
ONTARIO ECONOMIC UPDATE

*Economic and Revenue Forecasting and Analysis Branch
Office of Economic Policy
Ministry of Finance*



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Economy

Economy Maintains Moderate Growth in Second Quarter of 2006

Ontario's real Gross Domestic Product grew by 0.2% in the second quarter (April to June) of 2006, down from a 0.4% pace in the first quarter (January to March).

The increase in second quarter real GDP reflected growth of consumer spending, business investment and increased inventory accumulation. Final domestic demand, which advanced 0.7%, continued to outpace GDP growth. Net trade dampened economic growth as exports fell, while imports were unchanged.

Employment

Ontario Employment Edges Lower in October

Ontario employment edged down by 1,800 jobs in October. Full-time employment gains of 16,800 jobs were offset by a loss of 18,600 part-time jobs in October. Despite recent weakness, job creation remains solid so far this year with a gain of 96,400 jobs or 1.5% on a year-to-date basis. The unemployment rate fell 0.2 percentage points to 6.4% in October as the number of Ontarians looking for work fell by 14,900.

In 2005, Ontario added 81,200 net new jobs for a gain of 1.3%. Full-time employment dominated job gains in 2005 with 71,000 net new jobs (+1.4%), while part-time employment increased by 10,200 jobs (+0.9%). The unemployment rate averaged 6.6% in 2005, the lowest annual level since 2001.

Inflation

Ontario CPI Inflation Rate was 0.2% in September

The Ontario Consumer Price Index (CPI) inflation rate fell to 0.2% in September (year-to-year), down sharply from 1.5% in August and the lowest rate since December 1994. This significant drop in the year-to-year inflation rate reflects the impact of Hurricane Katrina last September, which caused gasoline prices to soar 37.3%.

In 2005, the Ontario CPI inflation rate was 2.2%, up from 1.9% in 2004. The 2005 annual Canadian CPI inflation rate was also 2.2%, while the U.S. inflation rate was 3.4%.

Households

Ontario **housing starts** jumped 10.4% in October to 70,900 units (seasonally adjusted annual rate). Over the first 10 months of 2006, housing starts are 5.1% below the same period in 2005.

Ontario **home resales** are down 1.2% over the first nine months of this year. In September, 15,633 existing homes were sold, down 7.9% from a year ago.

Over the first nine months of 2006, the number of **new motor vehicles** sold in Ontario is unchanged from the same period in 2005. In September, auto sales fell 4.7% to 50,468 units.

Ontario **retail sales** increased 1.1% in August to \$12.0 billion, following a 1.5% increase in July. Over the first eight months of 2006, retail sales are 4.6% ahead of the same period in 2005.

Investment and Business Activity

According to Statistics Canada's *Private and Public Investment Intentions Survey*, Ontario businesses and public sector institutions plan to increase investment by 6.5% to \$95.5 billion in 2006. This would be the strongest increase in capital spending since 1999.

Over the first nine months of 2006:

- the value of **non-residential building permits** issued is 6.9% lower than during the same period last year.
- the value of Ontario **international merchandise exports** (customs-basis) is 1.2% lower than during the same period last year.
- the value of Ontario **manufacturing shipments** is 3.7% lower than during the same period last year. In September, shipments fell 4.6% to \$23.1 billion.

Over the first eight months of 2006, Ontario **wholesale trade** is 9.3% higher than during the same period last year. In August, wholesale trade declined 1.7% to \$21.5 billion, following a 3.9% surge in July.

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