Taking a breather but solid growth still on track

Ontario’s economy remains on track to grow at one of the faster rates among the provinces in 2016, although it appears to have taken a little breather this spring when major sectors lost some momentum. Provincial exports and manufacturing sales were soft in the second quarter, and Ontario’s consumers showed signs of fatigue of late after a strong run of spending in the previous two years. We believe that these hiccups will be short-lived and that vigorous growth will resume in earnest during the second half of 2016. Ontario’s economy continues to be underpinned by a reasonably healthy job market and still-strong housing sector. We forecast GDP growth will be 2.7% in 2016, which would be in line with the performance of the past two years. We expect the pace to moderate slightly to 2.4% next year; however, it would still place Ontario at the top of the provincial growth rankings.

Hiccups in exports and manufacturing just temporary

Recovery in the export sector has been a positive development in Ontario in recent years, especially so since the middle of 2015 when business picked up quite noticeably for a number of key exporting industries such as motor vehicles and consumer goods. This improving trend was halted this spring, however, in part due to disruptions to global auto industry supply chains caused by an earthquake in Japan in April. The good news is that the supply-chain issues have since been resolved and that auto sector production has returned to full force in the province. July statistics showed a strong 6.2% monthly advance in motor vehicle and parts exports at the national level. Despite this spring’s setback, motor vehicle assembly in the province is on pace to increase by more than 10% in 2016. We continue to believe that external trade will contribute increasingly to growth in Ontario as we go forward, propelled by strengthening demand in the US market and improved competitive position afforded by past depreciation in the Canadian dollar.

Consumers still busy spending but some fatigue may have set in lately

Consumer spending has grown briskly in the past two years, and this remained the case in the first quarter of 2016. Signs emerged that the pace of spending may have slowed more recently, however. Retail sales fell slightly in the second quarter, in part reflecting some levelling off in new motor vehicle purchases following rapid increases in recent years. Nonetheless, we expect this slowdown to be brief. We believe that consumer spending in the province will continue to be supported by a reasonably robust job market. Employment has risen quite steadily during the first half of 2016, which helped to bring the unemployment rate down to an eight-year low of 6.4% by mid-year.

Housing keeps on going

There was no letup in Ontario’s housing sector so far this year. This sector continues to generate strong and rising activity both directly and indirectly in the province. Home resales set new record highs successively in the first and second quarters, and new home building climbed close to record levels in terms of units under construction despite some levelling off in housing starts in the second quarter. These factors have fuelled sustained growth in residential investment, which remains one of the key engines of growth in the province.