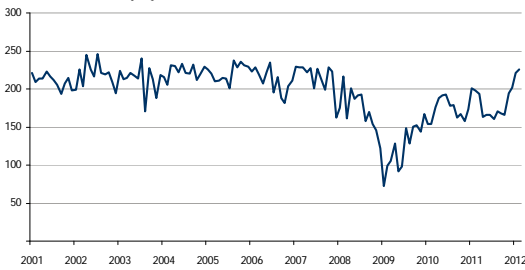
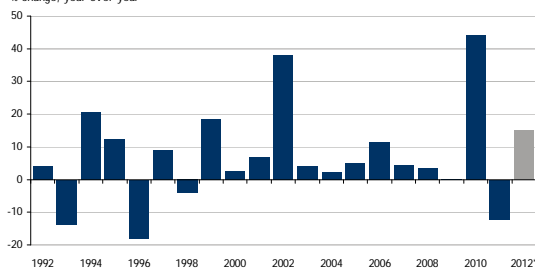


**Ontario motor vehicle production**  
Thousand units, seasonally adjusted



Source: AUTONEWS, RBC Economics Research

**Ontario capital investment**  
% change, year-over-year



Source: Statistics Canada, RBC Economics Research  
\*Intentions.

**Ontario forecast at a glance**

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	3.0	1.9	2.5	2.3
Employment	1.7	1.8	1.0	1.4
Unemployment rate (%)	8.7	7.8	7.8	7.5
Retail sales	5.4	3.0	3.7	3.9
Housing starts (units)	60,433	67,700	62,300	59,000
Consumer price index	2.4	3.1	1.8	1.9

**Rising U.S. tide lifts Ontario’s boat**

The encouraging signs emerging from the U.S. economy lately are welcome news in Ontario. We expect that stronger U.S. demand for such things as Ontario-made motor vehicles and parts will contribute to a modest rebound in growth in the province to 2.5% in 2012 from an estimated 1.9% in 2011. Renewed strength in capital spending at the municipal and regional level will also be a factor adding to growth this year. Nonetheless, the economic performance of the province will continue to be restrained by ongoing industrial adjustments to a high Canadian dollar, as well as by the necessary deficit reduction efforts at the federal and provincial levels.

**Ontario’s auto sector in full recovery mode**

The recovery in Ontario’s auto sector was gathering speed last year when significant disruptions to its supply chains caused by successive natural disasters in Japan and Thailand set the industry back considerably. Fortunately, as difficult as these disruptions have been, they proved to be temporary. By the fall, auto production in the province was back on track, registering a strong gain in the fourth quarter. Even more encouraging has been the impressive start to 2012, with production in January and February returning to pre-recession levels on a seasonally adjusted basis.

**U.S. demand perking upward**

The improvement in the economic data south of the border in the past several months bodes well for the Ontario economy, which relies disproportionately on the U.S. market. In particular, motor vehicle sales have provided clear evidence that they are coming out of their slump by reaching in the first two months of 2012 their best levels since early 2008. We expect that the strengthening in the U.S. labour market will continue to lend support to U.S. motor vehicle sales this year and keep U.S. demand for Ontario-made motor vehicles and parts on a higher plane. The turnaround in Ontario’s auto sector will help boost provincial exports.

**Municipal and regional administrations to boost their capital spending**

After providing a substantial boost to growth in 2009 and 2010, public-sector capital spending eased last year in the province with the end of the Action Plan. The recently released investment intentions report by Statistics Canada indicates that a rebound is in store in 2012, however. The report shows that municipal and regional administrations intend to increase their capital expenditures by 15% (on a nominal basis) following a substantial drop (12%) in 2011. This increase will be supplemented by a more modest rise (5%) provincial administration spending (the federal administration expects no change in capital spending in the province). We estimate that this pickup in public-sector capital expenditures will add about 0.3 percentage points to growth in 2012. On the private-sector side, the report reveals strong increases in spending intentions in the utilities and mining sectors.

**Headwinds will persist**

While we expect growth in the province to accelerate modestly in 2012 from 2011, economic performance in Ontario will continue to face stiff headwinds from the high value of the Canadian dollar that will generate further restructuring in the manufacturing sector. Additional headwinds will come from the ramping up of government program spending restraints, as both the federal and provincial governments tackle their deficits. We expect such headwinds to slow growth to 2.3% in 2013.

Robert Hogue  
Senior Economist

