

ONTARIO ECONOMIC REPORT 2019



ontario
chamber of
commerce



ONTARIO
ECONOMIC
REPORT

ABOUT THE ONTARIO CHAMBER OF COMMERCE

For more than a century, the Ontario Chamber of Commerce (OCC) has been the independent, non-partisan voice of Ontario business. Our mission is to support economic growth in Ontario by defending business priorities at Queen's Park on behalf of our network's diverse 60,000 members.

From innovative SMEs to established multi-national corporations and industry associations, the OCC is committed to working with our members to improve business competitiveness across all sectors. We represent local chambers of commerce and boards of trade in over 135 communities across Ontario, steering public policy conversations provincially and within local communities. Through our focused programs and services, we enable companies to grow at home and in export markets.

The OCC provides exclusive support, networking opportunities and access to policy insight and analysis to our members. We also work alongside the Government of Ontario on the delivery of multiple programs, and leverage our network to connect the business community to public initiatives relevant to their needs.



The OCC is Ontario's business advocate.

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ECONOMIC ANALYSIS



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LETTER FROM THE PRESIDENT AND CEO



On behalf of the Ontario Chamber of Commerce (OCC), I am pleased to present the 2019 Ontario Economic Report (OER). As the landmark research platform for Ontario's leading business advocacy organization, the OER presents the collective voice of our 60,000 members in 135 communities across Ontario.

The 2019 OER highlights the year that was and the year ahead, offering a unique perspective on the experience of businesses of all sizes across the province. Through the Business Confidence Survey, the Business Prosperity Index, and the Economic Outlook, this report presents a candid look at

private sector sentiment and opportunities for economic growth throughout Ontario.

This year, the Canadian economy will enter a period of inflection; the majority of economists believe the global economy will experience a deceleration in the coming 12 to 24 months. Two key drivers of economic growth in Canada—domestic consumer spending and the housing market—have recently slowed, and the Bank of Canada downgraded the country's 2019 economic outlook in its latest forecast.

While Ontario will not be immune to these economic headwinds, there are reasons to be cautiously optimistic, as the province's GDP, employment rate, and population are expected to grow slightly faster than those of the rest of the country. This guarded optimism is reflected throughout the 2019 OER.

The takeaways from this year's OER include:

- **Confidence in Ontario's economic outlook has improved.** Thirty percent of members surveyed expressed confidence in Ontario's outlook for 2019, up seven percentage points compared to last year. This is accompanied by a more than 20-point drop in negative sentiment towards the province's economic outlook.
- **Businesses are gaining confidence in themselves.** Sixty-one percent of respondents reported confidence in their own organization's economic outlook heading into 2019, a seven-point increase from last year.
- **Revenue projections for 2019 are more positive than those of 2018.** Eighty-six percent of respondents believe their organization's revenues will increase or stay the same over the next twelve months, with only fourteen percent anticipating a decline. This represents a notable change in direction from 2018, when 27 percent were projecting their revenue to decrease.
- **Business prosperity is higher than it has been in more than 20 years, but business fundamentals are not without their challenges.** Significant financial resources are available for productive use by industry, yet the share of those resources going towards goods and services continues to deteriorate.

- **Over the next year, Ontario's economy is forecasted to slow to two percent growth.** This is expected to continue to have a disproportionate impact on rural and remote regions, as evidenced by higher unemployment and stagnant population growth in areas such as Northern Ontario.
- **Despite increased optimism, several major policy issues loom large.** In 2019, the Ontario government must consider policies and programs that address two fundamental competitive factors: the cost of doing business (including regulation, taxation, input prices, and provincial debt) and successfully navigating a rapidly evolving labour market.

Whereas in previous centuries attracting physical capital was critical for success, we now live in a world where attracting human capital is paramount. Increasing labour force participation, navigating workforce disruption, embracing technological innovation, and addressing Ontario's skills mismatch will be a major determinant of the province's economic success now and into the future.

Ontario's overall prosperity also depends on the strength of its regional economies, where the disparity of economic growth is evident. We should all be concerned that employment growth has largely been concentrated in the Greater Golden Horseshoe since 2003, while other regions have experienced slow or even negative growth during the same period. Developing Northern Ontario's natural resources sector, such as the Ring of Fire, should be part of a more strategic, less one-size-fits-all approach to regional economic development. This will be a formative year for shaping the province's trajectory as the government develops new strategies on transportation infrastructure, broadband internet, key industrial sectors, and more.

The OCC and its members look forward to working with the Government of Ontario throughout 2019 to ensure we are capitalizing on opportunities to drive economic growth for all Ontarians.

Sincerely,



Rocco Rossi

President and CEO

Ontario Chamber of Commerce

WHAT POLITICAL LEADERS ARE SAYING



DOUG FORD

Premier of Ontario, Leader, Ontario Progressive Conservative Party

“As a province, we succeed when families have more money to spend and when local businesses are able to invest in creating new jobs. Over the past seven months our government has been hard at work reducing the taxes, the fees and the skyrocketing bills that have left so many families and businesses hurting. And today, the results of our collective efforts are starting to show. With input from advocacy groups like the Ontario Chamber of Commerce, we are creating an environment for job creators and workers to thrive.”



ANDREA HORWATH

Leader, Ontario New Democratic Party

“Ontario is a great place to grow up, raise a family, and build a career or thriving business. We have a highly-skilled workforce, top-notch post-secondary institutions and world-class entrepreneurs. By working together I know we can create more innovation and prosperity, and build a more equitable province with an economy that works for everyone. We need to keep driving better wages and benefits for families instead of going backward. We need action on the things that really matter like lower hydro bills, shorter commute times and more affordable housing. Together, we can build on the things that are working, and fix the things that aren’t, so all Ontarians can build their best life right here.”



JOHN FRASER

Interim Leader, Ontario Liberal Party

“Ontario is Canada’s economic engine, driving growth and business competitiveness across industries. The Ontario government has a critical responsibility to carefully monitor and address local and global economic shifts, helping shape the conditions for a strong marketplace. As this report highlights, for our province to continue to grow, the government must recognize that our economy depends on our people. I’d like to thank the OCC and its members for your insight, advocacy and trusted partnership. By working together, we will continue to build a stronger and more prosperous Ontario.”



MIKE SCHREINER

Leader, Ontario Green Party

“Thanks to the OCC for being a strong voice for Ontario businesses for over 100 years. Thriving businesses are so important to our local communities. We believe government should support business leaders and entrepreneurs in making investments in energy efficiency, innovation, productivity, and people to create jobs and prosperity, to make companies more efficient and profitable, and to support and build sustainable communities. Together, we can make responsible investments in quality public services and infrastructure to make Ontario an attractive place to invest, create jobs and raise a family.”

WHAT BUSINESS LEADERS ARE SAYING

CAROL WILDING

President & Chief Executive Officer, CPA Ontario

“We are proud to be the landmark sponsor of the 2019 Ontario Economic Report, which builds upon critical issues raised at the Ontario Economic Summit and outlines how we can work together to nurture growth. This is a balanced report that looks at the challenges Ontario businesses face – such as higher operational costs and a skills mismatch – while also highlighting why we should be cautiously optimistic. The information and quality data will be of great benefit to CPA Ontario members and to business leaders across our province.”



TIM HUDAK

President and CEO, Ontario Real Estate Association

“Real estate plays an integral role in Ontario’s economy. It contributes to economic output, household wealth, and consumer spending. For the first time in Ontario’s history, home ownership is on the decline. In Ontario, affordable home ownership will ensure the growth of our middle class. OREA and the OCC are aligned in our missions to keep home ownership in Ontario affordable, and we look forward to continuing our partnership and bringing forward solutions to the Ontario government that work.”



MERIC GERTLER

President, University of Toronto

“U of T is a powerful driver of local and national prosperity. But it doesn’t do it alone. Ontario’s cultural vibrancy, economic dynamism, and high quality of place make for a remarkable partnership with one of the top ten public universities in the world. It is a collaboration few regions can match. And our partnership with the Ontario Chamber of Commerce helps us create a stronger pipeline of future talent, entrepreneurs, and innovators across Ontario.”



MIKE RENCHECK

President and CEO, Bruce Power

“Bruce Power shares the OCC’s belief that the province’s future economic prosperity is closely tied to the reliability and cost effectiveness of our energy supply. Bruce Power is committed to delivering affordable, GHG emissions-free electricity to Ontarians and we support the OCC as Ontario’s voice of business, advocating for solutions that foster economic growth and create jobs across the province. The Ontario Economic Report builds on the OCC’s advocacy efforts by providing government decision makers an important snapshot of the state of Ontario’s economy and what can be done to strengthen it presented through the eyes of its businesses leaders..”



BUSINESS CONFIDENCE SURVEY



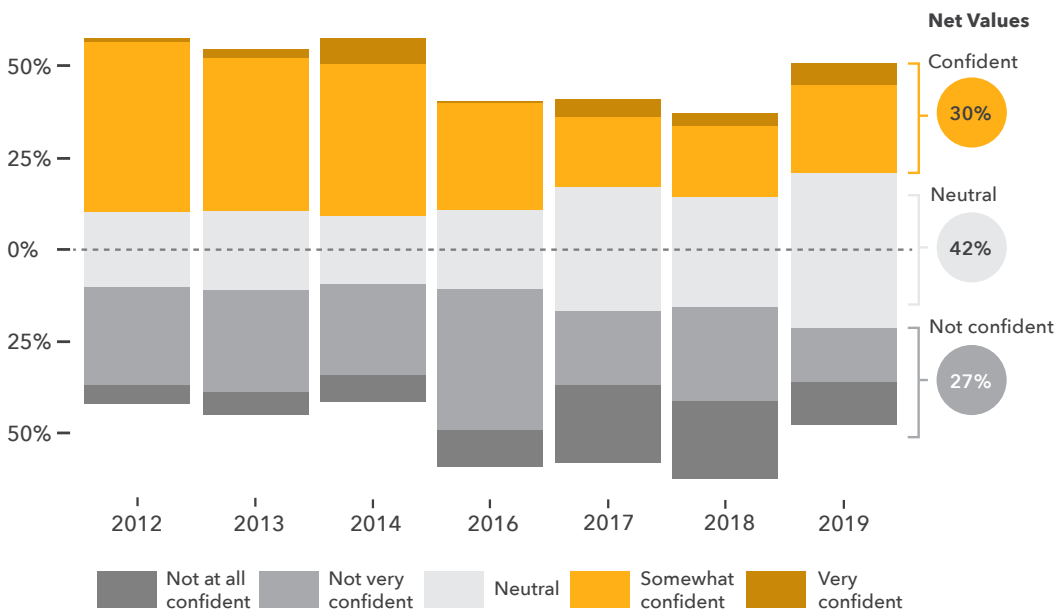
Downtown Quinte West
by Sean Scally for the City of Quinte West

The OCC regularly surveys its members to better understand the experience of business in Ontario. This data provides a grassroots perspective on the economy and can identify developing trends in economic activity.¹

In 2019, we observed an increase in business confidence in Ontario's overall economic outlook. The proportion of businesses expressing confidence in the broader economy is up 7 percentage points compared to last year, currently standing at 30 percent. This is accompanied by a considerable drop in those lacking confidence in the economy, which has declined from 48 percent to 27 percent since 2018.

Despite a more optimistic outlook for 2019, it is important to note that overall confidence has decreased over time since 2012, while the share of those feeling neutral about the province's outlook has increased.

Figure 1: How confident are you about Ontario's economic outlook as of right now?²



Our members' confidence in Ontario's economic outlook has a notable positive correlation with the province's GDP growth since 2012, suggesting economic growth is linked to confidence in the economy.³

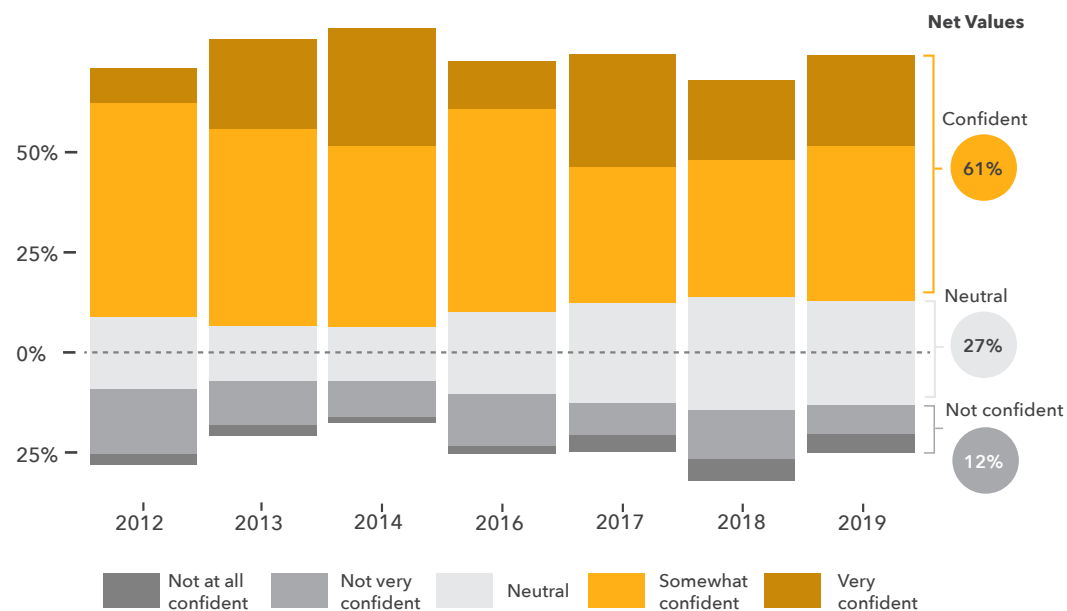
1 A survey of n=1091 OCC members was conducted online by Navigator between September 26 and November 9, 2018.

2 For statistical accuracy, figures in this section will not include 2015, where the survey methodology differed from other years. Prior to 2015, survey responses included seven different levels of confidence, which was aggregated into five levels to be consistent with the rest of the survey data.

3 Positive correlation between members' confidence and Ontario's GDP growth since 2012 ($R=0.67$).

Members' confidence in themselves also increased this year, with 61 percent of businesses surveyed reporting confidence in their own organizations' economic outlook heading into 2019. This represents a seven-percentage-point increase from last year.

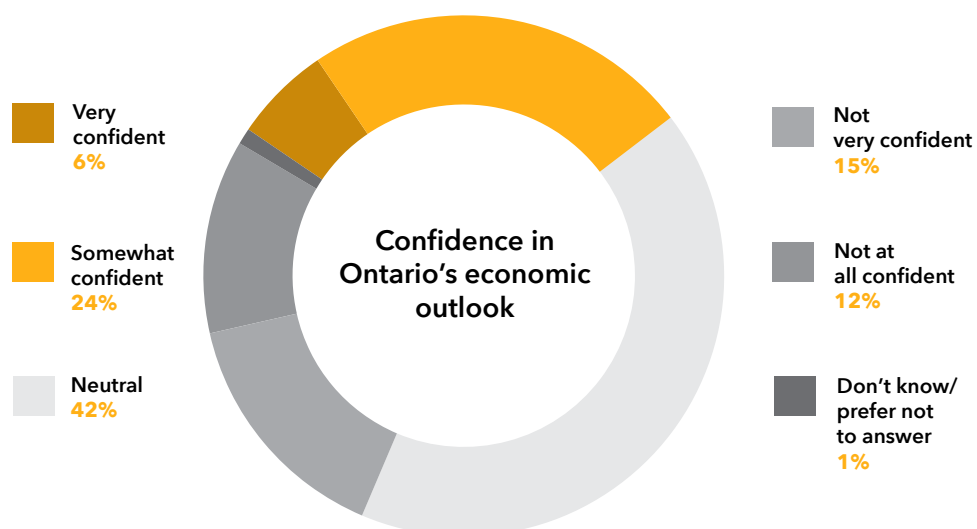
Figure 2: How confident are you in your own organization's economic outlook as of right now?



Figures 1 and 2 indicate that 2018 was a year of pessimism for Ontario business.

2019 Confidence Numbers in Focus

Figure 3: How confident are you about Ontario's economic outlook?

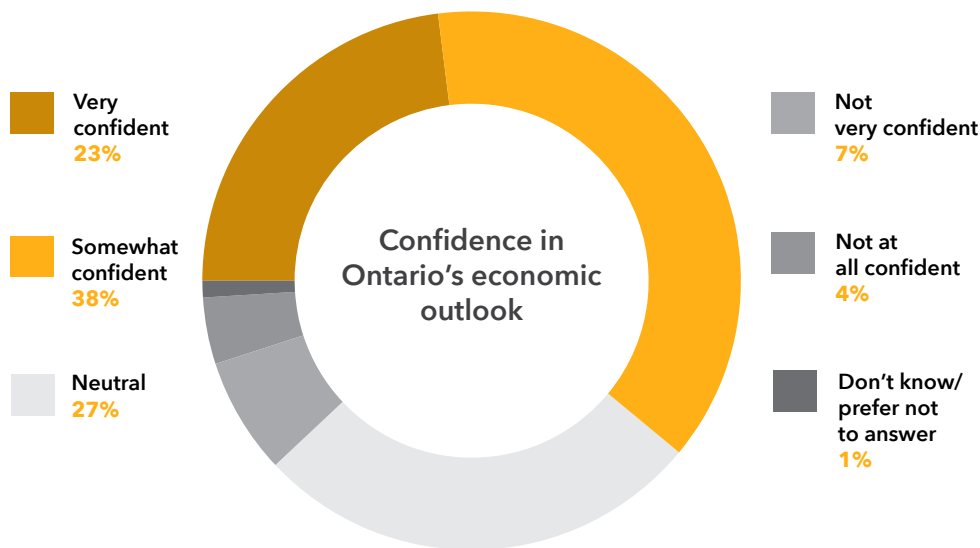


The top four most commonly cited drivers of confidence in Ontario's economic outlook are: recent economic growth projections (37 percent), population growth projections (37 percent), solid consumer confidence (30 percent), and a skilled and productive workforce (28 percent). These results are consistent with the OCC's 2018 survey. While it was not a top contributing factor, 'solid economic policy from government' increased by nine-percentage-points over the last year (19 percent in 2019 vs. 10 percent in 2018).

For the 27 percent of member respondents who expressed a lack of confidence in the Ontario economy, the reasons cited are reflective of what we have heard throughout the year in member and stakeholder consultations.

Among those who lack confidence in Ontario's economic outlook, the primary reason selected by over half of respondents is the high cost of living (54 percent). Other main drivers include the high price of inputs such as raw materials and electricity (47 percent), and a high level of provincial debt (44 percent). Concern about government economic policy remains a significant driver of non-confidence in the Ontario economy for a segment of our membership.

Figure 4: How confident are you in your own organization's outlook?



The two biggest drivers of optimism among those who are confident about their organization's economic outlook are a growing client base (71 percent) and increased demand for their product or service (62 percent).

Meanwhile, among those who lack confidence in their organization, the primary reasons cited are increases in the price of inputs (50 percent), difficulty in finding and retaining staff (49 percent), and the burden of Ontario's regulatory and tax regimes (44 percent).

Confidence Gap Remains, Despite Greater Optimism

The OCC measures the ‘confidence gap’ between how businesses view the economic outlook of their own organizations versus that of the province as a whole.

Since 2012, when the OCC began measuring both organizational confidence and confidence in Ontario’s economic outlook, we have observed a strong positive correlation between the two measures, suggesting our members see their individual fortunes as tied to the provincial economy.⁴

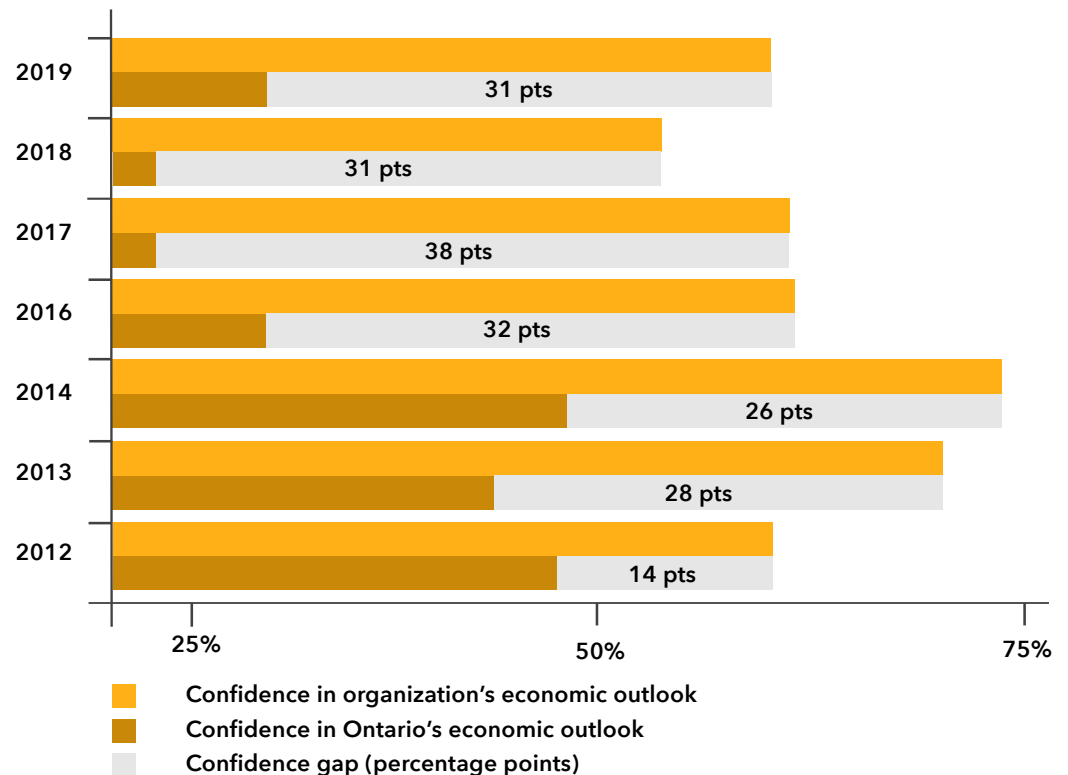
We have consistently observed members reporting stronger confidence in their own organization than the broader economic outlook of the province. However, it is important to note that the gap has widened over the last seven years.

In 2012, the confidence gap was only 14 points, with 61 percent of members expressing confidence in their organization and 47 percent indicating optimism about Ontario’s economic outlook. By 2017, optimism in the provincial outlook had plummeted to 24 percent with 62 percent reporting confidence in their own business, resulting in a 38-point differential.

Over the last 2 years, the gap has remained steady at 31 points, with both economic and organizational confidence increasing by 7 percentage points in 2019. While members have become more optimistic about both measures, the confidence gap remains the same. Challenges such as the high cost of living, rising input costs, and a growing provincial debt also remain unchanged and unaddressed by policymakers.

We believe the confidence gap is at least partially caused by the complex, multi-layered issues that require long-term policy solutions. Until Ontario makes meaningful progress on these core issues, a substantial confidence gap is likely to remain.

Figure 5: Confidence gap since 2012



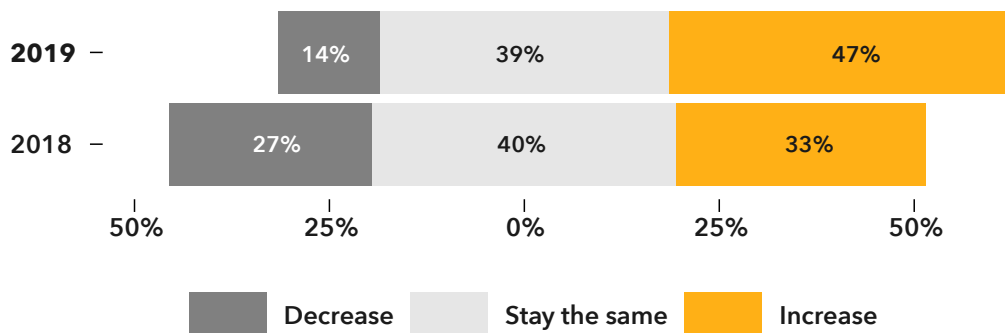
⁴ Strong positive correlation between members' confidence in their own organization's outlook and that of the Ontario economy since 2012 ($R=0.73$). For statistical accuracy, calculations do not include 2015, where the survey methodology differed from other years.

Revenue and Staffing Projections

Ontario businesses are significantly more likely to project an increase rather than a decrease in their organization's revenue over the next 12 months. This optimism aligns with higher levels of organizational confidence observed in 2019. Specifically, 86 percent of respondents expect to see their organization's revenues increase or stay the same over the next year. Far fewer (14 percent) believe their revenue will decline over the next 12 months.

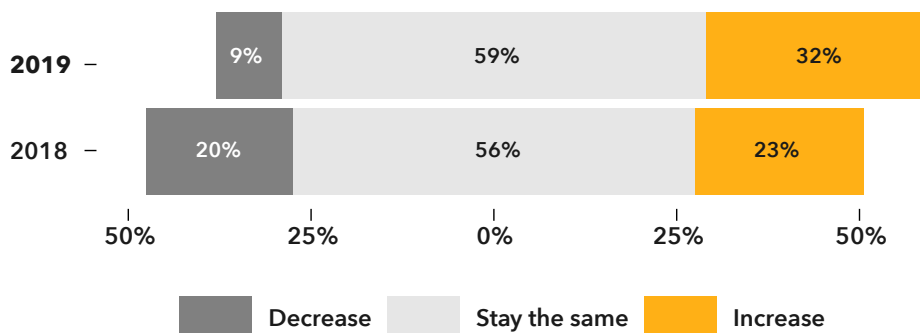
Figure 6: Based on the way the Ontario economy is operating now, do you expect your organization's revenue to increase, stay the same, or decrease in the next 12 months?

Revenue expectations are far more positive than they were in 2018. Compared to last year's survey, the number of members who feel their business revenues will decrease has reduced by nearly half from 27 percent in 2018 to 14 percent in 2019.



This optimism broadly carries through to staffing projections as well. Firms are far more likely to expect their workforces to increase rather than decrease over the next six months (32 percent compared to 9 percent, respectively). The proportion of members expecting to increase staff is up nine percentage points from 2018. Despite this trend, there is a strong likelihood that job growth in 2019 will be marginal given that 59 percent of firms believe their workforces will remain unchanged over the next six months.

Figure 7: In the next 6 months, do you expect your workforce to...

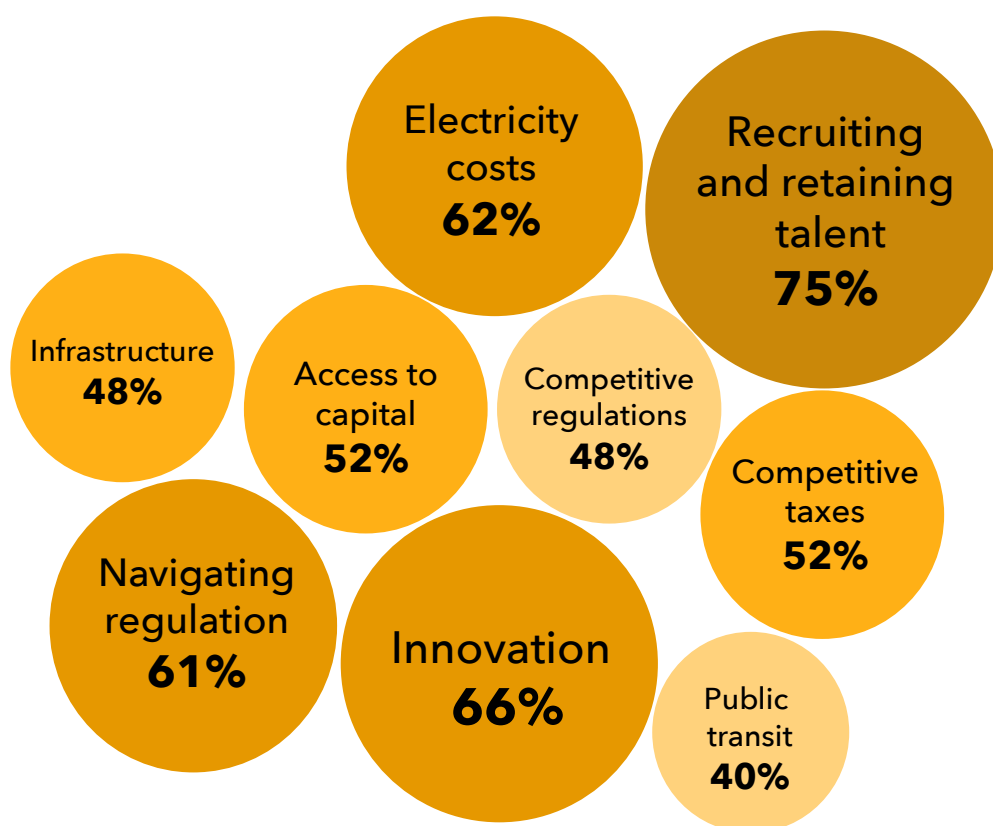


Nine Critical Success Factors to Organizational Competitiveness

Over the last eight years, the OCC has tried to better understand what Ontario businesses see as critical to their organization's ability to thrive. Through multiple iterations of this survey, certain factors have been added or subtracted, depending on the amount of traction they receive, to best capture the most important considerations for organizational competitiveness.

In 2019, nine critical success factors have emerged and have been ranked in order of importance below. The ability to recruit and retain talent (75 percent) emerged as the largest area of agreement among survey respondents. This is followed by the ability to innovate (66 percent) and the cost of electricity (62 percent).

Figure 8: To what extent do you agree or disagree that the following factors are critical to your organization's competitiveness?



The findings also reveal that more than half of members consider access to capital and a competitive tax regime to be critical success factors. This is followed closely by transportation infrastructure—which has increased by 10 percentage points since 2018 (48 percent vs. 38 percent)—and regulations compared to other jurisdictions (48 percent).

The Growing Influence of Technology

As depicted in Figure 8, the majority of survey respondents (66 percent) believe innovation is one of the most critical factors to organizational competitiveness. Fifty-seven percent indicate they are receptive to new technologies and innovations, and nearly half of respondents (forty nine percent) believe their organization has already benefited from such modernizations.

While Ontario business appears to understand innovation is critical to competitiveness, many remain hesitant to embrace technological innovation. This can be partly explained by two overarching trends. First, decreasing levels of organizational and economic confidence over time have impacted business' willingness to invest, take risks, and adopt potentially disruptive technological advancements. Second, attitudes towards technology vary somewhat by region; more businesses in Northwestern Ontario tend to consider rapid technological advancements a threat to their competitiveness compared to other parts of the province. Although most members across the province view it as an opportunity, there is some indication that it could impact regional disparities.

Key Takeaways

The results of the 2019 Business Confidence Survey show a shift in how business views both its own success and the success of the Ontario economy more broadly. Expectations for 2019 are higher than they were in 2018, and respondents have found reason to be cautiously optimistic.

Member confidence in their own organizations as well as the broader economy both increased by seven percentage points in 2019, while negative sentiment towards the province's economic outlook has dropped over 20 percentage points since 2018. Similarly, there has been a 13-percentage point rise in members expecting revenues to increase over the next 6 months, compared to a 13-percentage point decline in the members believing revenues will decline since 2018.

All of these are positive indicators, but challenges relating to the cost of doing business in Ontario and the ability for firms to successfully recruit and retain talent loom large, undermining the province's economic potential. Ontario's economic forecast calls for slower GDP and job growth in 2019, as the economy pushes against its capacity limits, which is consistent with the OCC's finding that the majority of members project no staffing increases in the next six months.

Ontario's policymakers should be acutely aware of these potential vulnerabilities and develop policies with the aim of fostering competitiveness, placing particular emphasis on the issues identified by our membership above.

BUSINESS PROSPERITY INDEX



Hollinger Open Pit Project, Timmins
by Goldcorp-Porcupine Gold Mines

The OCC, in partnership with the Canadian Centre for Economic Analysis (CANCEA), presents the Business Prosperity Index (BPI), an original measure of the ability of Ontario's businesses to invest in the future exclusive to the Ontario Economic Report.

The BPI looks beyond GDP and instead considers the process of wealth generation from business production and investment activities.⁵ Using the latest data, we track business prosperity in Ontario from 2000 to 2017 with preliminary 2018 estimates.⁶

As an index, the BPI is benchmarked against all the resources available to businesses in a year. An upward change in the BPI generally represents an increase in assets that could be invested in the future. Conversely, a downward change in the BPI represents a decrease in a business' ability to invest in the future.

Changes in the BPI primarily reflect changes in:

- **Income from production and services:** Business performance as measured by profitability and/or productivity.
- **Fixed capital investments:** The use of resources to generate wealth in the future. An increase in fixed capital puts downward pressure on the BPI in the year of investment, and upward pressure in subsequent years.
- **Asset and liability management:** This includes revaluations from the trading of, or investment in, financial securities and cash flow changes in the balance sheet (e.g. new debt or the reduction of equity capital) that do not immediately affect the profit and loss statement.

Interpreting Ontario's BPI

The estimated BPI for 2018 for all Ontario businesses is 58.1 percent, an increase of 1.8 percentage points since 2017. The 2018 results are expected to be driven by improved profit performance and an increase in non-residential construction activity that offset the decline in residential construction activity.

In 2017, the BPI was 57.1 percent, which represented an annual average increase of 2.4 percent since 2001. While GDP has increased 1.8 percent per annum, on average, since 2001, the liquid assets held by Ontario businesses increased by 2.4 percent over the same period. This wealth could be used for a variety of purposes, such as to pay down debt, pay dividends, or make non-financial investments. Sectors that have had the greatest impact on the Ontario business prosperity landscape since 2001 are:

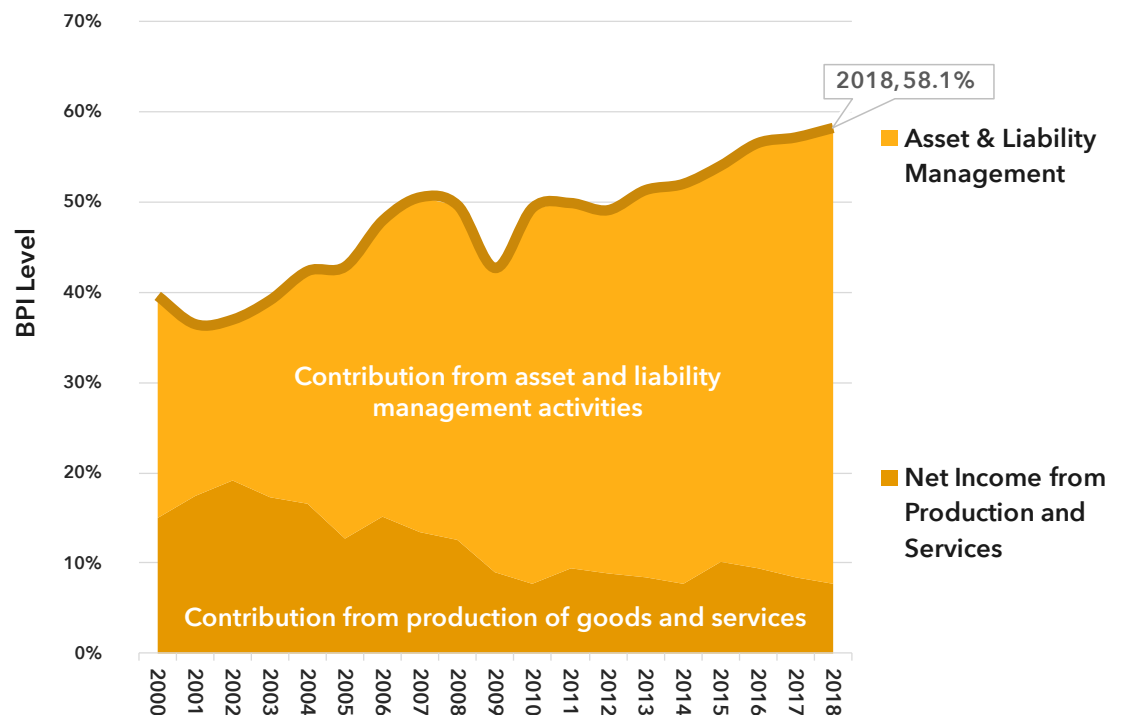
- Construction, wholesale and retail trade (industries driven by population growth);
- Professional, scientific and technical services; and
- Financial asset and debt-driven industries.

⁵ It is designed to be consistent with data used by Statistics Canada to calculate GDP, with the goal of providing a better understanding of business conditions and decisions in Ontario than that offered by GDP. The BPI is calculated by: $(\text{total resources available} - \text{total resources used}) / \text{total resources available}$.

⁶ Note that Statistics Canada estimates of assets and liability values are subject to adjustment year to year. This may change the level of BPI estimates upon each revision, but not the shapes.

The index below shows the general contributions to the BPI from the production of goods and services has changed considerably over the years. It is evident that the contribution of the production of goods and services to BPI has stagnated since 2010.

Figure 9: Ontario Business Prosperity Index



Source: Canadian Centre for Economic Analysis, Statistics Canada.

BPI: Auxiliary Indicators

In supplement to the BPI, there are four indicators that provide insight into Ontario's economic prosperity:

- **Labour Market Activity:** As Ontario's businesses struggle to find employees to fill positions, key labour measures can indicate which labour cohorts are most underused or thinly spread.
- **Exports:** Measures of Ontario's export performance illustrate improvements made in alleviating Ontario's trade deficit.
- **Public Capital Investment:** Infrastructure investment and the government's ability to meet infrastructure demands is critical to the advancement of Ontario's economy. If Ontario's labour is to be effectively allocated, and manufacturers and service providers are to expand their foreign market presence, Ontario's businesses must have adequate public infrastructure to bring these opportunities into scope.
- **Corporate Taxes:** In offering the necessary services and infrastructure investment needed to keep Ontario's economy moving, the government must be diligent in its collection of tax revenue and avoid overburdening the economy or obscuring growth opportunities.

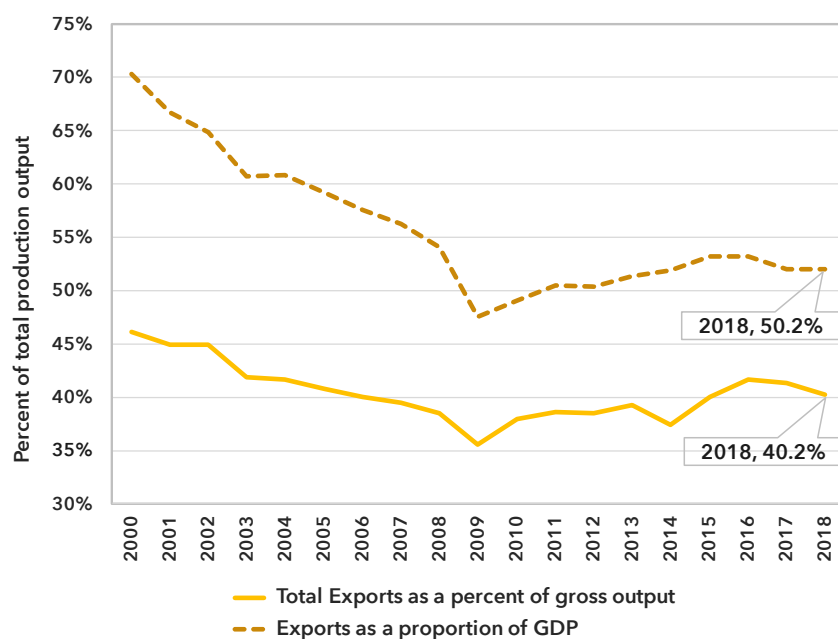
Labour Market Activity⁷

Employment growth in 2018 favoured people between the ages of 25 to 54 with part-time jobs, which was up 5.9 percent, and full-time jobs, up 2.5 percent. However, both younger and older generations experienced negative changes in employment in 2018. Specifically, people between the ages of 15 to 24 experienced a 7 percent and a 2.6 percent decrease in full-time and part-time work, respectively, and those aged 55 years and older experienced a 2.2 percent decrease in full-time work.

Export Performance

With an increased emphasis on global trade, Ontario exports have been slowly recovering to their pre-2007 levels. Export performance in 2018 remains lacklustre, evidenced by the flat trend of export production to GDP. As exports tend to be focused on real goods and services, continued increases in exports would be required to slow or reverse the trend of declining BPI for non-financial businesses.

Figure 10: Exports



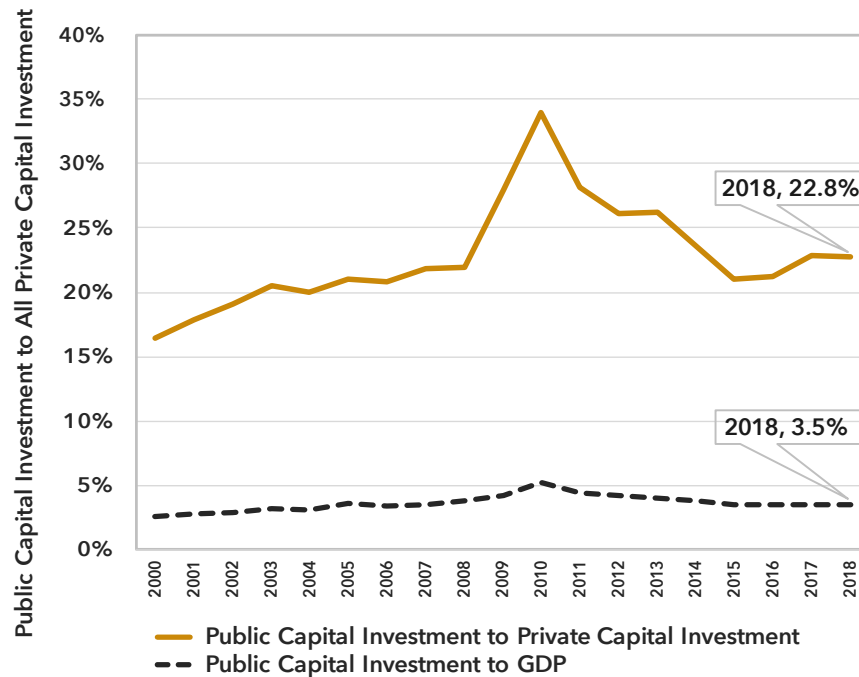
Source: Canadian Centre for Economic Analysis, Statistics Canada.

⁷ The labour market activity section uses labour market statistics reported in Statistics Canada's Labour Market Survey.

Public Capital

While there was a large increase in infrastructure investment in the late 2000s, overall levels have tended to fall once again. CANCEA research suggests that given Ontario's infrastructure deficit, the level of infrastructure investments and maintenance should be equal to 4.5 percent to 5 percent of provincial GDP. The recent uptick in the ratio of public infrastructure investment (e.g. bridges and electricity networks) to private capital investment (e.g. investment in transport trucks and assembly line machines) is a sign of slowing private capital investment relative to public sector investment.

Figure 11: Public Capital Investment



Source: Canadian Centre for Economic Analysis, Statistics Canada.

Taxes

With respect to the corporate tax index, the generally declining trends seen over the last decade have positively influenced the prosperity of business by reducing the cost of doing business in the province. However, it is important to note that taxes paid by businesses vary considerably with prevailing economic conditions and profitability. In 2018, income and production taxes paid as a proportion of business total costs decreased, due in part to increasing relative costs of production.

Figure 12: Corporate Tax (Income & Production Index)



Source: Canadian Centre for Economic Analysis, Statistics Canada.

Final Remarks

While the BPI, which measures the ability to access resources and make investments, suggests total business prosperity in Ontario is strong, challenges remain with respect to business fundamentals, particularly in the non-financial industries.

Business prosperity in Ontario has benefited from the significant financial resources available for productive use, yet the share of those resources used to produce goods and services continues to deteriorate. Improving the rate of productivity growth is a fundamental aspect of unlocking the build-up of underinvested financial resources. Given that Ontario's productivity growth has averaged 1.2 percent since the early 1980s and is currently below the national average, there is room—and need—for improvement. Similarly, Canada's share of global foreign direct investment (FDI) has declined over the years. Reducing barriers to FDI will help Ontario become a more attractive place for both domestic and international firms to invest.

Equally as important is continued capital investments in both the public and private sector to support long-term economic prosperity and the efficient execution of long-term public infrastructure plans, designed to account for the changing economy. Ultimately, supporting long-term prosperity requires regulatory certainty and efficiency, investment in skills, and harmonized capital investments in both the public and private sector.

ONTARIO'S ECONOMIC OUTLOOK



Over the next year, Ontario's economic growth is forecasted to slow as the province confronts capacity limits, a likely increase in interest rates, and a predicted reduction in government spending.

Slowing Growth

Over the past four years, Ontario has averaged a 2.4 percent growth rate. However, according to the Bank of Montreal, the province's GDP growth will slow to two percent in 2019 (Table 1). Two main drivers of economic growth—consumer spending and the housing market—are weakening, a trend widely expected to continue throughout 2019. Additionally, indicators show the labour market continues to tighten, creating potential challenges for businesses as they seek to build out their workforce and fund enterprise growth. In 2018, the jobless rate hit a notable low of 5.6 percent. Accordingly, the 2019 Business Confidence Survey finds 49 percent of respondents cite difficulty in recruiting and retaining as a driver of non-confidence in the economy.

Rising Interest Rates

With the Bank of Canada's expected interest rate rise in 2019, Ontario's already over-extended households will have to grapple with increasing prices for consumer goods, higher financing costs, and decreasing disposable income. However, as the real estate market cools and labour costs increase, businesses will likely seek higher investment in capital spending to increase efficiency, aided in part by recently announced capital depreciation allowances and trade uncertainty being eased with the negotiation of the Canada-United States-Mexico Agreement (CUSMA).

Decreased Government Spending

Slower growth will likely have an adverse effect on government spending, as tax revenues are reduced. With a slowing economy and Ontario's deficit expected to exceed \$16 billion by 2022-2023⁸, debt and deficit spending will be increasingly difficult to justify.

Ontario's Regional Economic Performance

Economic growth varies greatly across Ontario; as such, it is critical for policymakers to consider the unique challenges faced by each region. Figure 13 depicts the 2019 economic forecast for Ontario's 11 economic regions (as defined by Statistics Canada) and focuses on 3 principal indicators: population growth, the change in employment, and the jobless rate. General trends such as increasing labour costs, an aging population, and growing urbanization have had disproportionate impacts in areas across the province. This is evidenced by stagnant population growth and high unemployment in Northern Ontario compared to rapid population growth and decreasing unemployment in major urban centers. This reality is also reflected in the Business Confidence Survey, which finds that firms in Southwest Ontario and the GTA are more likely to express confidence in the economy than the rest of the province.⁹

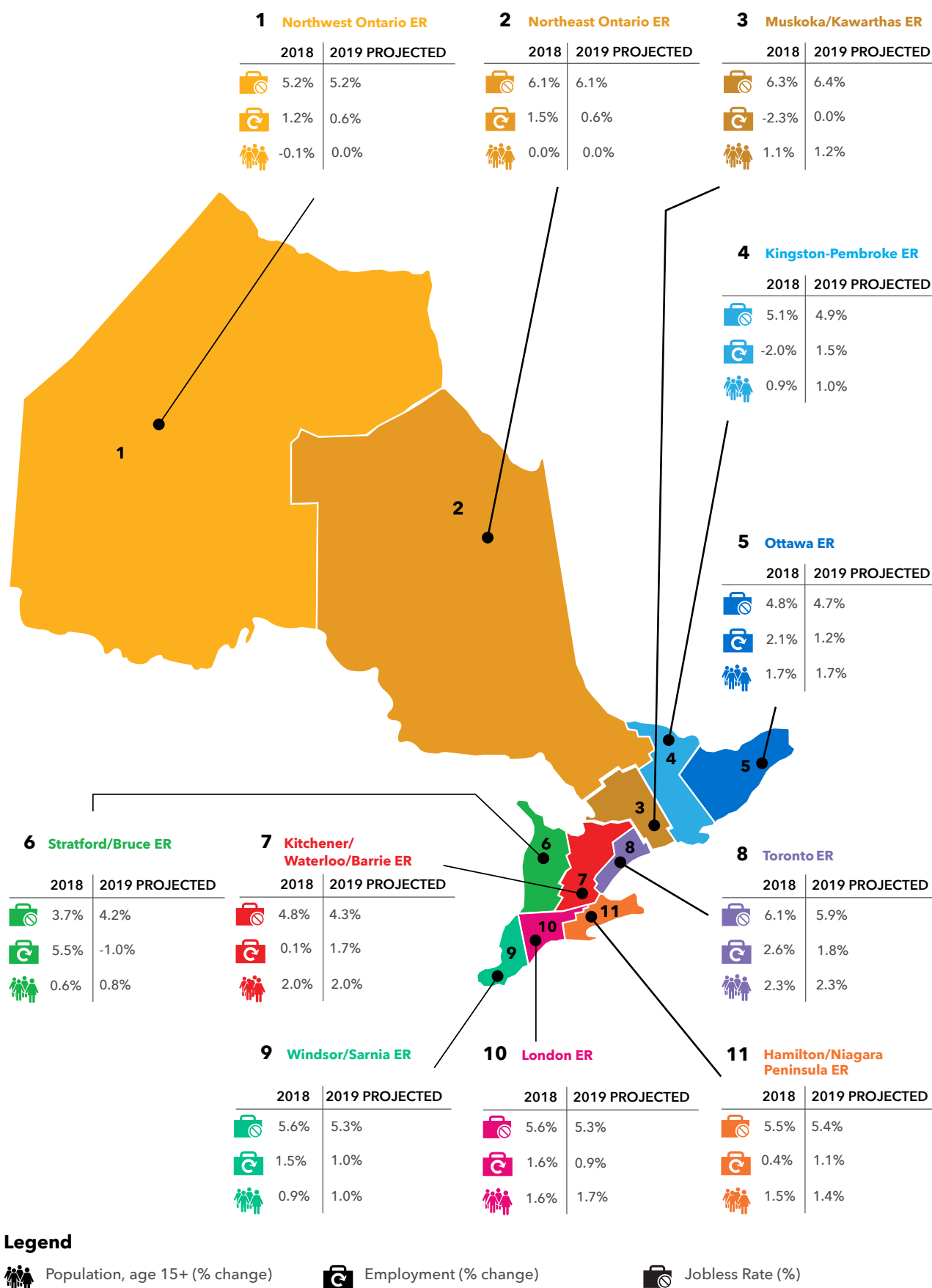
Table 1: Bank of Montreal Ontario Economic Forecast*

	2018	2019 FORECAST
REAL GDP	2.2	2.0
CONSUMER PRICE INDEX	2.3	1.7
EMPLOYMENT	1.6	1.4
JOBLESS RATE (%)	5.6	5.5
POPULATION	1.8	1.8
HOUSING STARTS (000s)	79.3	73.0

*Average annual percentage change, unless otherwise noted

⁸ Financial Accountability Office of Ontario. 2018. *Economic and Budget Outlook Assessing Ontario's Medium-Term Budget Plan*.

⁹ Regions included in Southwest Ontario: Hamilton-Niagara Peninsula; Stratford-Bruce Peninsula; Kitchener-Waterloo; Greater London Area; and Windsor-Sarnia.

Figure 13: Ontario's Regional Economic Outlook¹⁰¹⁰ Data has been provided by Bank of Montreal, January 14, 2019.



UNLOCKING ONTARIO'S ECONOMIC POTENTIAL



Ontario is facing a projected slower growth rate, yet the province is still expected to outperform Canada on a number of key indicators, including GDP, employment, and population growth. The OCC's 2019 Business Confidence Survey also reveals a more positive business sentiment towards Ontario's economic outlook compared to last year, despite a number of mitigating factors.

Major issues like the province's fiscal situation, high input costs, an aging population, and the infrastructure deficit are still top of mind for Ontario's businesses and will require thoughtful policy solutions. Beyond this, we believe there are two interconnected issues the province must successfully navigate to realize its potential: addressing the skills mismatch, which has been estimated to cost up to four percent of Ontario's GDP in forgone revenue, and addressing regional economic disparity to foster more inclusive economic growth.¹¹

The Skills Mismatch: Navigating Disruption in Ontario's Labour Market

Better understanding and addressing Ontario's skills mismatch and workforce development issues has been a longstanding priority for the OCC. This year's Ontario Economic Summit, which convened senior representatives from industry, post-secondary institutions, government, and non-profits, focused specifically on Ontario's rapidly evolving labour market. Participants discussed a wide range of public policy problems involving the pace of change in the workplace and how frequent market disruptions have made it increasingly difficult for employers to find employees with the right skill sets.

These frustrations were again confirmed in the 2019 Business Confidence Survey, in which 75 percent of members named the ability to recruit and retain talent as a critical factor to organizational competitiveness. Nearly half (49 percent) of respondents cited difficulty attracting or retaining staff as a reason for lacking confidence in the economic outlook of their organizations. Our members have told us recruitment efforts are often stifled by a supply/demand mismatch, driven in part by a deficit in areas such as skilled trades, emotional intelligence, design, communication, and STEM.¹² This problem is exacerbated by the rapid pace of technological change in the workplace which is disrupting business models and the labour force alike.

A recent study assessing the risk of, and readiness for, the impact of automation on Ontario's labour market estimated that 30 percent of workers are employed in occupations which can be automated with today's technology.¹³ Despite this, our province is relatively well positioned for technological change, ranking second compared to other jurisdictions in Canada. This can be largely attributed to the province's high concentration of individuals with a post-graduate degree, and a workforce with the highest level of core skills in Canada.¹⁴ Indeed, grappling with the impacts of technological advancements on labour force development is just one aspect of the broader skills challenge which government, industry, and post-secondary institutes must confront.

11 James Stuckey and Daniel Munro. 2013. *The Need to Make Skills Work: The Cost of Ontario's Skills Gap*. Conference Board of Canada.

12 Ontario Chamber of Commerce. 2017. *Talent in Transition: Addressing the Skills Mismatch in Ontario*.

13 Rosalie Wyonch. 2018. Risk and Readiness: *The Impact of Automation on Provincial Labour Markets*. C.D. Howe Institute.

14 Ibid.

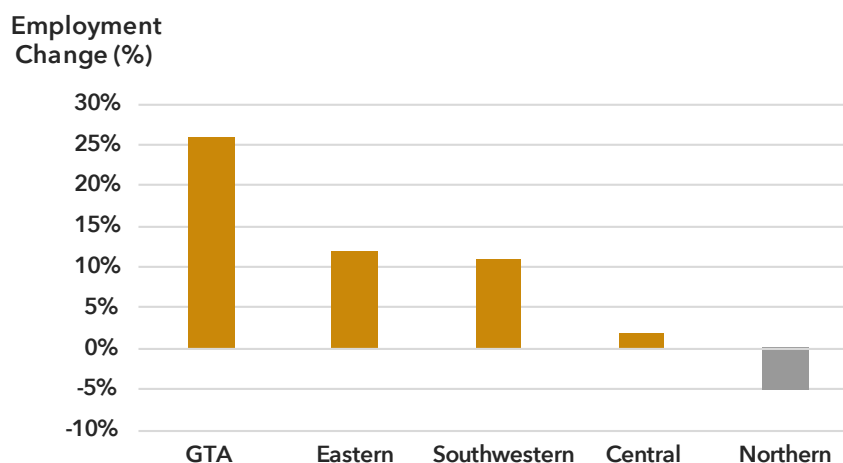
In 2019, the OCC will continue its ongoing workforce development initiative with a project that will examine how a re-structured approach to the governance of education, training, and job creation might help the Ontario government make measurable progress against the skills mismatch. Building on the pre-existing analysis and recommendations from leading stakeholders, the OCC will seek to answer two often overlooked questions: What barriers are stopping Ontario from enacting solutions to our workforce development challenges, and how do we eliminate those barriers?

Regional Economic Disparity in Ontario

The problem of finding and recruiting talent is particularly acute in rural Ontario, where a series of technological and demographic shifts have brought a unique set of challenges. Major developments such as intensified cross-border economic competition, an aging population, urbanization, and the upheaval of traditional manufacturing and agriculture sectors have been deeply felt in Ontario's Indigenous and rural communities as well as small- and medium-sized towns.

Since 2003, employment growth has largely been concentrated in the Greater Golden Horseshoe, while other regions have experienced slow or even negative growth (Figure 14).¹⁵ Between 2003 and 2017, the GTA and Central Ontario (defined as the area surrounding the GTA) accounted for 93 percent of the 915,000 net new jobs created in the province, while Northern Ontario's net employment numbers declined by 23,600 jobs over the same period.¹⁶ Meanwhile, average GDP growth during the same timeframe has been higher in the GTA (2.3 percent) and Central Ontario (2 percent), with Eastern Ontario falling somewhere in the middle (1.5 percent) and Southwestern Ontario (0.9 percent) and Northern Ontario (0.2 percent) lagging behind.

Figure 14: Ontario Employment Growth by Region, 2003 to 2018



Source: Statistics Canada (2019)¹⁷

¹⁵ Ben Eisen and Joel Emes. 2016. *The Five Solitudes of Ontario: A Regional Analysis of Labour Market Performance in Post-Recession Ontario*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/five-solitudes-of-ontario.pdf>.

¹⁶ Ontario Ministry of Finance. 2018. Economic Outlook. <https://www.fin.gov.on.ca/fallstatement/2018/chapter-2.html#c2-3>.

¹⁷ Statistics Canada. 2019. Table 14-10-0090-01. Labour force characteristics by province, territory and economic region, annual (x 1,000).

Ontario's overall prosperity depends on the strength of its regional economies and 2019 will be a formative year for shaping the province's trajectory as the government develops new strategies on infrastructure, transportation, and supports for traditional economic sectors. In response, the OCC will convene stakeholders from across the province to inform a new approach to regional economic development. This report will outline the challenges involved in generating economic prosperity throughout Ontario and provide recommendations to the Province on effective governance and planning. With appropriate infrastructure, investment, and institutional capacity, Ontario will be well equipped to thrive in the twenty-first-century economy.

LOOKING FORWARD

Throughout this report, the OCC has identified important trends to Ontario's business community. The Business Confidence Survey revealed that expectations for 2019 are higher than they were in 2018, and our members have found reason to be cautiously optimistic. At the same time, challenges relating to the costs of doing business and recruiting and retaining skilled employees remain major sources of concern. Accordingly, the Business Prosperity Index suggests that while the overall level of prosperity is high, continued investment in both the public and private sector are required to support long-term economic growth. With the Economic Outlook forecasting slower GDP and job growth in 2019, the impacts are likely to be most acutely felt in rural regions.

While the OER outlines vulnerabilities within the Ontario economy, it highlights opportunities as well. The OCC has long been dedicated to advancing realistic solutions through our policy and advocacy work and this year will be no different. In 2019, the Ontario government must consider policies and programs that address the cost of doing business and the skills mismatch. Policies seeking to ease labour fluidity and encourage workforce skills development will help increase labour force participation and better position the province for future economic success.

Similarly, while the government's commitment to reduce debt and deficit spending is admirable, it should not preclude the public investment necessary in growth-supporting services and infrastructure. Ontario's overall prosperity ultimately depends on the strength of its regional economies. Creating the institutional infrastructure for Ontario's regional economies to become more economically diverse and globally competitive should be a focus as the provincial government develops new strategies on transportation infrastructure, broadband internet, and the forestry and tourism sectors in 2019.

The OER will be available in communities across Ontario through our network of local chambers of commerce and boards of trade. The data contained within these pages can act as a reference, a benchmark, and a catalyst for further debate and policy change. Furthermore, the OCC's 2019 Ontario Economic Summit will be dedicated to the question of competitiveness with an agenda that will explore how our province can lead in innovation, knowledge-generation, and trade. Together, the OCC and the Ontario Chamber Network will continue to inform the provincial policy landscape and encourage decision-making that makes our economy stronger for all Ontarians.

Not a Member of the OCC? Get Engaged!

From innovative SMEs to established multi-national corporations and industry associations, the OCC is committed to working with our members to improve business competitiveness across all sectors. The OCC works hard to drive an effective advocacy agenda for business and to ensure that our members are kept up-to-date on issues that matter.

Through your engagement with the OCC, you will:

- Advance your policy priorities;
- Strengthen your relationship with government;
- Network with business leaders;
- Engage with 135 communities across the province; and
- Contribute to the growth of Ontario's economy.

For more information on how you can be a part of the most influential and credible business network in the province, please contact:

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