



NEWS

ONTARIO'S ECONOMY SHOWING POSITIVE SIGNS: RBC ECONOMICS

TORONTO, June 12, 2012 — Economic growth in Ontario is forecast to slightly accelerate in 2012, closing much of the gap with the national average, according to the latest [RBC Economics Provincial Outlook](#) issued today. RBC expects real GDP to climb to 2.5 per cent in 2012, just shy of the 2.6 per cent growth projected for Canada.

"We expect Ontario's economic growth to pick up the pace this year. Improvements in provincial export performance will be the key to this growth, while brisk residential construction activity will play a significant supporting role," said Craig Wright, senior vice-president and chief economist, RBC. "Still, restraint in public sector spending will slow the pace somewhat and contribute to Ontario ranking in the middle of our provincial growth forecast."

The Outlook notes that a recovery in U.S. motor vehicle sales and production is clearly helping to reinvigorate Ontario's key auto sector. In the first four months of 2012, auto production averaged just above 2.5 million units (annualized), only slightly lower than the 2.6 million unit average during the 10 years prior to the recession. New motor vehicle production in Canada (largely based in Ontario) has stepped up significantly since the lows of the recession and has now virtually returned to pre-recession levels.

"Recovery in Ontario's auto sector was one of the main factors contributing to a rise in provincial exports in the early months of this year," explained Wright. "Stronger exports should reduce Ontario's trade deficit this year and external trade will add to provincial growth for the first time in a decade."

While the Ontario economy will gather some speed this year, it will continue to face headwinds, including reductions in public sector spending. Since June 2011, public sector jobs have fallen almost five per cent. The Ministry of Ontario's provincial account estimates also show that public spending of goods and services, as well as capital investment, has reduced economic growth in every quarter of 2011, including by nearly one full percentage point in the fourth quarter alone. RBC anticipates this drag on growth to persist going forward.

Residential investment, however, shows no sign of letting up so far this year. In the first quarter, the value of new home construction in Ontario was up by more than 17 per cent from last year and housing starts surged to a seven-year high in March and April.

"New home sales were particularly strong last year in the Greater Toronto Area, with a new record high set in the condo segment," added Wright. "With so many projects on deck, we have revised our provincial housing starts forecast higher for both 2012 and 2013."

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RBC expects export gains to level off in 2013, as the auto sector reaches capacity limits and housing starts slow, leading to projected provincial growth of 2.4 per cent.

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales, housing starts and consumer price indices. The full report and provincial details are available online as of 8 a.m. ET today at rbc.com/economics/market/pdf/provfcst.pdf.

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