April 17, 2018

Q4 Caps Strong 2017 for Central Canada

- *Economic Accounts* released by **Quebec** and **Ontario** for Q4-2017 indicate solid real GDP growth for the year. Ontario's 2.6%* Q4 rebound completes the fourth year of annual output growth averaging a healthy 2¾%. After three very strong quarters, Quebec's Q4 growth decelerated, but its overall 3.1% annual expansion represents the strongest rise since 2000. We project more subdued 2.1% real increases in Canada's two largest provinces this year, in part due to more cautious consumers (see Q2 *Canada and The Provinces* commentary).

- Robust consumer spending gains of 3.6% in Ontario and 3.1% in Quebec—the fastest advance since 2010 for both provinces—anchored the 2017 expansion. Full-time employment growth of 1.9% in both jurisdictions last year supported strong total compensation increases of 3.6% in Ontario and 4.5% in Quebec, powering respective disposable income gains of 4.0% and 5.9%. Quebec is maintaining its sizeable saving rate advantage, assisted by significant personal income tax relief (chart 1). This year, employment growth is expected to ease from the 2017 surge, but remain a healthy 1.5% in both jurisdictions. Household consumption gains, however, are likely not sustainable at 2017 levels given factors such as rising interest rates.

- Business investment continued to propel economic growth in both provinces in Q4. For corporations' net operating surpluses, fourth quarter jumps of 5.1% in Ontario and 11.7% in Quebec resulted in respective annual gains of 9.9% and 14.9%. This contributed to real outlays on machinery & equipment (M&E) climbing more than 7% annually in both provinces for the first time since 2010 (chart 2) and healthy gains over 2016 in non-residential construction. We anticipate continued strength in M&E investment to address capacity pressures reported across Central Canada.

- Real residential construction also assisted Central Canadian growth in 2017. After a mild first half rise, Quebec witnessed torrid growth over 16% in both Q3 and Q4, resulting in a 7.8% 2017 climb—its fastest annual rise since 2010. Ontario's roller coaster ride in residential construction last year concluded with a mild Q4 uptick after two steep quarterly declines in the wake of the Province's *Fair Housing Plan* in April 2017. For 2018, the strong fundamentals underpinning Quebec's and Ontario's housing sectors are expected to offer only a partial offset to the dampening effects of the B-20 mortgage regulations introduced as of January 2018 and further monetary tightening this year.

- Government infrastructure investment contributed to both Ontario's and Quebec's 2017 expansions. In Quebec, the solid 3.4% rise in real government capital spending in 2017 is expected to followed by a further significant gain this year, as outlined in the *Québec Infrastructure Plan*. The acceleration in Ontario's real government capital expenditures in Q3 and Q4 to double-digit gains resulted in a 6.7% annual advance with a further substantive increase planned by the Province this year.

*All quarterly growth rates expressed in seasonally adjusted q/q annualized terms unless otherwise noted.

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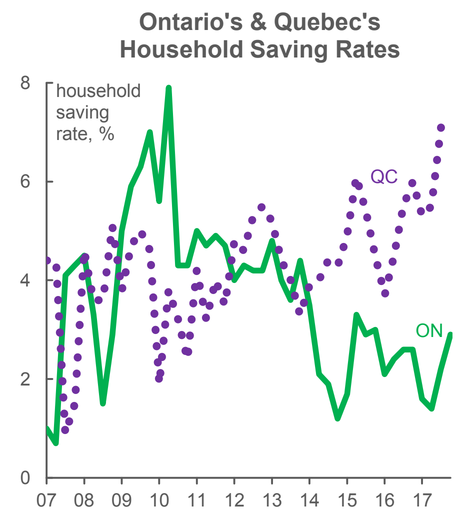
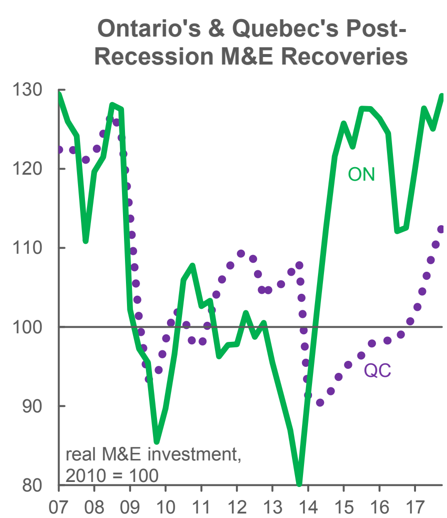
Chart 1



Sources: Institut de la Statistique du Québec, Ontario Finance.

Chart 2



Sources: Institut de la Statistique du Québec, Ontario Finance.

Central Canada's 2017 Results

seasonally adjusted q/q % change annualized, except where noted

	Quebec					Ontario				
	Q1	Q2	Q3	Q4	2017	Q1	Q2	Q3	Q4	2017
Real GDP	**3.4**	**3.6**	**5.5**	**1.8**	**3.1**	**4.8**	**3.0**	**1.1**	**2.6**	**2.7**
Household Consumption	3.1	3.0	2.6	5.0	3.1	3.8	4.5	3.4	1.8	3.6
Gov't: Current Spending	2.6	1.7	5.5	2.5	2.3	4.0	1.7	3.4	3.0	2.2
Capital Spending	2.4	0.9	10.8	2.4	3.4	-1.7	3.1	14.6	10.5	6.7
Residential Construction	4.9	1.7	16.8	16.2	7.8	36.3	-25.2	-12.9	1.5	2.9
Machinery & Equipment	9.4	5.7	37.8	10.2	9.1	32.7	17.8	7.9	12.0	7.1
Non-residential Construction	0.0	-0.4	7.1	-0.2	2.4	8.3	13.3	13.8	8.7	2.0
Intellectual Property	2.0	5.8	10.6	7.8	2.2	5.9	-0.3	7.9	4.9	-0.6
Inventory Change, 2007$bn	4.3	4.9	5.2	4.3	4.7	3.5	5.3	8.6	5.2	5.7
Net Exports, 2007$bn	-16.8	-16.6	-17.1	-19.1	-17.4	9.6	10.6	1.7	4.4	6.6
Exports, Goods & Services	-9.5	15.1	-3.7	2.6	1.7	4.8	2.5	-9.5	1.8	-1.4
Imports, Goods & Services	-2.6	13.2	-2.3	7.1	3.9	13.5	1.3	0.1	-1.3	1.2
GDP Deflator	2.4	-0.3	-0.2	1.5	2.1	3.5	0.0	-0.3	3.1	1.7
Nominal GDP	**5.9**	**2.4**	**4.7**	**7.8**	**5.3**	**8.5**	**2.8**	**0.8**	**5.9**	**4.5**

Sources: Institut de la Statistique du Québec, Ontario Finance.

- Real net exports were a drag on economic growth in both provinces. Ontario's international export volumes rebounded in Q4 following a 17.7% plunge in Q3 largely due to a motor vehicle assembly strike and line closure. This year, weaker-than-anticipated first half vehicle assembly is expected leave units assembled 7½% lower for 2018, offsetting the anticipated gains in other manufacturing industries such as machinery and electronic/electrical equipment. We look for both provinces to witness modest gains in real interprovincial exports as the economic recovery continues among the three major oil-producing provinces.

- Rising import volumes were responsible for much of the 2017 weakness in net exports in both provinces as business investment and household outlays shifted higher. In both Ontario and Quebec, import volumes are forecast to climb again in 2018 given positive, albeit slower growth in household expenditures and the current strengthening in business investment.

- Real inventory investment in both provinces in 2017 witnessed the sharpest annual increase since the commodity price correction in 2014, accounting for about four-fifths of last-year's national inventory increase. Anticipation of broad-based US demand is expected to lead to further inventory increases this year.

- The GDP price deflator in both provinces, after considerable weakness during Q2 and Q3, ticked upward in Q4 leading to annual gains of 2.1% in Quebec and 1.7% in Ontario. With both provinces forecast to maintain real GDP growth in 2018 well above their respective potential growth rates, an increase slightly above 2.0% is anticipated for their GDP price deflators this year.