ONTARIO ECONOMIC UPDATE

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

Ontario

July 2006

Economy

Economy Continues to Grow in First Quarter of 2006

Ontario's real Gross Domestic Product grew by 0.4% in the first quarter (January to March) of 2006, up from a 0.3% pace in the final quarter (September to December) of 2005. Ontario's economic growth was below that of Canada, which advanced 0.9%, and the U.S., which grew by 1.4% in the first quarter.

The increase in first quarter real GDP reflected positive contributions from consumer spending, residential construction and business investment spending. Final domestic demand continued to outpace GDP growth, advancing by 0.7%. Net trade dampened economic growth as exports were essentially unchanged while imports grew modestly.

Employment

Ontario Employment Edges Up in June

The Ontario job market created 1,400 net new jobs in June following a very strong performance in May (+34,000 jobs). So far this year, Ontario employment is up by 111,000 jobs for a gain of 1.8%. The unemployment rate was 5.9% in June, unchanged from May's level, which was the lowest in five years.

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 was 2.8% in May

The Ontario Consumer Price Index (CPI) inflation rate rose to 2.8% in May (year-to-year) from April's level of 2.3%. Higher gasoline prices remain the major contributor to inflation.

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

Ontario **housing starts** advanced 2.6% in June to a level of 78,600 units, following a 9.1% increase in May. Over the first half of 2006, housing starts are 4.9% below the same period in 2005.

Over the first five months of 2006, **home resales** are 2.9% higher than during the same period in 2005. It was the busiest May on record with 21,899 existing Ontario homes sold, up 2.2% from a year ago.

Ontario **retail sales** rose 1.2% in April to a record high of $11.9 billion, following a 3.2% increase in March. Over the first four months of 2006, retail sales are 4.1% ahead of the same period in 2005.

Ontario **new motor vehicles sales** slipped 0.3% in April to a level of 51,502 units, down from the 0.4% gain reported in March. Over the first four months of 2006, auto sales are very close to last year's level, down only 0.6%.

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 May increased 6.5% to $813 million.

Over the first five months of 2006, Ontario **international merchandise exports** (customs-basis) are 1.0% higher than the same period last year.

The value of Ontario **manufacturing shipments** fell 1.6% to $24.8 billion in May. Over the first five months of 2006, the value of shipments is 2.8% lower than the same period last year.

Ontario **wholesale trade** rose 0.3% to $21.3 billion in April, following a 1.1% increase in March. Over the first four months of 2006, wholesale trade is 9.9% higher than during the same period last year.

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