



HIGHLIGHTS

- Real GDP to increase by 4.5 per cent in 2021, 4.9 per cent in 2022 and 3.0 per cent in 2023.
- Employment to increase by 4.8 per cent in 2021, 3.2 per cent in 2022 and 3.1 per cent in 2023.
- Employee compensation to increase by 7.4 per cent in 2021 and by 5.9 per cent in both 2022 and 2023 – 0.8 per cent higher than the two-year post-pandemic average (2017-19).
- Supply chain issues to be transitory but keeping export growth range bound in 2021.
- Pent-up consumer savings to be spent.
- Non-residential investments to climb, supported by stronger business confidence.
- New home construction to reach peak in 2021 with over 97,000 units breaking ground.

Ontario economy to see above-trend growth over next two years

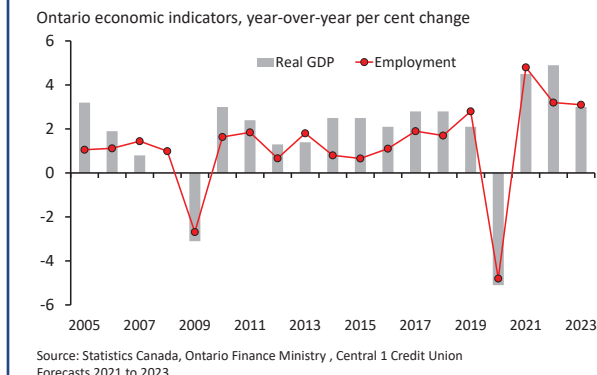
Ontario's economy continues to recover despite some transitory roadblocks such as supply chain issues and higher than normal inflation. A very successful vaccination campaign and further easing of most public health restrictions by January 2022 will strengthen continued expansion. The recovery will be aided by the prospect of booster shots for vulnerable populations, the approval by Health Canada to vaccinate children under 12 years old and testing of new drugs¹.

Recently, Statistics Canada released annual public expenditure accounts for Ontario. In 2020, the pandemic was quite disruptive to economic activity and output. Real GDP contracted by 5.1 per cent in 2020.

Among the key expenditure highlights, real household consumption fell sharply by 7.8 per cent, reflecting severe public health measures that restricted operations of discretionary retailers and service providers. Services consumption plunged 12 per cent, while goods spending declined 2.1 per cent on lower durable and semi-durable goods consumption. Non-durable goods spending rose 3.2 per cent as households ate more at home given restaurant closures and remote work.

¹ [Merck Covid pill: What would an antiviral pill mean for the fight against Covid-19? - CNN](#)

Economic growth will be above trend

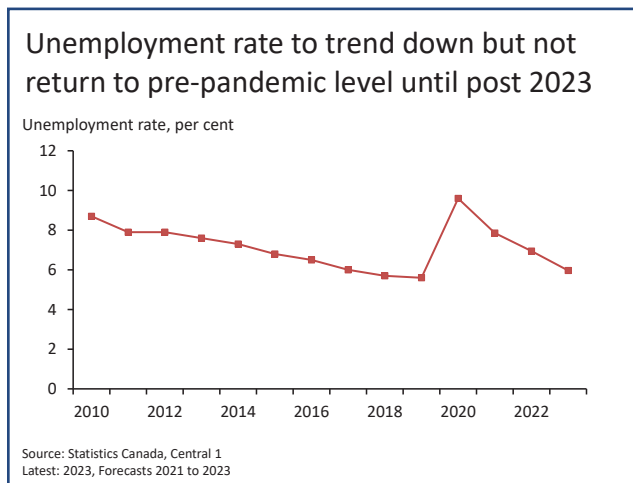
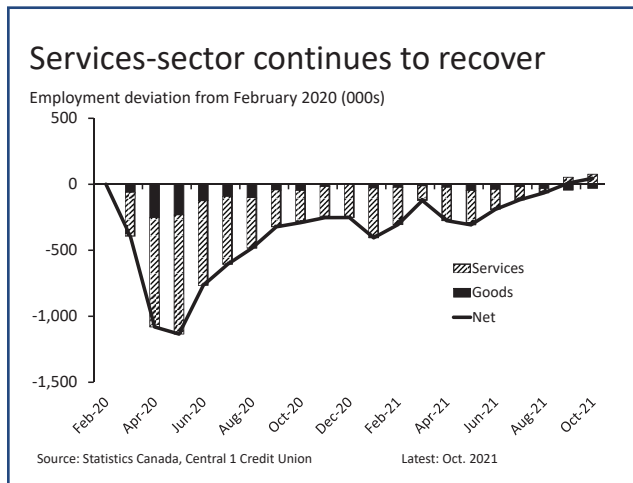


Real GDP is forecast to expand 4.5 per cent in 2021. Strong second half growth in 2021 will provide a stable take off for further growth into 2022 and 2023 pushing output up 4.9 per cent and 3.0 per cent respectively in 2022 and 2023. Despite the upward creep in prices due to inflationary pressures, real economic output will remain above trend for the forecast horizon.

Ontario's labour market tightens as businesses look to rebuild

Ontario's labour market continues to recover. The latest Labour Force Survey reading from October 2021 shows that Ontario's labour market has fully rebounded, and current activity is ahead of pre-pandemic pace from February 2020. Labour force and employment growth has been sustained over the last five months with full-time and part-time employment now ahead of February 2020 levels. The average unemployment rate came in at 7.0 per cent in October, the lowest rate in the last 20 months of the pandemic.

While employment has now fully recovered, not all sectors are back to full capacity. Public-facing sectors remain below pre-pandemic levels e.g. accommodation and food services (gap of 40,100 jobs), transportation and warehousing (gap of 20,600 jobs) and health care and social assistance (gap of 2,300 jobs). Moreover, the length of the pandemic has affected these sectors structurally. Many people engaged in these sectors pre-pandemic have now left permanently to pursue work in other areas. Moving forward



an economy that is free of public health restrictions will help recover in these areas but the lack of qualified work could keep growth range bound and slower to recover than other sectors.

The following sectors have thrived during the pandemic as they consist of highly skilled, specialized jobs which can be done remotely: professional, scientific, and technical (up 87,400 jobs); finance, insurance, real estate, and leasing (up 20,400 jobs); and educational services (up 11,900 jobs).

Skilled labour shortages in the construction sector have been a persistent theme during this pandemic as residential investment activity has been peaking. Skilled trades command above market wages but even that cannot attract enough qualified workers. Increased immigration and non-permanent resident flows will benefit this industry over the forecast horizon.

Employment increases are forecast to rise over the remaining months of 2021, providing a strong hand-off for the remainder of the forecast horizon as Ontario continues to exit pandemic era restrictions² over the next few months allowing for greater social and economic activity. Employment is forecast to increase by 4.8 per cent in 2021 and an additional 3.2 per cent and 3.1 per cent in 2022 and 2023 respectively.

On the path to full output over the forecast horizon, Ontario's labour market will tighten which will lift wages as employers compete work workers especially in highly skilled areas. Employee compensation is forecast to increase 7.4 per cent in 2021 and grow an additional 5.9 per cent in each of 2022 and 2023, much higher than the average rate of growth (5.1 per cent) over the 2017-19 period.

Supply chain issues keeping exports range bound in 2021

Ontario exports remain significantly ahead of 2020's pace over the first eight months of 2021 (up 9.4 per cent), largely due to base-year effects. Compared to a non-pandemic year such as 2019, activity has not fully returned. Since fully rebounding in July 2020, compared to activity in February 2020, exports have fallen and, over the period from January to August 2021, exports are averaging six per cent below export volume from February 2020. Exports levels continue to be hampered from returning to normal due to persistent supply chain issues caused by the pandemic and by climate emergencies such as forest fires or recent floods in British Columbia Exports in sectors such as metal ores and non-metallic minerals, forestry products and building and packaging materials, industrial machinery, equipment and parts, and motor vehicles and parts are facing recent sales declines driven by key materials shortages keeping producers unable to meet orders.

As global trade channels continue to recover these issues will be transitional and exports are forecast to increase in 2022 by 7.4 per cent and an additional 3.1 per cent by 2023.

² [Ontario Releases Plan to Safely Reopen Ontario and Manage COVID-19 for the Long-Term | Ontario Newsroom](#)

Consumer spending to get a strong boost into 2022 as the economy reboots

Ontario lived through some of the longest and strictest lockdowns and public health restrictions during this pandemic. As restrictions have been lifted and life is gradually returning to normal people are spending pandemic era savings. Since June 2021, retail sales in Ontario have fully recovered past where they were just prior to the pandemic in February 2020. Moreover, year-to-date, retail sales are up 11.3 per cent ahead of last year's pace, something that will increase further as employment and wages rise and more restrictions are lifted. For example, starting October 25, 2021 capacity restraints at non-essential businesses like restaurants and gyms are lifted, providing a push to retail spending.

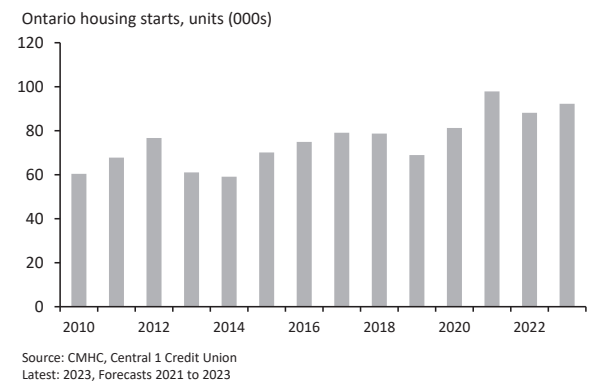
Population growth into 2022 and beyond will support retail spending and will be dampened only slightly by inflationary pressures into 2022 as the global economy and supply chains stabilizes.

Retail spending is forecast to jump 7 per cent in 2021 and an additional 6.1 per cent in 2022 before settling at 5.5 per cent by 2023.

New home construction forecast to be at the highest level in over three decades in 2021

The pandemic has forced many households to look for more living space with many working at home for the foreseeable future. Since the onset of the pandemic demand for home ownership has skyrocketed in the resale sector and the new homes sector. New home construction in Ontario is forecast to remain very strong in 2021 skilled labour shortages and increased material input costs due to supply chain issues notwithstanding as projects purchased last year break ground. While much of the new home construction will focus in urban areas as usual, a more recent trend is increased construction in rural and smaller urban markets as people depart the dense cities. New housing starts are forecast to come in at 97,900 units in 2021, the highest level since 1987, with a further 88,200 units coming in 2022 and an additional 92,300 units by 2023.

Housing starts at a three-decade high in 2021



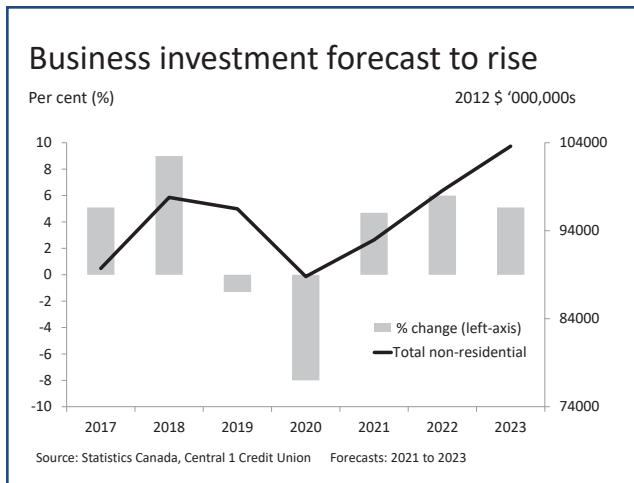
Future residential building intentions will remain strong in 2021 as building permits are forecast to increase 21.4 per cent, supported by new dwellings (up 35 per cent) and renovation spending (up 10 per cent). Many households seeing home and work life come under one roof have drawn down savings to renovate their homes or other debt such as lines of credits and credit cards allowing for more space³. Others eager to cash in on the tight resale homes market have renovated their homes to make them more attractive to potential home buyers. Renovation spending will remain robust over the last two years of the forecast moving up 6.2 per cent and 5.9 per cent as some homeowners retrofit their homes to age in place, unable to move elsewhere due to strong affordability erosion in the homeownership markets, while others will renovate their homes to provide rental space in the secondary rental market with international and interprovincial migration flows forecast to recover post 2021.

Should interest rates begin to rise in 2022 as the Bank of Canada has recently signaled, housing demand and renovation spending (if people borrow to finance renovations) could dampen somewhat the baseline forecasts presented here.

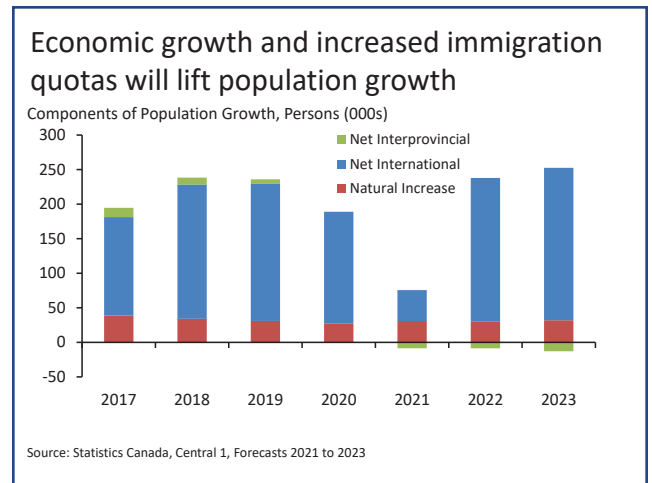
Business investments forecast to climb on increased economic activity with the pandemic largely under control

The business climate in Ontario was heavily uncertain for most of the pandemic putting downward pressure on business investments especially in commercial. With the economy continuing to recover, so too is long-term business sentiment. The latest reading from the Canadian Federation of Independent Business from September 2021 puts long-term (12-months out) small-business confidence at 62.0 points up 2.2 points from August and up 4.7 points up from a year ago. Any reading above 50 points suggests more businesses expect an improved business climate.

³ [Majority of Canadians steering clear of debt for home renos: Survey - BNN Bloomberg](#)



Real non-residential investment is forecast to jump 4.7 per cent in 2021 and a further 6.0 per cent and 5.1 per cent respectively in 2022 and 2023. Over the forecast horizon commercial investments are forecast to climb supported by increased revenues and supportive interest rates. Institutional projects will remain strong as the province continues to invest in key areas such as schools, hospitals, and long-term care for seniors. Machinery and equipment investments are also forecast to climb substantially in 2021 (up 6.2 per cent), and 2022 (up 13.7 per cent) as business benefit from low interest rates to increase business capacity to be well positioned once the economy returns to full output.



Population growth to return to trend as international flows recover

Ontario's population growth was heavily affected by the pandemic given its strong dependence on international and interprovincial movements of people. Over the second half 2021 as the economy and society continues to open and international flows of people increase this will provide a strong hand off for 2022. For 2021, despite growth over the second half of the year, population is forecast to increase 0.6 per cent, much slower than the 1.3 per cent growth recorded in 2020. Much of the drop in population will come from a 72.3 per cent drop to international movements (i.e., permanent residents and non-permanent residents) and a robust drop to interprovincial migration as some people have left Ontario during the pandemic for work opportunities or for retraining elsewhere. By 2022 and 2023, with the pandemic largely behind us, population growth will increase 1.6 per cent each of these two years as international flows increase substantially supported by higher immigration quotas at the federal level.

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Forecast Summary: Ontario

Provincial Forecast

	2017	2018	2019	2020	2021	2022	2023
Real GDP, % chg.	2.8	2.8	2.1	-5.1	4.5	4.9	3.0
Nominal GDP, % chg.	4.3	4.1	3.8	-4.6	9.3	7.6	5.2
Employment, % chg.	1.9	1.7	2.8	-4.8	4.8	3.2	3.1
Unemployment Rate (%)	6.0	5.7	5.6	9.6	7.9	6.9	6.0
Population, % chg.	1.4	1.7	1.6	1.3	0.5	1.6	1.6
Housing starts, units (000s)	79.1	78.7	69.0	81.3	97.9	88.2	92.3
Retail sales, % chg.	7.7	4.5	2.3	-5.5	7.0	6.1	5.5
Personal income, % chg.	4.2	4.6	4.3	5.6	1.8	4.3	5.0
Net operating surplus: Corporations, % chg.	1.6	0.6	0.0	-7.6	10.2	13.2	1.7
Consumer price index, % chg.	1.7	2.4	1.9	0.6	3.3	2.6	2.2

Source: Statistics Canada, Central 1 CU.

Terms

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