

Ontario: 2020–21 Outlook*

SOLID FUNDAMENTALS, HEIGHTENED UNCERTAINTY

The modest upward revision to our forecast of Ontario economic growth this year largely reflects a solid rebound in Q2-2019 that followed two quarters of weak expansion. That mirrors a jump in automobile production that looks to have lifted exports, as well as an increase in residential investment that rallied from early-year doldrums.

A prolonged strike in GM's US operations will impact southern Ontario's near-term outlook. As the strike duration approaches one month, GM production in Canada has halted—with about a 20% reduction in auto production for the month, or 30,000 units, while about 4,500 workers have been idled. The auto parts sector is increasingly impacted in light of highly integrated value chains and the more serious retrenchment of GM operations south of the border. While the impact on the provincial outlook will be modest, it is should have serious consequences locally.

Ontario's labour market is still on firm footing, but we expect household spending gains more muted than those in excess of 2.6% witnessed in each of the last five years during the forecast period. Both full-time job creation and average weekly wages have accelerated in recent months, and our projection of 2.6% total employment growth would be the strongest annual advance since 2003. However, the province's weak savings rate (chart) suggests additional spending from highly indebted borrowers will be limited, even with expectations of a more stimulative rate environment that should lend some additional support for consumers in the outer years of the forecast.

Population gains in the 1.7–1.8% range witnessed during the six quarters to April 1, 2019 are the strongest in Ontario since 2001–02. Immigration continues to anchor that growth—concentrated in the GGH—though international student attraction is at record levels, and net migration of residents from other provinces during the last three years has hovered near rates not seen since the early 2000's. Ontario is drawing a significantly greater share of national immigration than in recent years, a trend that has the potential to lift growth via a larger provincial labour pool. It also underscores the need for more housing supply to come online to cushion against affordability pressures, especially as several markets in the GGH witness a return to strong home sales activity.

As in Quebec, elevated global uncertainty—especially that related to Sino-US trade tensions—presents significant downside risk for Ontario to the extent that it translates into weaker consumer and business sentiment or a weaker expansion south of the border. However, a range of large construction projects—notably the second phase of the light rail transit expansion in Ottawa, the \$5.7 bn Gordie Howe International Bridge in Windsor, and a \$2 bn petrochemical plant in Sarnia—should put a floor under provincial investment.

The Province's recently released fiscal update for FY19 reported a substantially smaller-than-previously-anticipated year-end deficit of \$7.4 bn (0.9% of GDP), but we do not foresee deviation from spending restraint plans at this time. The sources of the FY19 windfall—re-profiled federal infrastructure program transfers and an unexpected surge in corporate tax receipts—may well prove transitory. In our view, any additional outer-year fiscal room should be directed towards debt reduction. It is appropriate to build in fiscal buffers given the current environment of heightened uncertainty while carefully navigating a challenging but necessary consolidation path.

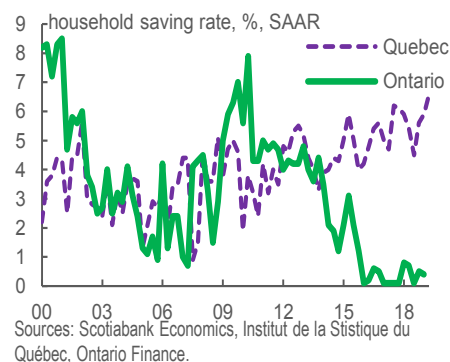
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Ontario % change except where noted				
Economic Conditions	18	19f	20f	21f
Real GDP	2.3	1.7	1.7	1.6
Nominal GDP	3.5	3.3	3.4	3.9
Employment	1.6	2.6	1.2	1.0
Unemployment Rate, %	5.6	5.6	5.8	5.8
Housing Starts, 000s	79	71	76	78
Fiscal Situation*	FY19	FY20	FY21	
Budget Balance, % of GDP	-0.9	-1.2	-0.7	
Net Debt, % of GDP	39.6	40.8	40.8	

* Nom. GDP fctst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, Ontario Finance.

Ontario's (Relatively) Weak Household Balance Sheets



* Figures reported in Canadian dollars unless otherwise stated. Data finalized Oct. 9, 2019.

Provincial Forecast Summary

	(annual % change except where noted)										
	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Real GDP											
2000–18	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2018e	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
2019f	1.6	2.0	2.1	1.3	0.6	2.4	1.7	1.4	1.3	0.5	2.2
2020f	1.8	0.6	1.9	1.3	0.8	1.6	1.7	1.5	1.5	2.4	2.8
2021f	1.9	0.8	1.8	1.1	0.7	1.6	1.6	1.5	1.7	2.7	2.4
Nominal GDP											
2000–18	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2018e	3.6	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
2019f	3.2	3.5	4.1	3.0	2.2	3.7	3.3	3.4	3.4	1.9	4.4
2020f	3.8	2.9	3.9	3.2	2.4	3.3	3.4	3.3	3.8	4.5	5.4
2021f	4.3	3.7	3.8	2.8	2.1	3.6	3.9	3.3	4.5	5.7	5.1
Employment											
2000–18	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019f	2.1	1.1	1.8	2.2	0.6	1.6	2.6	1.2	1.7	0.8	3.0
2020f	1.0	0.0	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
2021f	1.0	-0.1	0.6	0.1	0.2	0.8	1.0	0.6	0.6	1.2	1.3
Unemployment Rate (%)											
2000–18	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.7	12.1	8.9	6.8	8.1	5.2	5.6	5.4	5.4	6.8	4.6
2020f	5.9	12.1	9.0	6.8	8.1	5.4	5.8	5.5	5.5	6.9	4.8
2021f	5.9	12.0	9.1	6.9	8.0	5.5	5.8	5.6	5.4	6.8	4.9
Housing Starts (units, 000s)											
2000–18	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	210	0.9	1.1	4.6	2.8	49	71	6.8	2.5	27	44
2020f	206	1.3	1.1	4.2	2.4	46	76	6.0	3.3	30	37
2021f	202	1.1	1.0	4.2	2.4	44	78	6.0	3.7	31	32
Motor Vehicle Sales (units, 000s)											
2000–18	1,674	29	6	48	38	415	646	48	45	217	182
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019f	1,935	31	9	51	39	448	810	60	49	223	215
2020f	1,915	26	7	50	38	435	805	58	50	227	219
2021f	1,915	26	7	47	36	435	805	58	51	231	219
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-14,000	-522	14	120	5	2,500	-7,435	-470	-268	-6,711	1,535
2020f*	-19,800	-575	2	31	38	0	-10,252	-360	26	-7,912	179

* NL budget balance in 2020 is net of one-time revenue boost via Atlantic Accord. Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.

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