



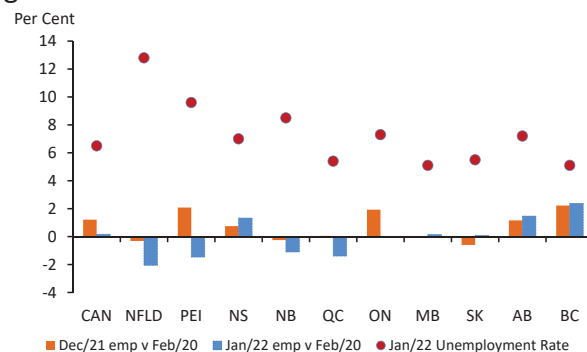
HIGHLIGHTS

- Economy to expand 3.4 per cent in 2022 after a 4.4 per cent increase in 2021; growth picks up in 2023 and slows by 2024
- With the pandemic under control, household spending will rotate increasingly towards services sector after two choppy years of activity
- Inflationary pressures and high household debt loads will temper household spending growth
- Housing market activity in both new and resale sectors slows after robust growth but remains above long-term trend
- Net exports rebound as global markets stabilize and supply chain issues abate
- Unemployment rate to continue trending down over forecast horizon as hiring needs intensify, even as population continues to grow
- Risks persist amidst COVID-19 variants and central bank rate hikes

Ontario's economy continues to ebb and flow with pandemic restrictions, with only a handful of sectors relatively unscathed over the last two years. Several waves have limited rebounds in the labour market, consumer and business confidence and investments. The latest Omicron-led wave at the end of 2021 provided a weaker than expected hand-off into the first half of 2022. Dovetailing with the Omicron wave, supply chain issues and inflationary pressures are also exerting downward pressure on economic growth. Real GDP (Gross Domestic Product) is forecast to expand 3.4 per cent in 2022 on a re-emergence of the services sector, particularly client facing services. Housing is forecast to slow down after a sustained period of exuberance.

Beyond 2022, the economy is forecast to head towards full output and a sustained recovery barring further shocks and heavy-handed policy.

Latest COVID-19 wave erased labour market gains in Ontario



Source: Statistics Canada, Central 1

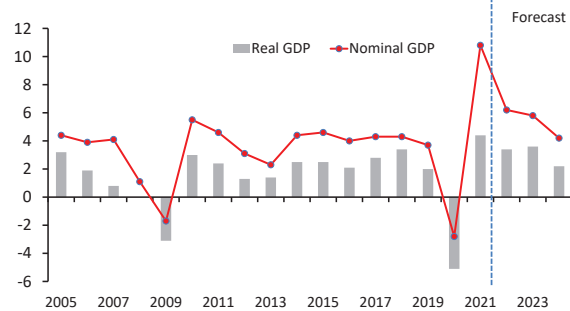
Current economic trends

The roller coaster ride that is the COVID-19 pandemic for the Ontario economy continued into 2022. Spread of the Omicron variant triggered additional public health restrictions, reversing some of the progress that had been made up to that point and ensuring a weak hand-off into 2022 due to an uneven trajectory. By January, Ontario's unemployment rate jumped to 7.3 per cent, the highest unemployment rate since October 2020, as the **labour market** shed nearly 146,000 jobs with three quarters of those job losses affecting part-time workers and in the **services sector**. In fact, 96 per cent of January's jobs shed in were in services with client-facing services sectors facing the deepest cuts. Knowledge-based services, able to pivot to virtual or remote work, have been insulated during the pandemic and have in fact thrived in some areas including professional, scientific, and technical services, and finance, insurance, and real estate

The **goods sector** has also faced some headwinds largely from ongoing supply chain issues, border blockades slowing down commerce and skilled labour shortages, but overall, this sector has fared much better than services. Construction hiring remains strong as many non-residential projects ramp up. Manufacturing, particularly auto and auto parts manufacturing, has faced several up and down periods as has agriculture.

Economic growth to remain above long-term trend even with some short-term headwinds

Ontario Gross Domestic Product, year-over-year per cent change



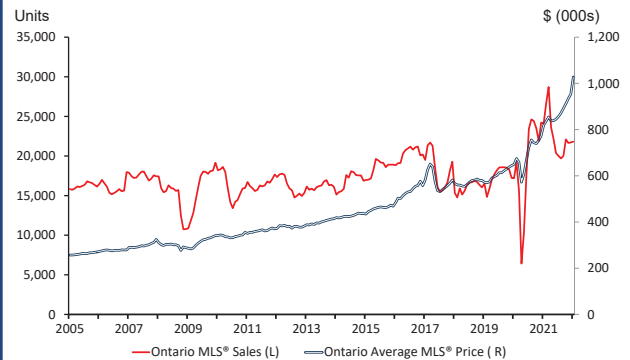
Source: Statistics Canada, Central 1 Credit Union

Retail sales jumped 9.2 per cent in 2021 despite a choppy pattern throughout the year given the ebb and flow of tight restrictions. Increased sales occurred in areas such as motor vehicles and parts, home furnishings, gas stations, and clothing stores. A strong homeownership housing market saw many households moving and furnishing new homes during the pandemic while others renovated existing spaces to work, study and play at home. Even with gasoline prices up at the pumps, sales increased as more consumers purchased cars to avoid public transportation. Growth slowed for food and beverage stores as consumers decreased outings and social gatherings in public.

Ontario's **resale and new homes markets** were red-hot in 2021 fueled by low interest rates, remote work, a need for greater space and privacy and investor interest¹. Since the start of the pandemic, average resale home values have surged 41 per cent not only on stronger demand which has outstripped supply, but on compositional effects as well. Low-rise housing was trendy for most of the pandemic and high-density housing was not. With the resale homes market so tight, the new homes market also benefitted. In 2021, over 97,000 units broke ground, a three-decade high of new construction and up nearly 23 per cent from 2020. An exodus out of large urban centres also meant increased construction growth in smaller and rural markets in 2021, a shift from typical activity. In 2021, new home construction in rural areas shot up over 200 per cent while new home construction in urban areas increased nearly 18 per cent, far from a weak result but a real shift outside of rural areas for buyers by comparison.

¹ [Investors account for a fifth of home purchases in Canada. Are they driving up housing prices in a boom-ing market? - The Globe and Mail](#)

Very tight market continues lifts home values substantially in 2021



Source: CREA, Central 1

Supply chain issues were a persistent problem in 2021 for **exporters**, particularly for Ontario's transportation equipment manufacturers. With parts either not coming in or too expensive, production slowed down, and **net exports** suffered as producers could not fulfil orders.

Non-residential investment dragged in 2021 with real non-residential building permits dollar volumes down 3.9 per cent compared to 2020. Increased uncertainty and business closures dampened future building intentions. Commercial was hardest hit losing nearly ten per cent of dollar volumes in 2021. Gains in industrial and institutional were not sufficient to offset losses in commercial.

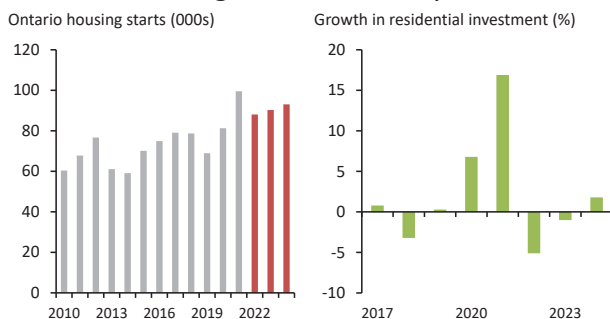
Key forecast themes for 2022 – 2024

Real GDP is forecast to increase by 3.4 per cent in 2022, a slower rate of growth than the 4.4 per cent posted in 2021. Tighter public health restrictions at the end of 2021 and into early 2022 will act as a significant drag on growth early in the year, even as public health restrictions are set to be largely over by the first quarter of 2022². Other ongoing factors such as supply chain issues, inflation, interest rate hikes to cool inflation, and restrained business investments will also dampen growth throughout 2022 even after restrictions are removed.

Excluding any new shocks to the economy, real GDP is forecast to climb 3.6 per cent in 2023 as supply chain issues diminish, business activity and confidence become robust, and the output gap returns to pre-pandemic output. By 2024, real GDP is forecast to increase 2.2 per cent closer to trend.

² [Ontario to lift proof of vaccine requirement in March; accelerates reopening | CityNews Toronto](#)

New home construction growth cools after a three-decade-high level of activity in 2021



Source: CMHC, Statistics Canada, Central 1 Credit Union

Employment growth is forecast to remain strong in 2022 and expand an additional 3.7 per cent. Over the course of 2022, full-time hiring will outstrip part-time hiring as businesses re-open, rebuild, and/or ramp up production, increasing their needs for workers. Employment growth is forecast to be stronger than labour force growth which will push down the average unemployment rate to 6.5 per cent in 2022.

The labour market will be less uneven in 2022. Areas in the goods sector like agriculture, manufacturing, and construction will continue to benefit from looser restrictions and supply chain issues. Meanwhile services, especially client-facing services, will benefit from increased in-person consumer spending and tourism after two difficult years with constrained revenue. Other services that have effectively pivoted during the pandemic such as public administration, health, and social services (i.e., telehealth, online government services), and professional and scientific services continue expand even as activity rotates to other sectors.

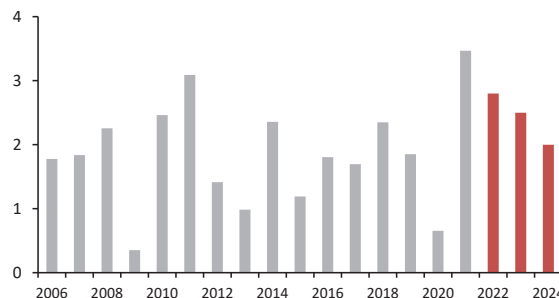
By 2023 and 2024, the **unemployment rate** is forecast to continue to trend lower to 5.9 per cent and 5.4 per cent respectively and by 2024 the labour market will be back to its pre-pandemic level. Despite increased flows of new residents from other regions and abroad, hiring growth is forecast to outpace labour force growth.

High household debt loads, inflationary pressures, and tighter monetary policy to quell inflation will make life tighter and more expensive for households in 2022.

Household consumption is forecast to expand 2.9 per cent in 2022, much slower than the 4.1 per cent posted last year. Tight labour markets will benefit households as wages could rise, offsetting some of the pressures on household finances in 2022 but only

Inflation to remain above trend in 2022

Ontario CPI growth (%)



Source: Statistics Canada, Central 1 Credit Union

partially. By 2023, household consumption is forecast climb 3.0 per cent and an additional 2.4 per cent by 2024 as the economy readjusts after so many shocks and recovers its path to full output with a strong labour market and wage growth to support increased household consumption.

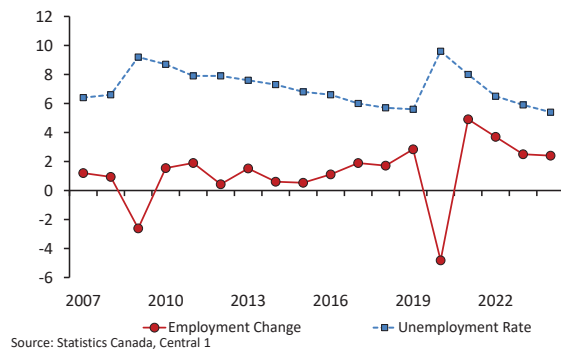
Retail sales are expected to follow the path of household consumption and are forecast to rise 4.3 per cent in 2022, much slower than the 7.8 per cent posted last year, and thereafter increase by 4.9 per cent and 4.3 per cent in 2023 and 2024 respectively.

Total **business investment** is forecast to fall 0.9 per cent in 2022, largely on weaker **residential investments** (down 5.1 per cent) only partially offset by strong gains in **non-residential investments** (up 3.0 per cent) and **machinery and equipment** (up 5.5 per cent). After two years of suffering through a pandemic, households will be looking to return to normal social life and many will rotate away from substantial housing demand (i.e., new construction and renovations) towards more modest levels of demand and greater expenditures in retail, leisure, tourism, and other areas households were unable to fully enjoy due to restrictions. To accommodate increased consumer activity, businesses will increase capacity. Moreover, the pandemic shed light on the importance of greater automation and e-commerce as an important channel of revenue for businesses. These two trends will continue to drive the need for increased non-residential and machinery and equipment investments beyond the scope of the forecast.

Business investment is forecast to remain relatively unchanged in 2023, down only 0.1 per cent, before climbing in 2024 by 2.7 per cent on robust growth from residential, non-residential, and machinery and equipment investments.

Economic growth to pull down jobless rate

Ontario labour market indicators, %



Ontario **exports** will continue to face issues with production in early 2022 until global supply chains restabilize and return to full output. Exports are forecast to climb 6.3 per cent in 2022 due not only to increased production, but also base year effects when comparing with 2021. By 2023 and 2024, export growth is forecast to climb 2.8 per cent and 2.2 per cent respectively, well above the 1.2 per cent annual average growth from 2017 to 2019.

Ontario's **population** is forecast to expand by 1.7 per cent in 2022 as immigration ramps up significantly, more than double the 0.5 per cent posted last year. The federal government is focused on attracting a significant number of immigrants to Canada over the next few years, around 1.2 million or about 400,000 per year. Many of these immigrants are expected to arrive in Canada to fill labour shortages in key areas. Ontario will attract most of these immigrants given the province's strong and diverse economy. In 2023 and 2024 population growth is forecast to remain above trend moving up 1.7 per cent and 1.5 per cent respectively.

Key risks to the forecasts

A few words on key risks to the forecasts. The economy will rebound from the pandemic and get to (or close to) full output over the course of the forecast horizon barring certain risks. Specifically, those risks are: the emergence of a new variant, increased cost of living acting as a deterrent to immigrants settling in Ontario, an overly heavy-handed tightening of monetary policy leading to a recession, and for an export-heavy province like Ontario higher interest rates will lift the value of the Canadian dollar making exports more expensive. Finally, beyond the control of policy here at home, geopolitical issues in Europe could destabilize markets and put downward pressure on the scope of the economic recovery.

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Ontario Forecast Table - March 2022

	2017	2018	2019	2020	2021	2022	2023	2024
GDP at market prices	4.3	4.3	3.7	-2.8	10.8	6.2	5.8	4.2
Real GDP, expenditure-based	2.8	3.4	2	-5.1	4.4	3.4	3.6	2.2
Household consumption	4.2	3	1.6	-7.8	4.1	2.9	3	2.4
Government expenditure	1.8	4	1	-0.2	3.7	0.8	1.2	1.6
Government capital formation	7.9	2.7	-3.9	3.1	5.9	6.1	5.1	1.8
Business capital formation	2.4	4.1	0	0.9	10.5	-0.9	-0.1	2.7
Residential structures	0.8	-3.2	0.3	6.8	16.9	-5.1	-1	1.8
Machinery and equipment	6.4	6.9	-1.5	-12.6	11.7	5.5	-0.7	5.9
Non-residential structures	0.4	14.3	1.4	-0.1	-0.1	3	3.9	2
Final domestic demand	3.5	3.3	1	-4.3	5.4	1.7	2.1	2.2
Exports	0.5	1.1	2.1	-10.8	5.1	6.3	2.8	2.2
Imports	3.1	2.3	0.6	-7.3	9.8	4.3	1.8	2.7
Employment	1.9	1.7	2.8	-4.8	4.9	3.7	2.5	2.4
Unemployment rate (%)	6	5.7	5.6	9.6	8	6.5	5.9	5.4
Personal income	4.2	4.6	4.3	5.6	3.6	5.1	4.7	5.2
Disposable income	4.6	4.6	5.1	9.8	2.4	4.8	4.7	5.2
Net operating surplus: Corporations	1.6	1.6	-1.3	10.2	7.3	-2.7	7.7	-4
CPI	1.7	2.4	1.9	0.7	3.5	2.8	2.5	2
Retail sales	7.7	4.5	2.3	-3.9	9.2	4.3	4.9	4.3
Housing starts, 000s	79.1	78.7	69	81.3	99.6	88.1	90.3	93.1
Population Growth (%)	1.4	1.7	1.6	1.4	0.5	1.7	1.7	1.5
Key External Forecasts								
U.S. Real GDP	2.3	3	2.2	-3.5	5.6	4	2.6	2.1
Canada Real GDP	3.1	2.3	1.7	-5.3	4.6	3.6	3.5	2.2
European Union Real GDP	0.5	1.5	2	-7	4.8	3.9	2.2	1.2
China Real GDP	6.9	6.7	5.9	2.3	8	4.8	5	5
Japan Real GDP	1.7	0.6	0.3	-5	1.6	3.3	1.8	1
Canada 3-month t-bill, %	0.71	1.4	1.66	0.5	0.15	0.8	1.8	2.15
Canada GoC long-term Bond, %	2.18	2.33	1.73	1.05	1.9	2.35	2.4	2.3
U.S.-Canada Exchange Rate, cents/dollar	77.05	77.16	75.37	74.6	80	79	80	79
Crude Oil WTI USD\$ per barrel	50.88	64.94	56.98	38.5	68	80	75	70
Henry Hub Natural Gas Price, US\$ per mmbtu	2.99	3.17	2.57	2.01	3.89	4	3.8	3.5

Sources: Statistics Canada, CMHC, Central 1 CU

Note: 2022 and 2024 are forecasts