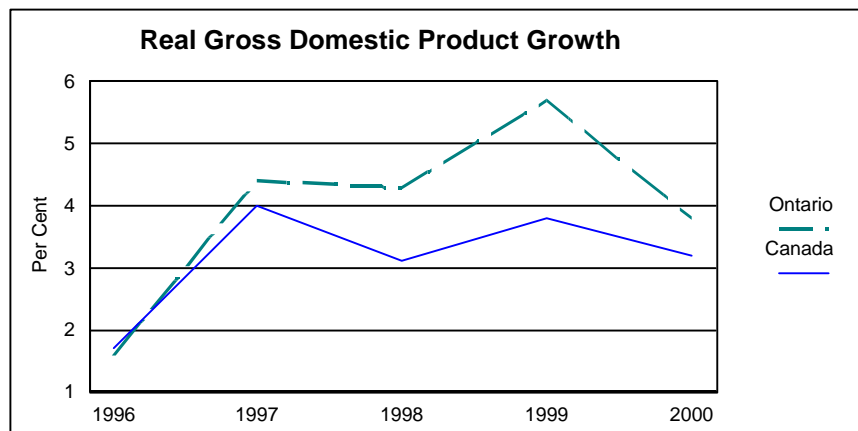


# Ontario Economic Outlook

Industry Canada - Ontario Region  
April 2000\*



Source: Institute of Policy Analysis, University of Toronto

## Another year of strong economic growth ...

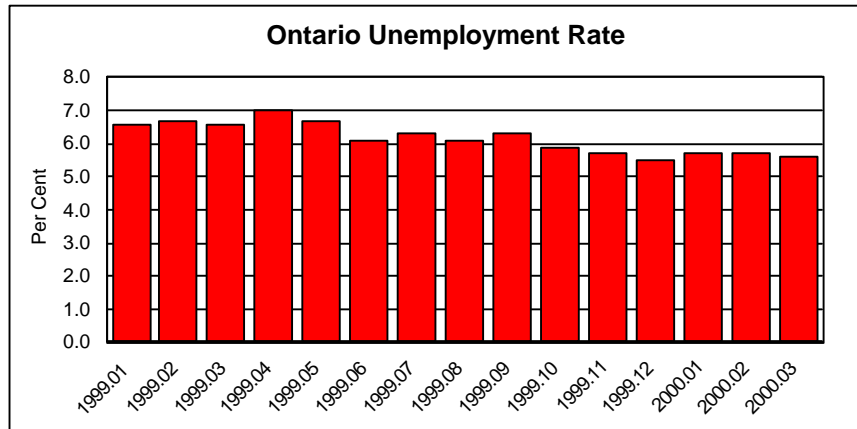
Ontario has experienced very dynamic growth in excess of 4% over each of the past three years, well above the national average. Estimated at 5.7% in 1999, Ontario's economic growth was relatively broad-based. The province's performance was particularly stimulated by vigorous U.S. import demand and strong investment spending. Backstopping these strong growth factors has been solid consumer spending of over 4.0%. Government spending, at 1.4% growth, was the only component of demand that did not make a significant contribution.

## Low unemployment ...

Ontario's labour market has performed well, as nearly 200,000 new jobs were created in the province in 1999. This was a 3.6% increase over the previous year, with job growth being experienced in most industries. Manufacturing employment, which accounts for 18.4% of total employment in Ontario, increased by 6% in 1999. This strong labour demand encouraged an increase in labour force participation, pushing it up by 1 percentage point, and brought Ontario's unemployment rate down dramatically. The province's jobless rate was 6.3% in 1999, its lowest in a decade, and it is forecast to decrease further to around 5.7% this year.

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\* Please note: This is a bi-annual publication. For further information, contact Caroline Ranger at (416) 954-6286.

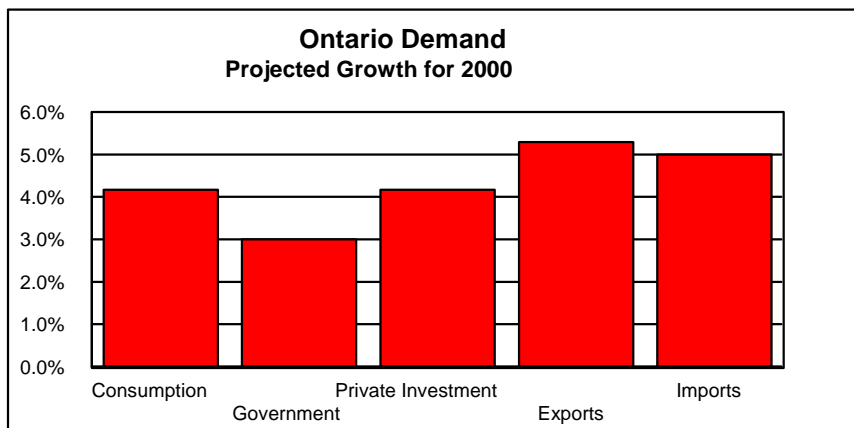


Source: Statistics Canada's Labour Force Survey

As the number of people employed has increased, personal disposable income has also gone up. Over 400 collective agreements were registered with the Ontario Government in 1999. Private sector increases, led by manufacturing industries, were significant at 3.1%, while public sector raises were much lower at 1.4%. Collectively, the average wage gain was 2.0%. Wage increases, helped by contained inflation and tax cuts, induced an estimated real personal disposable income gain, of about 2.5% in 1999.

### With broad-based expansion to continue ...

Although it is expected to remain solid, growth in the U.S. will slow somewhat in 2000. This will have a moderating effect on the Ontario economy. Export growth is expected to be slower, but robust domestic demand will provide some counterbalance. Private investment will continue to be a significant source of growth in 2000, though at a slower pace than in 1999. Consumer spending will stay very vigorous, while government expenditure is expected to grow faster this year. Ontario's growth for gross domestic product in 2000 is forecast to remain strong at around 4.0%.



Source: U of T, Institute of Policy Analysis

### **Solid investment intentions ...**

Ontario investment has come off a very strong year with robust growth of 5.1%. Private and public capital spending on machinery&equipment and construction is expected to increase by a further 3.6% in 2000. Although private investment accounts for more than 80% of capital spending, growth is being driven by both private and public investment. Among sectors, the largest capital spending increase is planned in the mining industry. Although at a somewhat slower rate than in 1999, the greatest capital expenditure will again take place in manufacturing. Within the manufacturing sector, the largest investments, in dollar terms, are anticipated in transportation equipment, primary metals, and chemicals. The fastest growth in capital expenditures will be in the wood and paper products industries.

**Table 1: Ontario Capital Expenditure Intentions, 2000**

Sectors	Spending Intention s \$	% change from 1999	Sectors	Spending Intention s \$	% change from 1999
Agriculture, forestry and fishing	970.7	-0.7	Finance & insurance	6,034.5	-4.2
Mining	764.5	40.1	Real estate	4,540.0	-1.8
Utilities	2,599.3	-4.2	Professional, scientific & technical services	1,663.6	13.3
Construction	1,743.2	7.5	Education	1,038.7	14.2
Manufacturing	8,795.6	-2.4	Health care & social services	1,438.3	31.6
Trade	2,995.1	4.5	Arts, entertainment & recreation	259.4	-32.0
Transportation & warehousing	3,696.2	-1.4	Accomodation & food	408.2	-12.3
Information & cultural industries	3,733.5	4.6	Public administration	6,164.6	11.1

Source: Private and Public Investment in Canada, Intentions 2000, Statistics Canada

### **Exports being led by automotive sales to the U.S. ...**

In 1999, Ontario's international exports were up 13.6%, well above the import growth of 8.6%. The export increase was mainly to the U.S., the destination of 93.6% of all Ontario's exports. Indeed, U.S. exports rose 15.3% in 1999. Two other countries, Mexico and South Korea, experienced impressive growth of 48.8% and 38.4%, respectively. In 1999, the province sent a greater value of exports to Mexico than to Japan, and if trends continue, Mexico will also surpass Germany and become the province's third most important export destination.

The largest exporting industry is the motor vehicle industry, which accounted for 37.9% of Ontario's total exports in 1999. Car exports, almost entirely sent to the U.S., jumped 28.8% in

1999 from a year earlier. The growing reliance of Ontario's economy on the car industry comes as a concern, especially when a slowdown is forecast in the United States. U.S. vehicle purchases have continued to soar at the beginning of the year, stimulated by strengthened incentives, but are expected to slowly decline later in 2000. U.S. motor vehicle sales are forecast to decrease by approximately 1%.

Among other key exports, there are indications of some falling off of demand. These sectors include electronic computing and peripheral equipment, non-ferrous metal smelting and refining, and aircraft and parts. It should be noted, however, that some industries, such as newsprint and telecommunication equipment, have experienced strong growth. The latter, driven by the buoyant information technologies sector, should continue to expand.

Lower U.S. economic growth is expected to dampen Ontario exports, especially in areas that may be impacted by rising interest rates, like residential housing materials and auto sales. Even though slower than in 1999, export growth in 2000 is expected to remain strong, at more than 5%.

### **Increasing consumer spending ...**

The consumer confidence index, a measure of the level of optimism in regards to current economic conditions, surged in Ontario in the fourth quarter of 1999. The index reached its highest level since the late 1980s. The main factor behind this optimism is the good performance of the labour market. With both employment and the economy expected to continue their growth, consumer confidence should remain high in 2000.

Consumer sentiment vis-à-vis the economy provides an indicator of near-term sales, particularly for big-ticket items. Ontario retail sales increased 7.8% in 1999, while motor vehicle sales soared 10.7%. Housing starts surged 21.9% in 1999 and existing home sales climbed 7.4%. In 2000, domestic consumer spending is forecast to expand around 4.2%, the same as in 1999.

Personal income tax cuts and real wage growth, expected to push real personal disposable income approximately 4% higher, will further stimulate consumer spending in 2000.

### **Growing government expenditures ...**

Government expenditures grew slightly in 1999, and are forecast to expand more in 2000. The Ontario government, in its 1999 Budget, announced the creation of the SuperBuild Fund, which consolidates infrastructure spending. Along with its private partners, the Ontario government expects to inject \$20 billion into the economy over the next 5 years. One focus of the fund is education, and the Ontario government recently announced an investment near \$1.4 billion in colleges and universities and about \$190 million in quality education for 2000. The Federal government, in its 2000 Budget presented in February, outlined \$16.8 billion worth of spending initiatives to 2002-03. Of this amount, \$2.5 billion is intended for post-secondary education and health care.

### **Ontario continuing to lead country's growth ...**

Ontario accounted for around 42% of Canada's 1999 gross domestic product and has experienced economic growth well above the national average in the past few years. This has made it a key contributor to the national economic performance, with indications that this trend will continue. Ontario has strong representation in Canada's fastest-growing industries, notably telecommunications, computer and office equipment and electronic products. Ontario is leading the country in shaping a knowledge-based economy and accounts for nearly half of all such activity in Canada.

**Table 2: Ontario's Share of National Economic Activity**

<b>Indicator</b>	<b>Ontario's Share</b>	<b>Period of Comparison</b>
Population	37.8%	1999
Gross Domestic Product	42.3%	1999, QI, II, III
New Jobs Created	45.1%	1999
International Exports	53.2%	1999
Machinery & Equipment Investment	42.3%	1999, preliminary
Consumer Expenditures	39.5%	1999, QI, II, III
Manufacturing Shipments	54.7%	1999

Source: Statistics Canada and the Ontario Ministry of Finance

### **With robust manufacturing activity ...**

Ontario's manufacturing shipments increased 11.7% in 1999. The main contributor is transportation equipment, which was up 21.2%, as North American auto sales reached their highest levels. Record production in cars, light trucks and automotive parts has greatly propelled Ontario's robust growth. Similarly, automotive parts suppliers performed well. Plastic products shipments rose 17.4% in 1999, and fabricated metal products also experienced growth. Even though car sales to the U.S. are expected to decline somewhat in 2000, Canadian demand, stimulated by high employment and relatively low interest rates, will offset the impact on production. Car production will continue at near record levels at about 3 million units.

Another strongly performing industry is wood products. The value of shipments is up 15.4%, as the industry has benefited from solid construction activity. Wood products, driven by a continued demand for housing, is expected to continue to grow in 2000. Pulp markets, led by continued demand and weak supply, should experience price increases through 2000. Electrical and electronic products, pushed by household appliances and telecommunications equipment, were 12.0% higher in 1999, and should continue to perform well in 2000, supported by strong demand for housing and internet devices. Refined petroleum products also expanded in 1999, and demand for petroleum fuels are expected to increase in 2000. The recent hikes in oil prices may, however, inflate the value of production.

While most manufacturing sectors experienced growth in shipments in 1999, one exception was primary metals. (See Annex 1.) The recovery in base metal prices, however, which is expected to improve further in 2000, should result in increased production. Gains in this sector are being led by increases in nickel prices. Nickel is benefiting from strong demand for stainless steel, which accounts for most of nickel consumption.

Agriculture is another sector which has not been faring well, mainly because of large surpluses of grains and oilseeds. These excess supplies will keep prices low again this year. However, helped with higher prices in livestock, farm income is expected to rise in 2000. Greater profits in resources sectors could in turn bring new investments.

### **Vigour in services industries ...**

The trade sector is also performing very well, supported by a strong labour market and positive consumer confidence. Trade growth, led as much by wholesale as retail, is projected to be around 5% in 2000. The finance, insurance and real estate industry, responsible for nearly 17% of provincial GDP, is forecast to grow by about 3.6%. The community, business and personal services industry, which accounts for approximately 23% of Ontario's production, should also perform well. This industry, led by commercial services, and, in particular, computer services, is expected to expand by over 3%.

The tourism industry will also contribute. Domestic travel, which accounts for nearly three-quarters of total travel in Ontario, was up in 1999. With the Canadian dollar remaining weak versus the U.S. dollar, Ontarians are staying closer to home, while Americans are travelling in Canada. Following strong growth in the past few years, the number of visitors from the U.S. is levelling off. Total tourism spending will, however, continue to increase. The accommodation and food services industries are forecast to continue to grow in 2000.

### **The GTA leading the regions ...**

The Greater Toronto Area (GTA) is leading Ontario. The GTA's employment growth is fuelled by some of the fastest growing industries like finance, insurance and real estate and construction. Besides booming condo and new home markets, Toronto has a falling office vacancy rate, which will induce non-residential construction in the area. Along with the GTA, the Central Ontario region has had the most rapid employment growth, and currently has the lowest unemployment rate. This region has the largest proportion of manufacturing employment, an industry which has exhibited solid growth in the last few years. This trend should continue this year, as manufacturing production is forecast to experience one of the strongest growth rates among all the economic sectors. Eastern Ontario is also experiencing growth. Revived confidence in the labour market spurred job search, where work was being found in accommodation and food services, manufacturing and trade. The growing high-tech sector and expanding federal government will also continue to spur the Eastern region's economy. The Southwest and the Northern regions have experienced more modest growth as a result of their substantial reliance on primary industries. Nevertheless, Southwestern and Northern Ontario's employment increased in 1999.

While most Southwest region's job creation occurred in the goods-producing sector (mainly manufacturing), the North's happened in the services-producing sector (largely trade). In 2000, these regions should benefit from some recovery in the resources sector, as commodity prices are rising.

**Figure 1: Ontario Map**



### **Positive outlook ...**

Ontario's economic growth is projected to stay quite strong for 2000, with expansion of around 4.0%. The province will enjoy balanced growth. Increasing consumer spending will be supported by reductions in personal income tax rates and a continuing dynamic labour market, and growing investments will be provided by both private and public sectors.

Though still healthy, the export sector will moderate, as growth in the United States is forecast to slow somewhat this year. Some sectoral performances, which are heavily dependent on U.S. markets, will be negatively affected, but solid domestic demand will provide a counterbalance.

One concern for the economy is interest rate hikes, following worries about an overheated economy, especially with energy costs pushing inflation higher. Interest rates were raised in March, and more increases are forecast in the coming months. While economic growth is already expected to ease, these interest rate increases may cause it to slow even more.

**Annex 1: Ontario Manufacturing Shipments**  
(Value in Millions of Canadian Dollars)

<b>Manufacturing Industries</b>	<b>1998</b>	<b>1999</b>	<b>% Change</b>
Foods	21,160	21,242	0.4%
Beverages	3,392	3,655	7.7%
Rubber Products	2,379	2,585	8.6%
Plastic Products	5,813	6,823	17.4%
Leather Products	372	364	-2.0%
Primary Textiles	1,481	1,472	-0.6%
Textile Products	1,285	1,389	8.2%
Clothing	1,818	1,806	-0.7%
Wood	4,795	5,533	15.4%
Furniture & Fixture	4,290	4,631	7.9%
Paper Products	9,377	10,064	7.3%
Printing & Publishing	8,137	8,301	2.0%
Primary Metals	14,731	14,680	-0.3%
Fabricated Metal Products	14,864	15,624	5.1%
Machinery	9,486	9,281	-2.2%
Transportation Equipment	86,993	105,440	21.2%
Electrical & Electronic Products	17,574	19,690	12.0%
Non-Metalic Minerals	4,276	4,696	9.8%
Refined Petroleum & Coal	5,490	7,173	30.7%
Chemical Products	15,798	16,595	5.0%
Total	240,016	268,167	11.7%

Source: Monthly Survey of Manufacturing, December 1999, Statistics Canada.