Ontario

Strong pace to slow down just a tad

Ontario's economy has been on a solid run in the past four years. It was among the provincial growth leaders in Canada. This isn't about to end. It's just that it will get harder to maintain as fast a pace in the face of rising interest rates, market-cooling measures in housing and uncertain trade environment with the United States. We expect that a number of factors that contributed significantly to growth in recent years—including residential investment and household spending—will quiet down in 2018. We project GDP growth to ease from a seven-year high of 2.9% in 2017 to 2.1% in 2018. Our outlook for 2019 calls for further deceleration to 1.8%.

A significant shift in the housing sector has already taken place

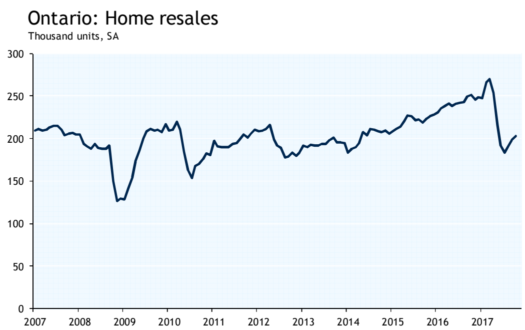
Ontario's housing market will begin 2018 on a much quieter note than it began 2017 when the majority of southern Ontario markets were overheating. Home resale activity fell sharply following the introduction of province's Fair Housing Plan in April. While activity recovered partly since then, we believe that the plan, along with rising interest rates, tighter mortgage lending rules and stretched affordability will keep home resales tracking a lower baseline in 2018. We expect a similar outcome for new home construction. Pre-construction sales—a usually reliable advance indicator for homebuilding—also dipped since April, especially in the single-detached home segment. Our view is that residential investment will subtract from growth in 2018.

Infrastructure spending still front and centre in 2018

Continuing to fuel growth in Ontario will be heavy investment in the province's infrastructures. We expect to see a coordinated ramp-up in capital spending by all levels of government in 2018. Public transit and road transportation infrastructures will get the lion's share of this spending. More generally, the provincial government will maintain a fairly stimulative fiscal policy stance. Program spending is projected to grow solidly by an average of almost 4% in 2017-18 and 2018-19. This is thanks to strong revenue growth generated by a vibrant economy. In its latest economic and fiscal review published in November, the province also cut income taxes for small businesses, although this is primarily a defensive measure to help small businesses deal with a sharp increase in the minimum wage. The November review confirmed that the provincial government will fulfill its long-standing commitment made in Budget 2010 to balance its budget by 2017-18.

Substantial minimum wage hike on the way

The dramatic 29% scheduled increase in Ontario's minimum wage rate from the current \$11.60 per hour to \$14.00 per hour on January 1, 2018, and \$15.00 per hour on January 1, 2019, no doubt will pose substantial headaches for many businesses in the province. Yet the net effect on Ontario's economy is difficult to quantify because there will be winners and losers. Our view is that it will put some modest upward pressure on the provincial unemployment rate—especially for younger workers—and lead to a reduction in work hours. On the other hand, consumer spending on basic items such food and clothing may get a boost because many minimum wage earners will take home higher pay cheques. These are generally individuals with a high propensity to spend.



Source: CREA, RBC Economics Research

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Ontario forecast at a glance

% change unless otherwise indicated

	2014	2015	2016	2017F	2018F	2019F
Real GDP	2.7	2.9	2.6	2.9	2.1	1.8
Nominal GDP	4.4	5.0	4.3	5.0	4.0	3.7
Employment	0.8	0.7	1.1	1.8	1.4	0.8
Unemployment rate (%)	7.3	6.8	6.5	6.0	5.7	5.8
Retail sales	5.8	5.5	7.1	6.6	5.0	4.4
Housing starts (units)	59,134	70,156	74,952	80,100	68,800	70,000
Consumer price index	2.3	1.2	1.8	1.7	1.7	2.0

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