ONTARIO ECONOMIC UPDATE

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

September 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 Down in August

Ontario employment fell by 15,200 jobs in August following a decline of 5,800 jobs in July. Despite the job declines over the past two months, Ontario employment is up so far this year by a solid 109,800 jobs (+1.7%), all in full-time positions. The unemployment rate edged down 0.1% to 6.4% in August, as the number of Ontarians in the labour force fell by 21,200.

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 1.9% in July

The Ontario Consumer Price Index (CPI) inflation rate fell to 1.9% in July (year-to-year), down from 2.4% in June. This decline was largely due to the 1.0% reduction in the Goods and Services Tax (GST) on July 1, 2006, that by itself had been expected to reduce the CPI by roughly 0.6%.

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 eight months of 2006, Ontario **housing starts** are 7.2% below the same period in 2005. In August, housing starts fell 18.2% to a level of 67,900 units.

Over the first seven months of 2006, Ontario **home resales** are 0.7% higher than during the same period in 2005. In July, 17,007 existing homes were sold, down 4.2% from a year ago.

Ontario **retail sales** increased 0.3% in June to $11.7 billion. Over the first six months of 2006, retail sales are 4.7% ahead of the same period in 2005.

Over the first six months of 2006, Ontario **auto sales** are 0.5% higher than during the same period in 2005. In June, the number of new motor vehicles sold in Ontario edged down 0.1% to 50,677 units.

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.

Over the first seven months of 2006, the value of **non-residential building permits** issued in Ontario is 2.6% lower than during the same period last year.

Over the first seven months of 2006, the value of Ontario **international merchandise exports** (customs-basis) is 0.5% higher than during the same period last year.

The value of Ontario **manufacturing shipments** edged up 0.2% in July to $24.2 billion, following a 1.7% increase in June. Over the first seven months of 2006, the value of shipments is 2.8% lower than during the same period last year.

Over the first six months of 2006, Ontario **wholesale trade** is 9.4% higher than during the same period last year. In June, wholesale trade decreased 1.7% to $21.0 million, the first decline since February.

For further information, please contact us at:
Ministry of Finance
Economic and Revenue Forecasting and Analysis Branch
Current Analysis Unit
6th Floor, Frost Building North
95 Grosvenor Street
Toronto ON M7A 1Z1
416 325-0755
e-mail: macroeconomics@fin.gov.on.ca