ONTARIO ECONOMIC UPDATE

Economic and Revenue Forecasting and Analysis Branch
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Ontario

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Economy

Economy Continues to Grow in Fourth Quarter

Ontario's real gross domestic product (GDP) grew by 0.3% in the fourth quarter (October to December) of 2005, following growth of 0.6% in the third quarter. Ontario fourth quarter growth was led by strong gains in consumer expenditures, business machinery and equipment investment spending and exports. Final domestic demand outpaced GDP growth, advancing 1.0% in the fourth quarter, following growth of 0.7% in the previous quarter.

In 2005, Ontario's real GDP grew by 2.7%, matching growth in 2004. Final domestic demand remained strong in 2005, increasing by 3.1%, down slightly from a 3.3% pace in 2004.

Employment

Ontario Creates 31,200 New Jobs in March

Ontario employment grew strongly in March, adding 31,200 net new jobs, the best monthly gain in almost a year, while the unemployment rate edged down to 6.1%, equaling its lowest rate in almost 5 years. The new jobs were dominated by younger workers (aged 15 to 24) who gained 22,400 mostly full-time positions in March.

On a year-to-date basis, Ontario employment is up by nearly 105,000 jobs or 1.7%, compared to the same period in 2005.

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.

Inflation

Ontario CPI Inflation Rate Falls to 2.0% in February

The Ontario Consumer Price Index (CPI) inflation rate fell to 2.0% in February, down sharply from 3.0% in January. The drop was due mainly to lower 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

The Conference Board of Canada's **Index of Consumer Confidence** for Ontario rose 0.6% in March. In the first quarter of 2006, consumer confidence was up 6.3% over the final quarter of 2005.

Over the first three months of 2006, Ontario **housing starts** were 9.9% higher than a year earlier.

Ontario **home resales** reached a level of 14,843 units in February, a 7.0% increase from a year ago. Over the first two months of 2006, home resales were up 7.8% compared with the same period last year. 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** declined 1.1% in February to a level of 51,382 units. Despite the decline in February, total monthly sales remained above 50,000 for the fourth consecutive month. In 2005, Ontarians purchased 617,714 new motor vehicles, up 2.8% from 2004.

Ontario **retail sales** advanced 1.0% to a record $11.7 billion in January, up for the fourth 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.

The value of Ontario **non-residential building permits** issued in February advanced 10.5%, boosted by a robust 19.0% increase in the value of commercial projects.

Over the first two months of 2006, Ontario **international merchandise exports** (customs-basis) were 2.9% higher than the same period last year.

The value of Ontario **manufacturing shipments** fell 0.8% to $25.4 billion in February. In 2005, shipments edged up 0.7% to $312 billion.

Ontario **wholesale trade** increased 2.2% in January to a record $20.9 billion, following a 2.1% advance in December. In 2005, wholesale trade reached $237 billion, up 2.2% from a year earlier.