



ONTARIO

Almost zero economic growth despite record advances in consumption

HIGHLIGHTS

- Ontario's real GDP advanced by only 0.4% in the fourth quarter of 2007. Our forecast had called for growth of 0.3%.
- Consumer spending rebounded with an annualized quarterly increase of 10.1%. This is the strongest growth seen for this component since early 1985.
- Consumer spending grew by 23.2% for durable goods, 17.3% for semi-durable goods, 7.7% for non-durable goods, and 7.6% for services.
- Other components of domestic demand also jumped significantly, but in less spectacular fashion. As such, domestic demand advanced by 8.6% during the quarter, the largest gain in just over 10 years.
- Exports fell by 2.5% while imports continued to climb posting a gain of 10.1%. Commercial balance therefore fell into negative territory, a first since national accounts in Ontario began to be compiled in 1981.
- Real GDP growth in 2007 increased by 2.3%.

COMMENTS

The results published yesterday afternoon by the Ontario Ministry of Finance are similar in some respects to those published for Canada's national accounts in early March. The fluctuations this time, however, are somewhat more pronounced.

It is unfortunate that Ontario's economy did not take greater advantage of the upbeat increase in consumer spending. This growth is explained in part by a 35% increase in the purchase of motor vehicles and a gain of 22% in spending on clothing and shoes. However, a large portion of the goods and services consumed during the quarter were obviously bought outside of the province, as evidenced by the significant increase in imports, which offset the contribution of consumer spending to the real GDP.

That said, the deterioration of Ontario's commercial trade is in line with expectations. The manufacturing sector, hit hard

Real GDP components (annualized)

	Q4 2007	In 2007
Consumer spending	10.1	4.2
Residential construction	6.8	2.3
Non-residential investment	4.8	7.5
Government spending	6.4	2.8
Exports	-2.5	0.8
Imports	10.1	4.3
Net exports	-\$64B	\$7.0B
Inventory variation	\$9.7B	\$6.4B
Residual error	\$1.2B	\$1.5B
Real GDP	0.4	2.3
Domestic demand	8.6	4.2

Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

by the loonie's rise, foreign competition and, more recently, the pullback in U.S. demand are having a major impact on Ontario's economy. Production by Ontario manufacturers declined by 7.8% in the fourth quarter, including a 21.7% drop in the automobile industry.

Implications: The troubles in Ontario's economy will likely grow over the next few quarters since the outlook for growth in the U.S. economy has darkened since the end of 2007. A technical recession will probably take place during the first half of 2008.

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