



ONTARIO - Headwinds and tailwinds to leave growth steady

After outpacing most other provinces over the past five years, Ontario's economy is now closer to the middle of the pack. This will be no different in 2020, as trade headwinds and housing tailwinds leave growth little changed.

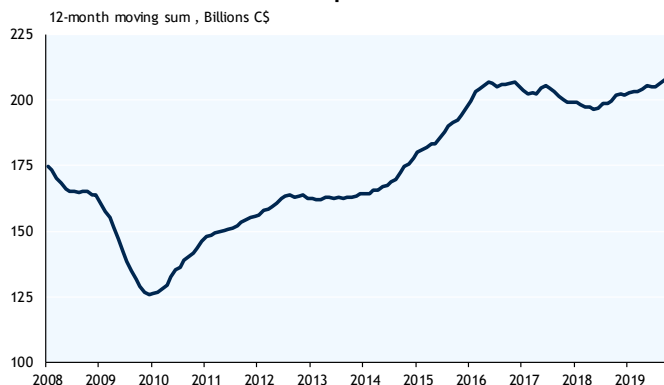
The long-running expansion is showing its age in Ontario. Consumers are running out of breath, businesses are becoming more nervous in the face of global trade turbulence and the provincial government is getting a tighter grip on its spending after a period of rapid increases. Overall conditions are still favourable but the economy is growing at a slower, more sustainable pace. For 2019, we expect growth to clock in at 1.7%, down from an average of 2.4% in the previous five years. Our outlook calls for little change in 2020 with a growth rate of 1.6% reflecting bleaker prospects for external trade offset by a recovering housing sector. Our initial take on 2021 has growth staying unchanged at 1.6%.

The souring of the global trade environment is a big deal for an open economy like Ontario. While provincial exports held up surprisingly well to date, the same can't be said for business investment. Business capital outlays fell 2.4% in the first half of 2019 following solid increases in the previous two years (especially for spending on machinery and equipment). Ontario businesses take many of their cues from abroad, and the softening in industrial production in the US and other markets has taken its toll on confidence. The next shoe to drop is likely to be manufacturing production, as the weakness in global supply chains drags demand down and the GM plant closure in Oshawa cuts auto production. The prospects for an inventory correction also points to some scaling back of output in the near-term. Clearly, the rise in protectionism globally will generate stiff headwinds for the provincial economy in the period ahead.

Domestically, Ontarians will remain cautious. Consumer spending grew at its slowest pace in five years over the first half of 2019 (2.2%). The earlier rise in interest rates no doubt forced many households to tighten their belts. In fact, the increase in debt service costs resulting from higher rates proved to be too much for a growing number of them. Consumer insolvencies surged almost 16% in the first 10 months of 2019. We don't expect the situation to worsen materially in 2020—thanks to interest rates having come down since the start of 2019 and forecast to stay relatively flat in the period ahead—though high household debt will continue to be a source of vulnerability. We see little scope for Ontarians to loosen their purse strings in a meaningful way over the coming year.

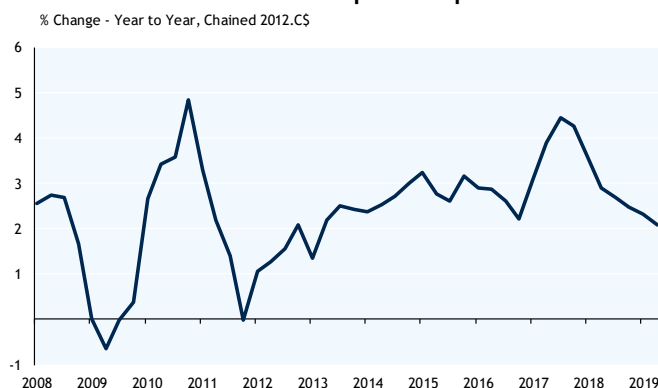
A lower profile for interest rates and strong population growth, on the other hand, generate significant tailwind for the provincial housing market. Home resale activity in the Greater Toronto Area rebounded smartly since spring and prices are now tracking higher at an accelerating rate. We expect the market to continue to recover in 2020, propelling housing construction along with it. We project housing starts in the province to reach a 16-year high 80,500 units next year. Concerted efforts across all levels of government to boost housing supply are poised to keep home building at elevated levels in 2021 and beyond.

Ontario merchandise exports



Source: Statistics Canada, RBC Economics

Ontario household consumption expenditure



Source: Statistics Canada, RBC Economics

Ontario forecast at a glance

% change unless otherwise specified

	2017	2018	2019F	2020F	2021F
Real GDP	2.9	2.2	1.7	1.6	1.6
Nominal GDP	4.6	3.7	3.4	3.5	3.6
Employment	1.8	1.6	2.8	1.4	0.8
Unemployment Rate (%)	6.0	5.6	5.6	5.6	6.0
Retail Sales	7.7	4.4	2.9	2.4	2.2
Housing Starts (Thousands of Units)	79.1	78.7	70.8	80.5	82.0
Consumer Price Index	1.7	2.4	2.0	1.6	1.6