ONTARIO ECONOMIC UPDATE

Economic and Revenue Forecasting and Analysis Branch
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Economy

Economy Maintains Moderate Growth in Second Quarter of 2006

Ontario's real Gross Domestic Product grew by 0.2% in the second quarter (April to June) of 2006, down from a 0.4% pace in the first quarter (January to March). Ontario's economic growth was below that of Canada, which advanced 0.5%, and the U.S., which grew by 0.6% in the second quarter.

The increase in second quarter real GDP reflected growth of consumer spending and business investment spending and increased inventory accumulation. Final domestic demand, which advanced 0.7%, continued to outpace GDP growth. Net trade dampened economic growth as exports fell, while imports were unchanged.

Employment

Ontario Employment Down in September

Ontario employment fell by 13,900 jobs in September, following declines of 15,200 and 5,800 jobs in August and July respectively. Despite the recent weakness, job creation remains solid so far this year with a gain of 103,600 jobs or 1.6% on a year-to-date basis. The unemployment rate increased to 6.6% in September, its highest rate this year.

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 1.5% in August

The Ontario Consumer Price Index (CPI) inflation rate fell to 1.5% in August (year-to-year), down from 1.9% in July, the third consecutive decline.

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 18.1% from July to a seasonally adjusted annual level of 68,000 units.

Ontario **home resales** are down 0.4% over the first eight months of this year. In August, 17,284 existing homes were sold, down 7.3% from a year ago.

Ontario **retail sales** increased 1.3% in July to $11.8 billion. Over the first seven months of 2006, retail sales are 4.3% ahead of the same period in 2005.

The number of **new motor vehicles** sold in Ontario rebounded in July, rising 2.9% to 52,174 units. Over the first seven months of 2006, auto sales are 1.2% lower than during the same period in 2005.

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 **non-residential building permits** issued in Ontario jumped 35.0% to $793 million in August. Over the first eight months of 2006, the value of non-residential building permits issued is 7.7% 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.

Ontario **wholesale trade** surged 4.2% in July to a record high of $21.9 billion, the strongest sales increase since March 2004. Over the first seven months of 2006, wholesale trade is 9.7% higher than during the same period last year.

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