

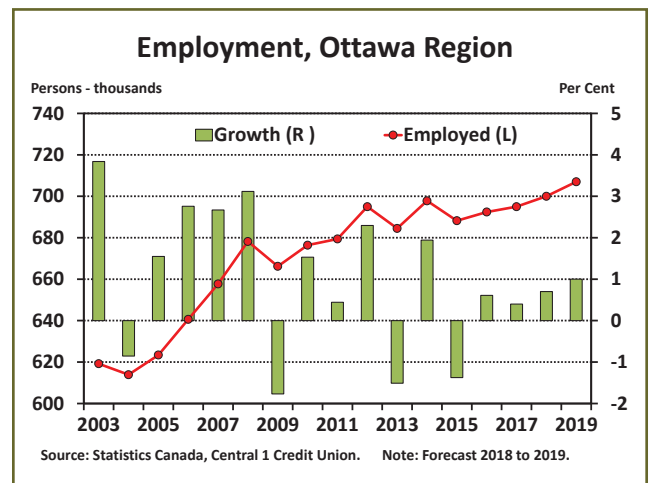
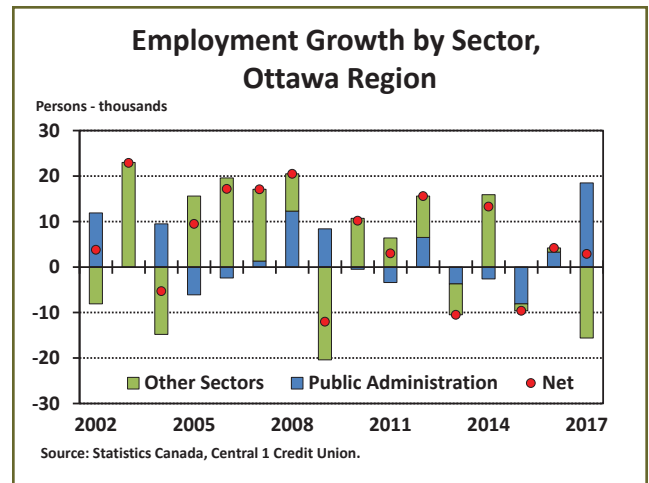
Ottawa Economic Region

The Ottawa Economic Region (ER) is anchored by the nation’s capital which makes up 75 per cent of the regional population and Cornwall at about five per cent. The remaining 20 per cent is spread through the townships of North and South Glengarry, North Stormont, and North and South Dundas.

Not surprisingly, government services are by far the most important sector in the regional economy, given the footprint of the federal public service. This sector drives not only direct employment but ancillary demand across industries through demand for professional, technical, and consumer goods and services. Other significant sectors include the high-tech sector, with the Ottawa Census Metropolitan Area (CMA) area home to companies like fast-growing e-commerce software firm Shopify, Blackberry’s QNX division, which is heavily invested in the automation of the auto sector, Mitel, and a growing number of B2B software firms. Warehousing activities is relatively less important for the region as whole, but Cornwall and surrounding areas act as a key distribution hub for the region and parts of Quebec, with agriculture and a shrinking manufacturing sector as the remaining key base sectors.

Growth in the economic region has been lacklustre in recent years, with slower growth in the CMA and a declining trend outside of the metro region. Regional employment remained range-bound relative to recent year in 2017, edging higher by 0.4 per cent, following up from a similarly weak gain in 2016 of 0.6 per cent. In comparison, Ontario employment grew 0.7 and 1.1 per cent over the same period. An upturn in full-time hiring after two years of contraction was the one flicker of improvement, and when combined with part-time losses, suggested improvement in job quality of existing workers albeit less expansion.

Growth in government employment in the Ottawa metro area surged following a number of lean years. Public administration employment jumped 16 per cent from 2016, and up 19 per cent from the 2015 low, according to the Labour Force Survey. That said, we caution against taking this increase at face value as federal public service employment in the national capital region edged only slightly higher in both 2016 and 2017. While municipal and provincial growth in



public administration may have contributed to some of the uplift, much of this gain is temporary, reflecting hiring for Canada 150 celebrations and likelihood of statistical sampling error, which is likely to reverse going forward. Public sector employment will climb at a mild pace through the forecast period, aligning with a broader provincial trend of about 1.3 per cent per annum through 2020. Central 1 anticipates steady growth in government services, in part reflecting increased federal spending initiatives.

Ottawa’s high-tech cluster will expand reflecting underlying industry growth. Information, Communications, Technology (ICT) service output in Ontario has averaged nearly four per cent from 2014-2016, and nationally tracked above 4.5 per cent in 2017, and with growing clout of QNX in vehicle automation and Shopify expansion, the sectoral outlook is positive. The contribution of ICT to regional growth will

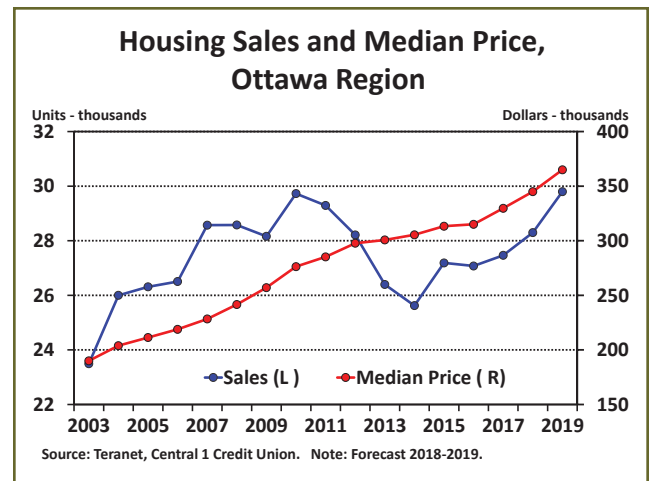
likely moderate by greater reliance on public sector clients.

Outside the national capital region, slower expansion in the warehousing and distribution sector, and declining agriculture and manufacturing remain a strain on the economy, although a couple of bright spots included the opening of Giant Tiger's distribution centre in the United Counties of Leeds and Grenville and Xplornet Communications' opening of its regional office in Cornwall.

Employment growth trends have driven regional divergence, with gradual - albeit volatile - growth in the Ottawa national capital, but further erosion in Cornwall and other parts of the region, which has weighed on regional growth. Similarly, population growth surged more than two per cent in the Ottawa metro region in 2017, largely reflecting a jump in international flows and increased flows from other provinces. In contrast, population growth was up slightly elsewhere in the economic region following two years of decline. The regions' population growth will ease from 2017's pace, but higher immigration targets by the federal government and growth in public service will maintain strong net migration flows largely to the metro area.

Non-residential building permits, a typically volatile indicator, declined in 2017 by more than seven per cent to reverse the prior year's uplift. Private sector intentions fell nearly 20 per cent back to 2014-15 levels, while government sector permits rebounded 40 per cent. The current economic environment points to a modest upward trend in non-residential construction activity with federal fiscal stimulus plans supporting public-spending, and flat private sector activity. These figures exclude engineering spending including the nearly completed Phase 1 of Ottawa light rail transit (LRT) system (Confederation Line). Phase 2 of the LRT is expected to start construction in 2019, a \$3.5 billion investment which extends the line further east, west, and south. LRT investment will lift regional productivity and open opportunities for residential and non-residential investment spending.

Housing sector expansion along with growth in non-residential activity will be a significant source of economic growth in the economy and lift employment. Reflecting a rising population base and increased household confidence in the economy, Ottawa CMA residential permits remained near 2016's resurgence at nearly 7,300 units. Residential permits outside the CMA increased 11 per cent in



2017, building on the 17 per cent gain in 2016. The lagged effect of permits on construction will support jobs going forward.

Forecast employment growth in the ER averages 0.7 per cent in 2018 with the metro area increasing 0.9 per cent. A declining trend in labour force participation observed in the past year is expected to reverse with new immigrants transitioning into the workforce. The higher minimum wage could drag on non-government employment and employment in smaller regional markets.

In contrast to the Greater Golden Horseshoe region, the impact of the Ontario Fair Housing Plan on the housing market has been mild. Sales dipped briefly before resuming an upward trend. This reflects lack of international buyers and rental investors not spooked by the announcement. Tighter mortgage regulations will dampen sales and prices in early 2018, but resale demand and new home completions lift metro area sales almost five per cent this year, with a six per cent increase in median price to \$375,000. Sales and prices will continue to gain modest momentum in 2019 with ongoing income and population, despite higher interest rates.

Ottawa Economic Region						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	697.8	688.2	692.4	695.3	700.0	707.0
% change	1.9	-1.4	0.6	0.4	0.7	1.0
Unemployment Rate, %	6.6	6.5	6.5	5.7	6.0	5.9
Residential Sales, units	25,623	27,188	27,075	27,465	28,300	29,800
% change	-2.9	6.1	-0.4	1.4	3.0	5.3
Residential Median Price, \$	305,430	313,329	315,062	329,729	345,000	365,000
% change	1.6	2.6	0.6	4.7	4.6	5.8
Residential Permits, units	8,391	5,808	8,629	8,729	9,000	9,600
% change	26.3	-30.8	48.6	1.2	3.1	6.7
Non-Residential Permits (\$ mil.)	1,180.1	1,046.4	1,160.4	1,146.1	1,175.0	1,150.0
% change	0.1	-11.3	10.9	-1.2	2.5	-2.1
Population (000s)	1,320.5	1,330.9	1,348.7	1,371.6	1,392.4	1,410.0
% change	0.8	0.8	1.3	1.7	1.5	1.3
Ottawa CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	533.8	531.1	543.4	546.7	552.0	558.6
% change	2.0	-0.5	2.3	0.6	1.0	1.2
Unemployment Rate, %	6.6	6.3	6.3	5.6	5.9	5.6
Residential Sales, units	19,226	20,570	20,289	20,620	21,600	23,000
% change	-2.9	7.0	-1.4	1.6	4.8	6.5
Residential Median Price, \$	329,523	334,500	342,345	354,940	375,000	400,000
% change	1.7	1.5	2.3	3.7	5.7	6.7
Residential Permits, units	7,281	4,679	7,308	7,262	7,500	8,000
% change	33.2	-35.7	56.2	-0.6	3.3	6.7
Non-Residential Permits (\$ mil.)	945	908	975	898.4	980	950
% change	-3.0	-3.9	7.4	-7.9	9.1	-3.1
Population (000s)	989.6	1,000.7	1,018.2	1,040.3	1,060.9	1,077.8
% change	1.2	1.1	1.7	2.2	2.0	1.6

Source: Statistics Canada, Teranet, Central 1 Credit Union. Forecast 2018 - 2019.