ONTARIO'S ECONOMIC OUTLOOK

Over the next year, Ontario's economic growth is forecasted to slow as the province confronts capacity limits, a likely increase in interest rates, and a predicted reduction in government spending.

Slowing Growth

Over the past four years, Ontario has averaged a 2.4 percent growth rate. However, according to the Bank of Montreal, the province's GDP growth will slow to two percent in 2019 (Table 1). Two main drivers of economic growth—consumer spending and the housing market—are weakening, a trend widely expected to continue throughout 2019. Additionally, indicators show the labour market continues to tighten, creating potential challenges for businesses as they seek to build out their workforce and fund enterprise growth. In 2018, the jobless rate hit a notable low of 5.6 percent. Accordingly, the 2019 Business Confidence Survey finds 49 percent of respondents cite difficulty in recruiting and retaining as a driver of non-confidence in the economy.

Rising Interest Rates

With the Bank of Canada's expected interest rate rise in 2019, Ontario's already over-extended households will have to grapple with increasing prices for consumer goods, higher financing costs, and decreasing disposable income. However, as the real estate market cools and labour costs increase, businesses will likely seek higher investment in capital spending to increase efficiency, aided in part by recently announced capital depreciation allowances and trade uncertainty being eased with the negotiation of the Canada-United States-Mexico Agreement (CUSMA).

Decreased Government Spending

Slower growth will likely have an adverse effect on government spending, as tax revenues are reduced. With a slowing economy and Ontario's deficit expected to exceed $16 billion by 2022-2023[8], debt and deficit spending will be increasingly difficult to justify.

Ontario's Regional Economic Performance

Economic growth varies greatly across Ontario; as such, it is critical for policymakers to consider the unique challenges faced by each region. Figure 13 depicts the 2019 economic forecast for Ontario's 11 economic regions (as defined by Statistics Canada) and focuses on 3 principal indicators: population growth, the change in employment, and the jobless rate. General trends such as increasing labour costs, an aging population, and growing urbanization have had disproportionate impacts in areas across the province. This is evidenced by stagnant population growth and high unemployment in Northern Ontario compared to rapid population growth and decreasing unemployment in major urban centers. This reality is also reflected in the Business Confidence Survey, which finds that firms in Southwest Ontario and the GTA are more likely to express confidence in the economy than the rest of the province.[9]

Table 1: Bank of Montreal Ontario Economic Forecast*

	2018	2019 FORECAST
REAL GDP	2.2	2.0
CONSUMER PRICE INDEX	2.3	1.7
EMPLOYMENT	1.6	1.4
JOBLESS RATE (%)	5.6	5.5
POPULATION	1.8	1.8
HOUSING STARTS (000s)	79.3	73.0

*Average annual percentage change, unless otherwise noted

8 Financial Accountability Office of Ontario. 2018. *Economic and Budget Outlook Assessing Ontario's Medium-Term Budget Plan.*

9 Regions included in Southwest Ontario: Hamilton-Niagara Peninsula; Stratford-Bruce Peninsula; Kitchener-Waterloo; Greater London Area; and Windsor-Sarnia.

Figure 13: Ontario's Regional Economic Outlook[10]

1 Northwest Ontario ER

	2018	2019 PROJECTED
Jobless Rate (%)	5.2%	5.2%
Employment (% change)	1.2%	0.6%
Population, age 15+ (% change)	-0.1%	0.0%

2 Northeast Ontario ER

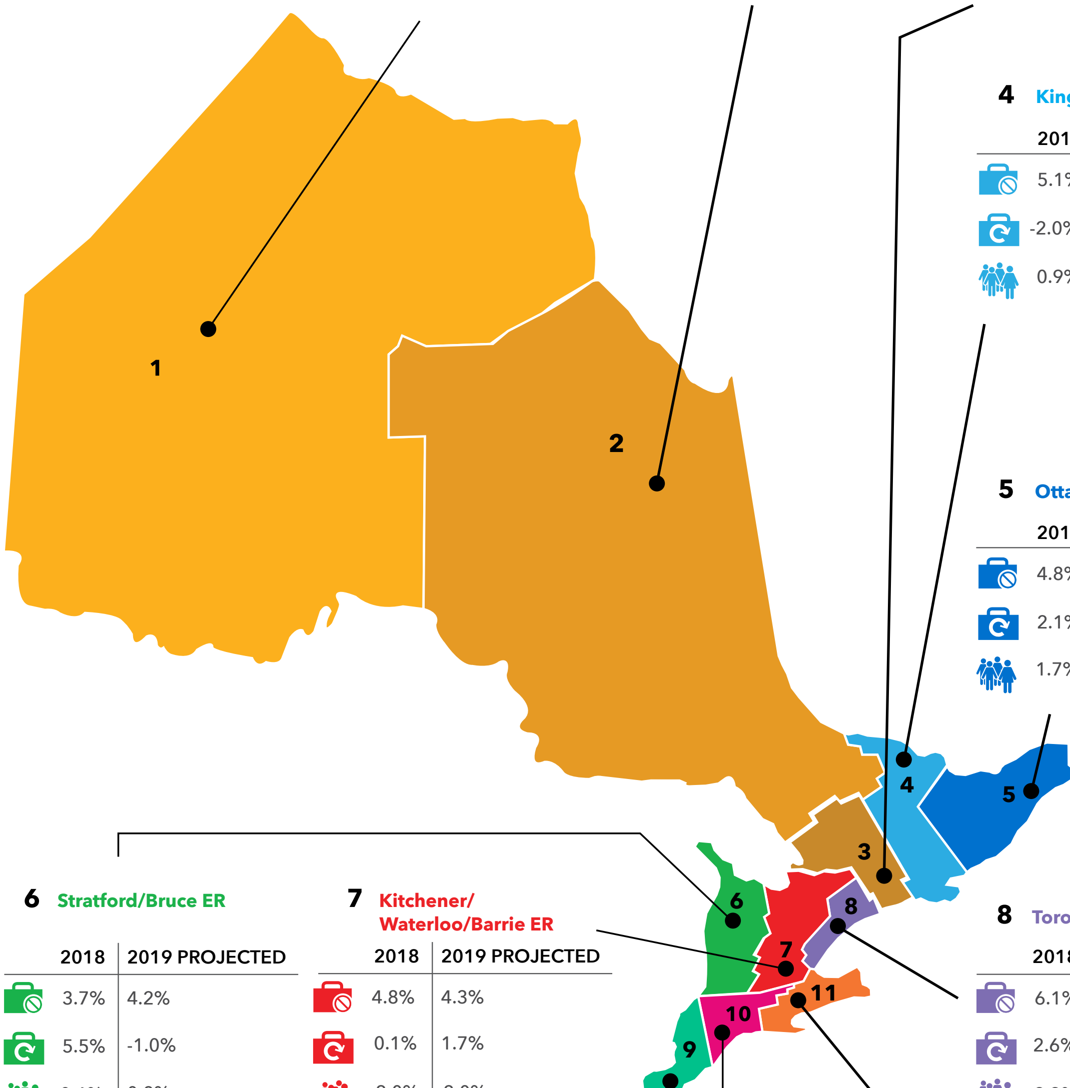
	2018	2019 PROJECTED
Jobless Rate (%)	6.1%	6.1%
Employment (% change)	1.5%	0.6%
Population, age 15+ (% change)	0.0%	0.0%

3 Muskoka/Kawarthas ER

	2018	2019 PROJECTED
Jobless Rate (%)	6.3%	6.4%
Employment (% change)	-2.3%	0.0%
Population, age 15+ (% change)	1.1%	1.2%

4 Kingston-Pembroke ER

	2018	2019 PROJECTED
Jobless Rate (%)	5.1%	4.9%
Employment (% change)	-2.0%	1.5%
Population, age 15+ (% change)	0.9%	1.0%



5 Ottawa ER

	2018	2019 PROJECTED
Jobless Rate (%)	4.8%	4.7%
Employment (% change)	2.1%	1.2%
Population, age 15+ (% change)	1.7%	1.7%

6 Stratford/Bruce ER

	2018	2019 PROJECTED
Jobless Rate (%)	3.7%	4.2%
Employment (% change)	5.5%	-1.0%
Population, age 15+ (% change)	0.6%	0.8%

7 Kitchener/ Waterloo/Barrie ER

	2018	2019 PROJECTED
Jobless Rate (%)	4.8%	4.3%
Employment (% change)	0.1%	1.7%
Population, age 15+ (% change)	2.0%	2.0%

8 Toronto ER

	2018	2019 PROJECTED
Jobless Rate (%)	6.1%	5.9%
Employment (% change)	2.6%	1.8%
Population, age 15+ (% change)	2.3%	2.3%

9 Windsor/Sarnia ER

	2018	2019 PROJECTED
Jobless Rate (%)	5.6%	5.3%
Employment (% change)	1.5%	1.0%
Population, age 15+ (% change)	0.9%	1.0%

10 London ER

	2018	2019 PROJECTED
Jobless Rate (%)	5.6%	5.3%
Employment (% change)	1.6%	0.9%
Population, age 15+ (% change)	1.6%	1.7%

11 Hamilton/Niagara Peninsula ER

	2018	2019 PROJECTED
Jobless Rate (%)	5.5%	5.4%
Employment (% change)	0.4%	1.1%
Population, age 15+ (% change)	1.5%	1.4%

Legend

- Population, age 15+ (% change)
- Employment (% change)
- Jobless Rate (%)

10 Data has been provided by Bank of Montreal, January 14, 2019.