

Stars aligning for stronger growth

Ontario is poised to be among the faster-growing provincial economies in 2016 with a projected growth rate of 2.5%. This would constitute an improvement from a forecasted rate of 2.1% in 2015, and a third consecutive year during which growth in the province surpassed the national average. We believe that several stars will be in alignment to elevate Ontario’s economic game in 2016, including a strong US economy, low Canadian dollar, still-low (albeit rising) interest rates, confident household sector, the late stages of a housing boom, rising business investment, and increased public infrastructure building. In fact, many of these stars were already in position in 2015 and would have generated a stronger growth rate than 2.1% had it not been for a slow start to the year for provincial exports. With more recent data showing an improvement in external trade, we believe that the stage is set for growth to accelerate moderately in the latter half of 2015 and in 2016 in Ontario. Our initial take on 2017 is for growth to pick up further to 2.7%.

Growth rotation is still a work in progress.

Ontario’s economy showed some signs of transitioning toward greater contribution from external sources of growth in 2015; however, developments to date were far from a wholesale rotation. For one, it took until the second quarter to see broad-based gains in exports after a significant setback occurred in the first quarter (when real exports fell 7.8% quarter over quarter annualized, according to figures from the Ontario Ministry of Finance). As we pointed out in the September edition of *Provincial Outlook*, much of this early-year decline was related to retooling downtime at two motor vehicle assembly plants in the province and disruptions to supply chains caused by a labour strike at US west coast ports. Additionally, a rotation away from housing—which may be nearing a point of exhaustion after having been a key driver of growth for the past several years in the province—has yet to occur. In fact, very strong home resale and construction activity during most of 2015 continued to contribute positively to provincial growth both directly and indirectly (e.g., through the effect on retail sales). In short, developments in 2015 were more consistent with tentative steps toward a broadening of sources of growth than an actual rotation.

...and will continue to be in 2016

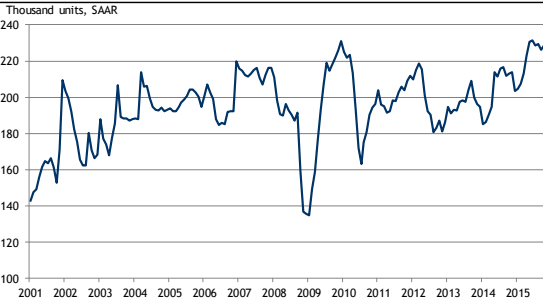
Our outlook for 2016 calls for more of this same broadening of growth in the province. We expect solid US growth and a low value of the Canadian dollar to keep Ontario goods and services exports firmly on an ascending path and, along with this, entice businesses to boost investment in the province. Such strengthening in business capital spending would build on increases recorded in 2015. Meanwhile, we expect Ontario’s households to keep their wallets open in 2016, spurred on by gains in the job market—which in 2015, has been primarily in full-time positions—and for home owners, the wealth effect arising from the appreciation in the value of their residence. Although frothy in some areas (e.g., Toronto), we believe that the provincial housing market will continue to be supported by strong demand, which will maintain housing construction at historically elevated levels. On the public-sector side of the economy, strong commitment at all levels of government to build public infrastructure (particular for public transportation) will fuel non-residential construction activity in the province.

Ontario : Real exports



Source: Ontario Ministry of Finance, Statistics Canada, RBC Economics Research

Ontario : Home resales



Source: Canadian Real Estate Association, RBC Economics Research

Ontario forecast at a glance

% change unless otherwise indicated

	2012	2013	2014	2015F	2016F	2017F
Real GDP	1.3	1.3	2.7	2.1	2.5	2.7
Nominal GDP	3.1	1.9	4.1	3.7	3.8	4.4
Employment	0.7	1.8	0.8	0.7	1.2	1.0
Unemployment rate (%)	7.9	7.6	7.3	6.8	6.5	6.1
Retail sales	1.6	2.3	5.0	4.4	4.4	3.9
Housing starts (units)	76,742	61,085	59,134	70,200	68,500	59,000
Consumer price index	1.4	1.1	2.3	1.2	2.1	1.9

Robert Hogue
Senior Economist

