ONTARIO ECONOMIC UPDATE

Economic and Revenue Forecasting and Analysis Branch
Office of Economic Policy
Ministry of Finance

Ontario

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Economy

Economy Continues to Grow in Fourth Quarter

Canadian real gross domestic product (GDP) grew 0.6% in the fourth quarter (October to December) of 2005, following growth of 0.9% in the previous two quarters. Canadian fourth quarter GDP was pushed ahead by strong growth in business investment, a solid advance in exports and continued growth in personal expenditures.

In the third quarter (July to September) of 2005, Ontario real GDP grew by 0.7%, up from a 0.6% rate in the second quarter. Ontario growth was led by strong machinery and equipment investment expenditures, solid household spending and a rebound in exports. Final domestic demand increased by 0.8% in the third quarter, double the second quarter pace of 0.4%. *(Fourth quarter estimates for the Ontario economy will be available with the next release of the Ontario Economic Accounts in mid-April.)*

Employment

Ontario Employment Lower in February

Ontario employment decreased by 17,200 jobs in February, following a gain of 15,600 in January. Despite the decline, Ontario employment is up by 1.6% or more than 100,000 jobs over the first two months of this year compared with the same period in 2005.

The Ontario unemployment rate fell to 6.2% in February, just above its five year low of 6.1% reached last November.

In 2005, Ontario added 81,200 net new jobs for a gain of 1.3%. Full-time employment dominated job gains in 2005 with 71,000 net new jobs (+1.4%), while part-time employment increased by 10,200 jobs (+0.9%). The unemployment rate averaged 6.6% in 2005, the lowest annual level since 2001.

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Inflation

Ontario CPI Inflation Rate Jumps to 3.0% in January

The Ontario Consumer Price Index (CPI) inflation rate rose to 3.0% in January from December's rate of 2.1%. The increase was mainly due to higher natural gas and gasoline prices.

In 2005, the Ontario CPI inflation rate was 2.2%, up from 1.9% in 2004. The 2005 annual Canadian CPI inflation rate was also 2.2%, while the U.S. inflation rate was 3.4%.

Households

Over the first two months of 2006, Ontario **housing starts** were 14.8% higher than a year earlier. In 2005, there were 78,795 housing starts in Ontario, down 7.4% from 2004.

Ontario **home resales** reached a level of 10,525 units in January, 8.9% higher than a year ago and the second highest January on record. In 2005, 197,024 Ontario homes changed hands, down just 0.2% from 2004's record level, making it the second best year for home resales.

Ontario **new motor vehicles sales** rose 1.8% in January to a level of 52,179 units. In 2005, Ontarians purchased 617,714 new motor vehicles, up 2.8% from 2004.

Ontario **retail sales** advanced 1.1% to a record $11.5 billion in December, up for the third consecutive month. In 2005, retail sales increased 4.7%, the strongest annual rate since 2002.

Investment and Business Activity

According to Statistics Canada's *Private and Public Investment Intentions Survey*, Ontario businesses and public sector institutions plan to increase investment by 6.5% to $95.5 billion in 2006. This would be the strongest increase in capital spending since 1999.

In January, the value of Ontario **building permits** was 19.0% higher than a year earlier with residential permits up 27.8% and non-residential permits 4.6% higher.

In January, Ontario **international merchandise exports** (customs-basis) increased 7.6% from a year earlier with exports of automotive products and machinery and equipment both up more than 10%.

The value of Ontario **manufacturing shipments** fell 2.1% to $25.6 billion in January, following a 2.2% gain in December. In 2005, shipments edged up 0.7% to $312 billion.

Ontario **wholesale trade** rose 1.5% to $20.4 billion in December, rebounding from November's 1.3% decline. In 2005, wholesale trade reached $237 billion, up 2.2% from a year earlier.