Ontario Economic Briefing

Volume 24 • Issue 18 • Week of April 30-May 04 2018 | ISSN: 1981-355

Highlights

- Ontario exports increased by 1.5 per cent in March
- Ontario's real GDP gains in 2017 mark eight years of economic growth
- Canada's Transportation equipment manufacturing GDP increased in February

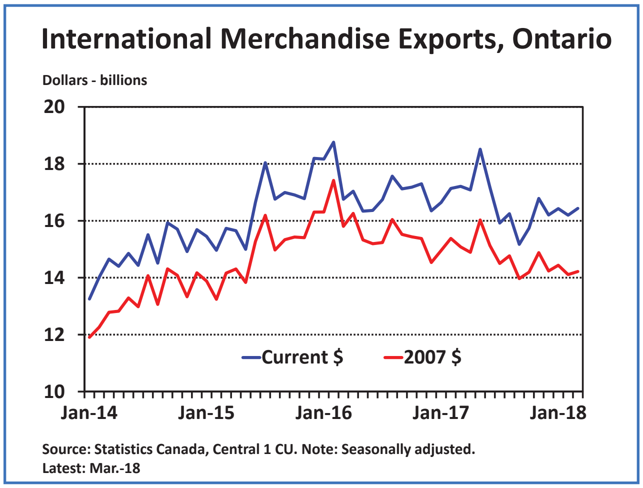
Ontario exports increased in March due to strong U.S. consumer confidence

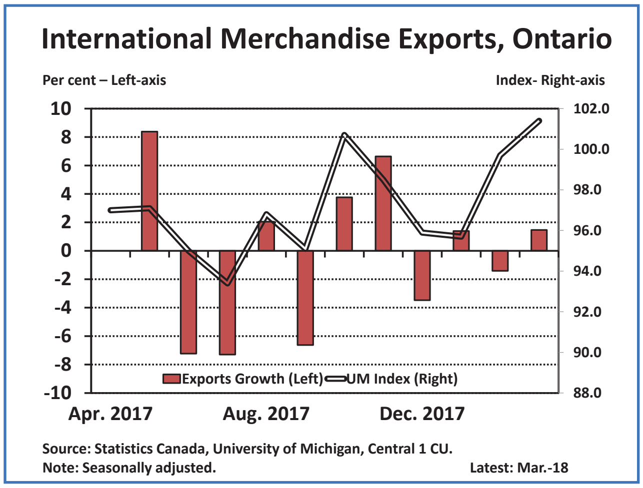
The trade deficit continued to increase in March for the third consecutive month, even with the 1.5 per cent (all data is seasonally-adjusted) lift in exports which was over shadowed by a 1.9 per cent increase to imports.

In the first quarter of 2018, exports are down 3.8 per cent from the same quarter last year while imports are up 0.7 per cent. Exports are down year-over-year in each of the months of the first quarter which kept the trade balance in the red.

The gain in export volumes in March was broad-based. Only two sectors posted export volume declines in the month: energy product exports (down 1.5 per cent) and metal and non-metallic mineral products (down 0.4 per cent). Motor vehicles and parts exports increased for the second consecutive month helping to lift overall exports. Rounding out the gains from large sectors, consumer goods exports increased by 3.2 per cent, industrial machinery, equipment and parts increased by 5.8 per cent, and forestry products and building and packaging materials increased by 4.2 per cent.

Ontario exports increased for most of the first quarter due to increased consumer sentiment in the U.S. The University of Michigan's Index of Consumer Sentiment increased in February and March. The index's reading in March was the highest single month reading over the last 13 months. Increased consumer confidence motivated U.S. consumers to make big ticket purchases such as homes and automobiles, which supported growth for Ontario exporters of lumber and





related construction materials and machinery and auto and auto parts.

Ontario's real GDP increased by 2.8 per cent in 2017

The latest reading of provincial economic accounts show Ontario posted strong economic growth in 2017, despite slower growth in the second half of the year. Ontario's real industry output increased by 2.8 per cent in 2017, bettering the 2.6 per cent growth of 2016 and posting eight straight years of economic growth. Ontario's economic growth lagged the 3.3 per cent growth posted by Canada, thanks to strong lifts from Alberta (4.9 per cent) and British Columbia (3.9 per cent).

As noted, weaker economic growth in the second half of the year due to moderations to residential investment, consumer demand, and manufacturing through the auto production channel, took some growth from

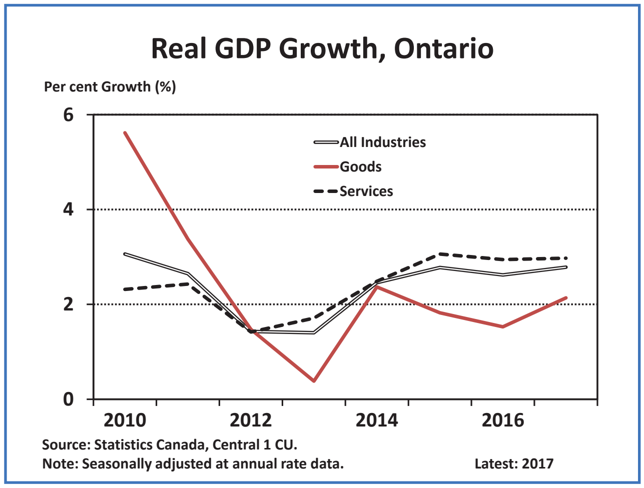
Ontario's potential last year. We were expecting growth well over three per cent at the onset of the year but downgraded our forecast to below three per cent as the year progressed. Our revised forecast during the second half of the year is well in line with this new data.

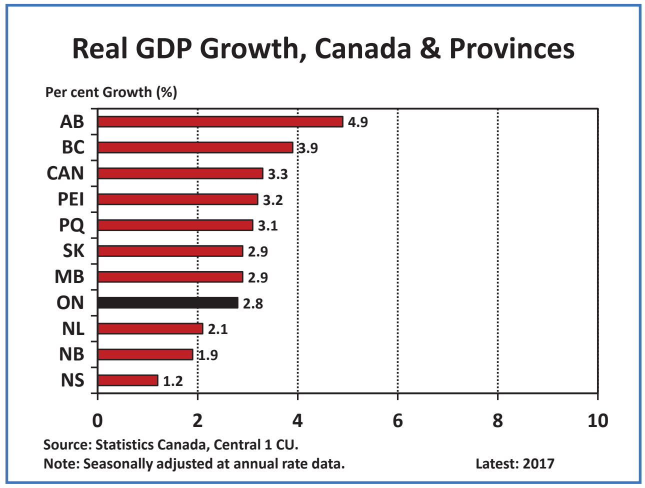
Growth in the goods (2.1 per cent) and services (three per cent) sectors helped lift overall real gross domestic product (GDP) in 2017.

Among the goods sector, construction increased by 4.6 per cent due to robust activity in both residential and non-residential construction. New housing construction was robust in 2017, particularly during the first six months of the year, before policy changes at the provincial and federal levels of government in the second half took some of the wind from their sails. Despite sluggish growth in the second half, when month-over-month housing starts declined for four of the six months, Ontario still broke ground on over 75,200 new homes (4.6 per cent growth), a significant gain from the 71,863 homes started in 2016. Repair construction also increased in 2017 due to stronger renovation spending either from Ontarians buying a fixer-upper home or renovating their homes rather than purchase another one. Finally, non-residential construction benefitted from business investment, particularly commercial projects and large infrastructure projects such as the Toronto Transit Commission's subway extension.

Manufacturing, also another large sector within goods, expanded by 1.5 per cent in 2017. Growth to non-durables such as food and beverage, tobacco manufacturing, and semi-durables such as textiles and clothing manufacturing helped lift manufacturing. A growing economy lifted consumer confidence for most of the year and consumers earmarked more of their discretionary spending to these non-durable and semi-durable goods. Transportation equipment manufacturing, a large durable good sub-sector, contracted in 2017. Sluggish export demand and auto-plant closures affected the sector.

Services benefitted from growth to several key sectors in 2017, aided by strong economic fundamentals such as: employment growth, stable inflation, and increased wages supporting consumer spending. Both wholesale and retail trade increased by 7.1 per cent and 5.8 per cent respectively. The gains in these sub-sectors in 2017 were two of the strongest annual gains in quite some time. Finance, insurance, and real estate increased substantially supported by residential and non-residential investment. Accommodation and food services benefitted from domestic and foreign demand. Economic growth in Ontario enticed residents to go out and eat at restaurants and take more overnight trips within the province. A weaker Canadian dollar also enticed more U.S. and non-U.S. visitors to spend their vacation dollars in the province. Finally, health and social services also contributed robustly to the gains to services in 2017 as an aging population places more demands on this sector.





Ontario's economy will continue to expand in the near term, but at a slower pace given some headwinds such as tighter lending restrictions and higher interest rates putting downward pressure on residential spending. Higher operating costs and higher interest rates could also adversely affect commercial investment in the near term. Finally, substantial household debt loads, and increased interest rates may pump the brakes a bit on consumer spending. We expect real GDP growth in Ontario to come in at 2.4 per cent in 2018 and 2.2 per cent in 2019.

Canadian motor vehicle and parts manufacturing GDP increased in February

The industry gross domestic product (GDP) Canadian report for manufacturing recorded a one per cent increase in February on the heels of a 0.5 per cent gain in January. Transportation equipment manufacturing, which represents about 15 per cent of manufacturing GDP, increased in the month by 2.7 per cent. Strong gains to motor vehicle manufacturing (4.2 per cent) and motor vehicle parts manufacturing (3.4 per cent) helped lift transport equipment manufacturing after two months of declines.

Year-over-year, transportation equipment manufacturing is up 4.5 per cent, which helped keep manufacturing up 4.9 per cent.

A significant share of transport equipment manufacturing occurs in Ontario. Now that the atypical auto plant closures of January are in the rear-view mirror, auto and auto-related manufacturing has come back online, hence the strong production to meet domestic auto demand. Auto exports from Ontario to the U.S. remains sluggish. The opening of the European Union market to Ontario manufacturers should insulate the sector more going forward from U.S. demand fluctuations.

Edgard Navarrete
Regional Economist, Central 1 Credit Union
enavarrete@central1.com
www.central1.com **905 282 8501**