario’s economy came flying out of the gate in the opening months of 2017. Clearly, Ontarians have been in the mood to spend on goods and services but it’s their love affair with buying homes that’s added some extra oomph to economic activity in the province. This affection in fact reached a fever pitch this year at a time when too few sellers supplied markets in Southern Ontario. Ensuing skyrocketing prices raised serious concerns about the future stability of Ontario’s housing market. We expect that the provincial government’s policy response to those risks—the Fair Housing Plan announced in April—will help cool the housing market during the remainder of this year. Our base case scenario has this cooling keeping economic growth on an even keel in the province in 2017. We project growth to remain unchanged at 2.7% in this year before decelerating to 2.0% in 2018.

Consumers and governments in high gear

Statistics Canada’s first estimate of provincial real GDP for 2016 confirmed that the Ontario economy posted the second-strongest growth rate among the provinces last year for the second-straight year. And, 2017 is shaping up to be another solid year for Ontario. Households are still right there in the mix, continuing to boost their spending at retail stores and, especially, motor vehicle dealerships so far this year. Solid gains in the job market in the past 12 months—most of which were full-time positions in the private sector—no doubt have given a boost to consumer confidence. The recent drop in Ontario’s unemployment rate below the 6% mark for the first time since May 2001 also has been a confidence builder, while an immigration wave has brought in more consumers into the province. Governments have stepped up their capital spending programmes by more than 10%, which is leading to an infrastructure construction boom across the province.

Housing market reached the boiling point...

And then there’s housing activity climbing to record heights. We’ve been surprised by the market’s utter dismissal of last October’s tightening of mortgage qualifying criteria and the significant erosion of affordability in large parts of the province. While the housing frenzy pumped fuel into the provincial economy—including from elevated levels of housing construction—runaway prices in the majority of southern Ontario markets clearly signaled that the provincial housing sector was on a potentially destabilizing path.

...however, the latest government policy intervention is cooling things down

We expect the tentative signs of cooling in the housing market since the announcement of Ontario’s housing plan to be sustained—at least, for a certain period of time. The suite of measures that include a foreign buyer tax, an expansion of rent control and actions to speed up new housing supply will drive some speculators out of the market. Our view is that this cooling will be orderly, and housing risks will diminish as market expectations transition from over-exuberance to rationality. The flip side of any moderation in housing activity, however, is that it will temper a sector of Ontario’s economy that has grown significantly in share over the past decades. We expect some restraining effect on economic growth to materialize in 2017, although we see more of it occurring in 2018 when we project housing starts to drop by almost 12%.

