

A fairly slow week for economic releases but the big news is the provincial government's *2010 Ontario Budget* which updated and outlined the province's fiscal plans. The main releases that did come out showed some improvement in population trends and in the labour market. Ontario's recovery from its worst economic recession since the early 1990s is progressing but there is a considerable climb ahead to regain past heights.

Population growth picked up in the fourth quarter of 2009 continuing the gain seen in the previous quarter. The main factor behind this pickup is the improvement in interprovincial migration flows. Net interprovincial migration turned positive on a seasonally adjusted basis for the first time since 2002 and has been on an improving since the second quarter of 2009. The most noticeable change is the reduction in the migration outflow to other provinces rather than an increase in the inflow to Ontario.

Interprovincial migration is mostly driven by relative economic strengths so that a stronger labour market in a province attracts workers from a province with a weaker labour market. Differences in unemployment rates are good proxy for this effect. Ontario's interprovincial migration is mainly between three provinces – Alberta, B.C., and Quebec. In the fourth quarter 2009, the outflow to Alberta was 3,238 persons and one year earlier it was 7,487 persons. On a net basis, there was a small gain of 160 persons in the Ontario-Alberta migration flows, which compares to a net loss of 4,778 persons a year earlier in the fourth quarter of 2008.

Alberta's economy was hard hit by the U.S. economic recession and the drop in energy prices and low natural gas prices in particular. Its unemployment rate is around 7% compared to less than 4% during boom times. The multiplier effect of the weaker energy sector spreads to its domestic economy as does slower population growth which has an additional impact on its housing market. While Ontario's economy is not a rosy scene, Alberta's attractiveness to mobile Ontario workers is much reduced.

Ontario's labour market is slowly on the mend as the **Employment Insurance (EI)** data on initial and renewal claims received demonstrates. Seasonally adjusted claims received declined in January to their lowest level in more than one year and well below the high since earlier in 2009. This indicator usually leads changes in overall unemployment as measured in the Labour Force Survey so this downtrend sends a positive signal for future unemployment levels and rates.

The provincial government released *2010 Ontario Budget* and the deficit reduction plan is largely based on spending controls and economic growth to generate more revenue. Its deficit is estimated at \$21.3 billion in 2009-10 declining to \$19.7 billion in 2010-11, \$17.3 billion in 2011-12 and to zero or balance in 2017-18. There is a better than 50:50 chance the 2010-11 deficit is lower since it includes a forecast reserve and contingency funds amounting to \$2.7 billion. However, if the economic recovery stalls or another shock event occurs, those funds would be needed.

The government's economic forecasts are reasonable and not much different from our forecast at least for nominal or current dollar **GDP growth** to 2013. Current dollar GDP is more relevant for budget revenue projections than real or inflation-adjusted GDP which is the more often reported economic growth figure. The government's forecasts for employment growth and the unemployment rate to 2013 are also similar to our forecast. A more detailed analysis of *2010 Ontario Budget* is forthcoming and our first detailed economic forecast on the province will be released next week in the Economic Analysis of Ontario report.

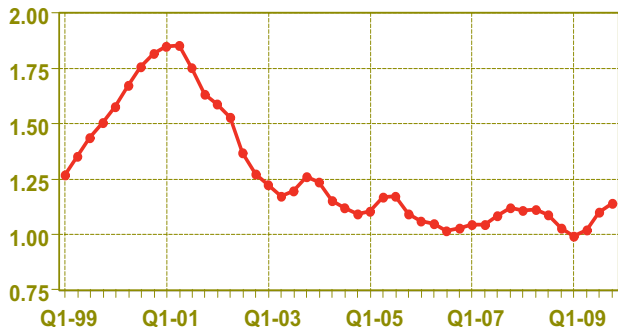
Helmut Pastrick, Chief Economist
hpastrick@central1.com
604 737 5026

Graphs on page 2



Population Growth Rate, Quarterly, Ontario

Percentage change at annual rate

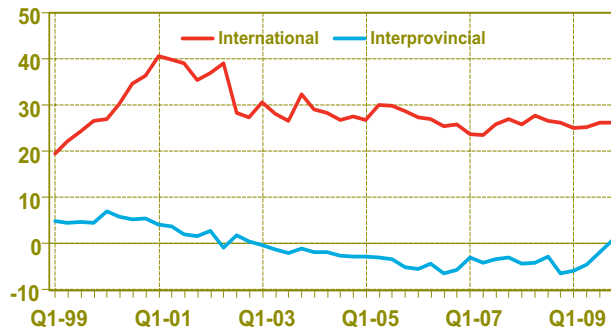


Source: Statistics Canada, C1CU.

Latest: Q4-09

Net Migration, Quarterly, Ontario

Persons - thousands

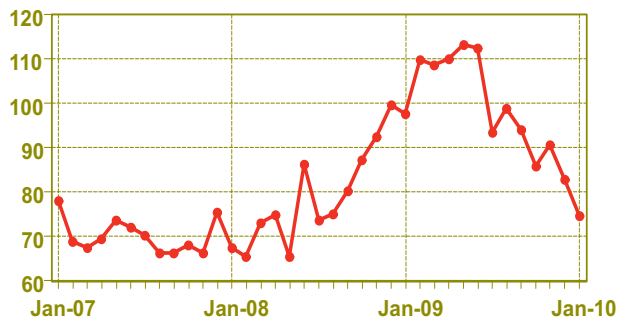


Source: Statistics Canada, C1CU. Note: Seasonally adjusted.

Latest: Q4-09

Employment Insurance Initial and Renewal Claims Received, Monthly, Ontario

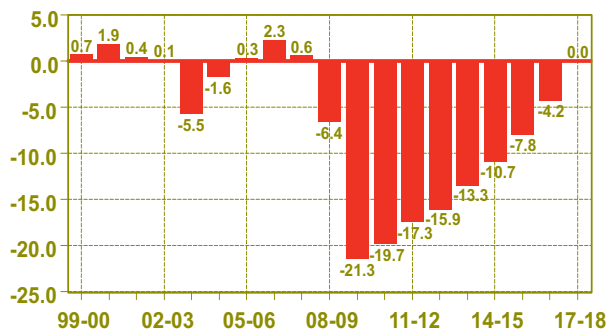
Persons - thousands



Source: Statistics Canada. Note: Seasonally adjusted.

Ontario Government Fiscal Balance, Annually

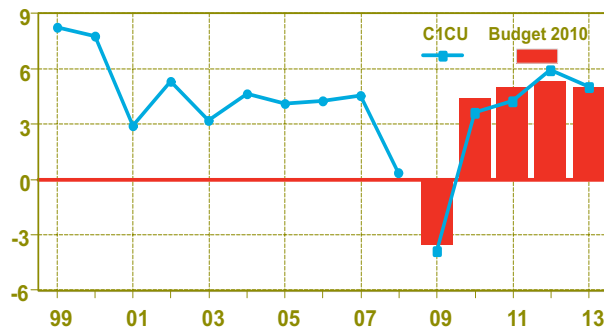
Dollars - billions



Source: Federal Fiscal Reference Tables, Ontario Budget 2010. Note on fiscal year basis.

Nominal GDP Growth, Ontario

Per cent change



Source: Statistics Canada, C1CU, Ontario Budget 2010. Latest actual 2008, 2009 estimate.