

Section **B**: Ontario's Economic Outlook



OUTLOOK FOR STRENGTHENING ONTARIO ECONOMIC GROWTH

Ontario Economic Outlook
(Per Cent)

Table 1

	2003	2004	2005	2006	2007 ^e	2008 ^p	2009 ^p	2010 ^p
Real GDP Growth	1.4	2.5	2.9	2.1	1.9	1.8	2.4	2.8
Nominal GDP Growth	3.2	4.8	3.9	3.9	5.0	3.8	4.0	4.7
Employment Growth	3.0	1.7	1.3	1.5	1.6	1.2	1.3	1.4
CPI Inflation	2.7	1.9	2.2	1.8	1.8	1.4	2.0	2.0

^e = estimate; ^p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

This section outlines Ontario's current macroeconomic outlook, which is the basis for the fiscal plan. Ontario's economy is projected to grow at a modest pace in 2007 and 2008, and then strengthen over the following two years as it adjusts to the challenging global environment.

The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.9 per cent in 2007, 1.8 per cent in 2008, 2.4 per cent in 2009 and 2.8 per cent in 2010. In keeping with prudent fiscal practices, these projections are deliberately set below the average private-sector forecast in every year.

Over the 2002 to 2006 period, the resilient Ontario economy grew at a modest pace despite an increasingly challenging global economic environment. Oil prices increased from \$26.10 US per barrel in 2002 to \$66.10 US in 2006. Likewise, the Canadian dollar increased from 63.7 cents US in 2002 to 88.2 cents US in 2006. In 2006, the Ontario economy also had to contend with rising interest rates and weaker U.S. demand for Ontario's key exports.

Ontario's real GDP rose at an annual rate of 2.3 per cent in the second quarter of 2007, following growth of 3.2 per cent in the first quarter. Moderate growth is expected to continue through 2008 as U.S. demand remains soft and the higher Canadian dollar and oil prices create challenges for Ontario businesses.

Ontario's strong economic fundamentals include a well-educated and highly skilled population, a diversified industrial structure, and modern infrastructure. These strong fundamentals ensure the province is well positioned to manage both the challenges and opportunities ahead.

Ontario's strong economic foundation and a rebound in U.S. economic activity are expected to boost growth in 2009 and 2010. Business investment spending is expected to lead growth as firms invest to improve their competitive position. Continued employment growth, strong income gains, low interest rates and increasing wealth will support growing household spending. Ontario's exports are expected to strengthen as U.S. auto demand picks up, the new Toyota plant in Woodstock comes on stream and exports to the rest of the world continue to accelerate.

PRIVATE-SECTOR FORECASTS

Private-Sector Forecasts for Ontario Real GDP Growth					Table 2
(Per Cent)					
	2007	2008	2009	2010	
Conference Board of Canada (October)	2.4	2.6	3.2	3.2	
Global Insight (November)	1.8	2.0	2.0	2.4	
Centre for Spatial Economics (July)	1.7	2.1	2.7	2.9	
University of Toronto (October)	2.0	1.1	2.6	3.2	
RBC Financial Group (October)	1.9	1.8	2.5	–	
Scotiabank Group (December)	1.9	1.6	–	–	
TD Bank Financial Group (November)	2.1	1.8	2.1	–	
BMO Capital Markets (November)	1.9	1.7	–	–	
CIBC World Markets (October)	1.9	2.0	–	–	
Private-Sector Survey Average	2.0	1.9	2.5	2.9	
Ontario's Planning Assumption	1.9	1.8	2.4	2.8	

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (December 5, 2007).

Economic projections are a key building block for the government's fiscal plan. To establish reasonable and accountable economic projections, the Ministry of Finance consults with private-sector forecasters. The Ontario Economic Forecast Council was formed to obtain the best possible advice on macroeconomic forecasts and assumptions. Its members are Peter Dungan from the University of Toronto, Ernie Stokes from the Centre for Spatial Economics, Dale Orr from Global Insight, and Glen Hodgson from the Conference Board of Canada. The Minister of Finance met with Council members and other private-sector forecasters in the process of preparing the *2007 Ontario Economic Outlook and Fiscal Review*.

ONTARIO'S RESILIENCE IN THE FACE OF GLOBAL ECONOMIC CHALLENGES

The short-term Ontario economic outlook is influenced by external factors such as oil prices, the Canadian dollar exchange rate and U.S. economic growth. The next section discusses the challenging outlook for external factors in greater detail as well as the forecast for Ontario's exports. This is followed by a discussion of the outlook for investment, jobs, incomes, household spending and the housing market.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth¹ **Table 3**
(Percentage Point Increase)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.2 to 0.9	0.7 to 1.4
World Crude Oil Prices Decrease by \$10 US per Barrel	0.3 to 0.7	0.1 to 0.5
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

¹ Impacts based on changes being sustained.

Source: Ontario Ministry of Finance.

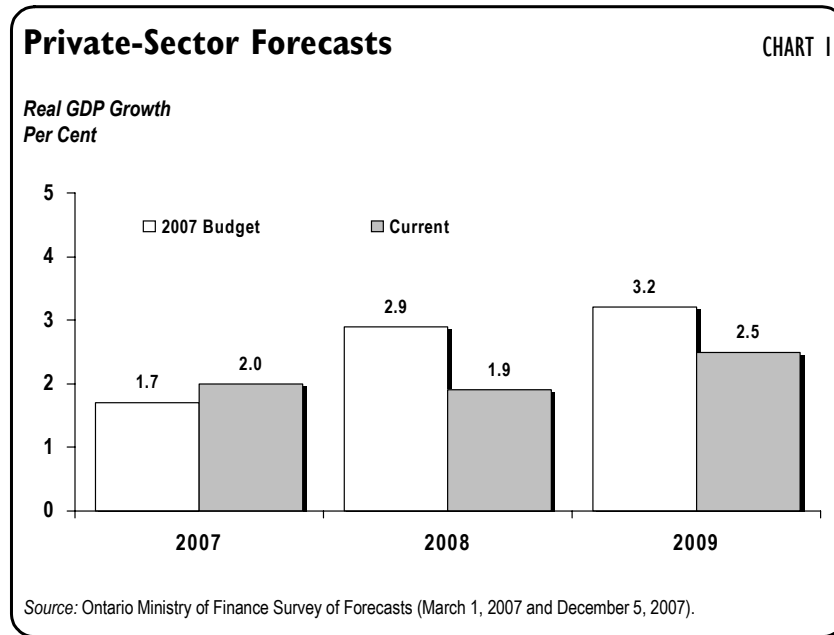
Table 3 shows the typical range for the first- and second-year impacts of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of changing circumstances can also have a substantial bearing on the actual outcome.

Key External Factors Affecting Ontario's Economy **Table 4**
Average Private-Sector Forecast

	2007		2008		2009		2010
	2007 Budget	2007 Fall Update	2007 Budget	2007 Fall Update	2007 Budget	2007 Fall Update	2007 Fall Update
Canadian Dollar (Cents US)	85.8	93.4	87.2	100.8	87.3	98.1	96.7
Crude Oil (\$ US per Barrel)	60.0	71.7	59.7	78.3	60.0	72.3	68.6
U.S. Real GDP Growth (Per Cent)	2.7	2.1	3.0	2.4	3.1	2.9	2.8
Three-Month Treasury Bill Rate (Per Cent)	4.1	4.2	4.2	4.1	4.4	4.5	4.6
10-Year Government Bond Rate (Per Cent)	4.1	4.3	4.5	4.4	5.0	4.9	5.2

Sources: *Blue Chip Economic Indicators* (November 2007) and Ontario Ministry of Finance Survey of Forecasts (March 1, 2007 and December 5, 2007).

COMPARISON TO THE 2007 ONTARIO BUDGET



Since the 2007 Budget, there have been significant unanticipated changes in the economic environment. The Canadian dollar climbed above parity with the U.S. dollar, reaching as high as \$1.10 in November 2007. Oil prices reached a recent high of close to \$100 US per barrel. Global financial turmoil and credit tightening have recurred as a result of the sub-prime mortgage crisis in the United States. These developments have resulted in private-sector forecasters raising their projections for oil prices and the Canadian dollar, and lowering their projections for U.S. economic growth. As a result of these changing external conditions, private-sector projections for Ontario economic growth in 2008 and 2009 have been revised since the 2007 Budget. Ministry of Finance assumptions remain prudent compared to the private-sector average.

Despite these challenges, Ontario's economy continues to be resilient. Ontario's real GDP is expected to grow by 1.9 per cent in 2007 — 0.3 percentage points higher than the Ministry of Finance's 2007 Budget forecast. Employment is now expected to grow by 1.6 per cent — 0.5 percentage points above the Budget forecast. Incomes have grown strongly in the first half of the year and are expected to surpass the 3.9 per cent growth projected in the 2007 Budget. Corporate profits are now expected to grow by 7.0 per cent in 2007, ahead of the prudent Budget projection of 1.1 per cent growth. Nominal GDP is now expected to grow by 5.0 per cent, above the 3.1 per cent projected in the Budget.

The Ontario Economy in 2007
(Per Cent Change)

Table 5

	2007 Budget	2007 Fall Update
Real Gross Domestic Product	1.6	1.9
Personal consumption	2.8	3.0
Residential construction	(3.0)	(0.2)
Non-residential construction	2.5	3.8
Machinery and equipment	6.5	4.9
Exports	1.5	1.5
Imports	2.5	3.0
Nominal Gross Domestic Product	3.1	5.0
Other Economic Indicators		
Retail sales	3.6	3.6
Housing starts (000s)	68.0	68.0
Personal income	3.9	5.3
Wages and salaries ¹	3.9	4.9
Corporate profits	1.1	7.0
Consumer Price Index	1.3	1.8
Labour Market		
Employment	1.1	1.6
Job creation (000s)	71	103
Unemployment rate (per cent)	6.3	6.4

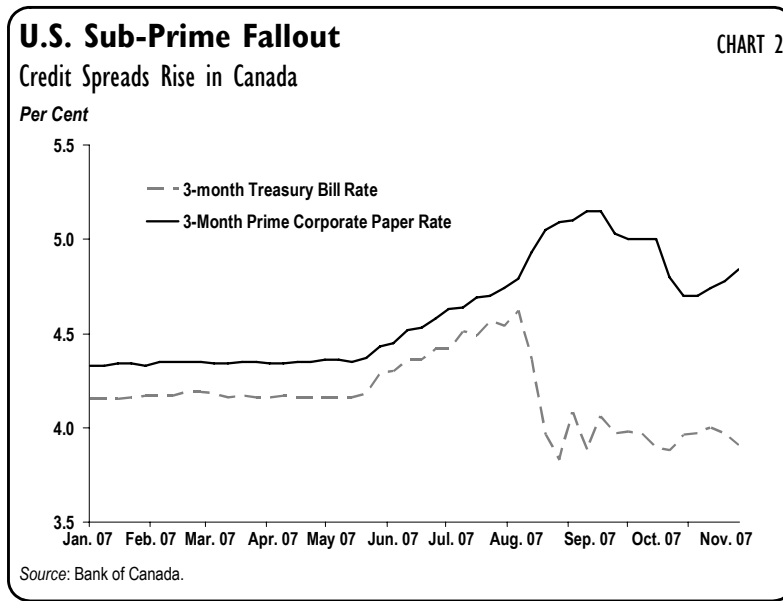
¹ Includes supplementary labour income.

Source: Ontario Ministry of Finance.



CHALLENGING EXTERNAL ECONOMIC ENVIRONMENT

U.S. SUB-PRIME MORTGAGE DEFAULTS CHALLENGE FINANCIAL MARKET LIQUIDITY



The recent rise in U.S. sub-prime mortgage defaults and the corresponding effect on global financial markets represent a new challenge for Ontario's economy. For example, much of the rise in the Canadian dollar since August is a consequence of anticipated economic weakness and interest rate cuts in the United States, largely triggered by the sub-prime mortgage default crisis. There has also been a corresponding tightening in credit conditions around the world.

Many of the U.S. sub-prime mortgages were repackaged into securities and sold around the world. Many of these collateralized debt obligations (CDOs) were backed by high-yield bonds and loans as well as mortgages. These new, complex financial arrangements resulted in a lack of transparency, making it difficult for investors to determine the underlying value of the assets. The higher default rate for sub-prime mortgages resulted in extreme risk aversion for securities backed by these assets even if the exposure was not large. Uncertainty among market participants began to build in early August 2007, and perceptions of risk rose. Risk aversion increased. Financial institutions increased their cash holdings due to uncertainty about their exposure, squeezing liquidity.

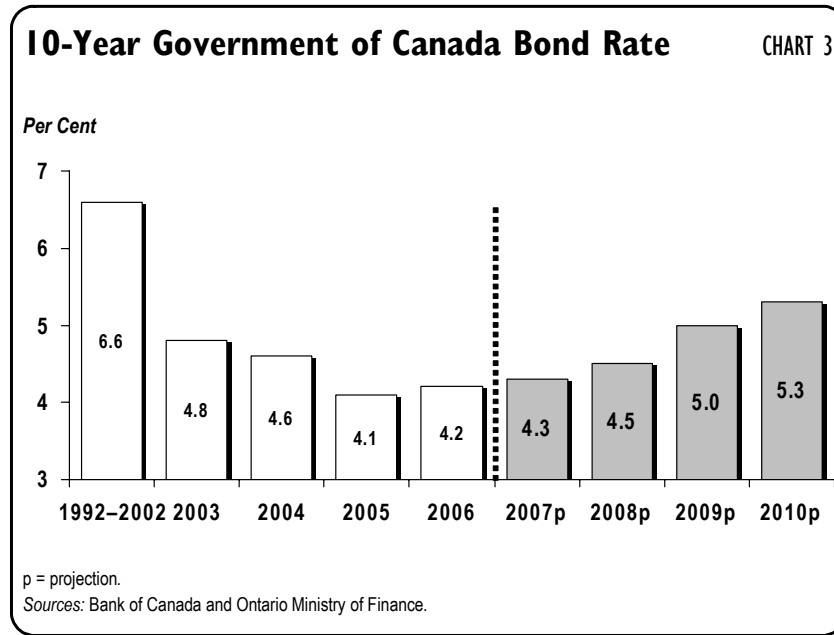
As events unfolded around the world, central banks, including the Bank of Canada, moved quickly to provide significant amounts of liquidity to their financial systems to keep interest rates from rising. The U.S. Federal Reserve has cut its federal funds rate and its discount rate since the crisis began in early August. Following the crisis, the European Central Bank and the Bank of

Canada held off on interest rate hikes that had previously been expected. The Bank of Canada cut the overnight rate by 25 basis points on December 4, noting that the deteriorating international credit markets conditions point to greater risks of weakness ahead. U.S. mortgage delinquencies are expected to rise over coming quarters as large waves of sub-prime loan renewals are reset at higher interest rates. As a result, further financial market volatility may occur. To date, though, effective action by the Bank of Canada has kept Canadian financial markets working smoothly and Ontario is confident markets will continue to operate effectively.

There is uncertainty about the extent and duration of the tightening of credit conditions in Canada and about the tempering effect this may have on growth. Since the summer, credit spreads for riskier types of loans have widened, leading to higher borrowing costs for some businesses and consumers. Tightening credit conditions could cause lenders to make it more difficult for borrowers to obtain business and consumer loans. Weakened business or consumer confidence arising from tighter credit conditions could also restrain spending, which could dampen economic growth.

The recent global liquidity crisis has not materially affected the Province's liquidity. Details on Ontario's exposure to asset-backed commercial paper are discussed in Annex IV: *Borrowing and Debt Management*.

INTEREST RATES TO TREND MODESTLY HIGHER



Interest rates affect consumer spending and business investment as well as the projected expense for interest on the Province's debt.

Once the current market turbulence is over, interest rates are expected to trend up gradually. Private-sector forecasters project Canadian three-month treasury bill rates will average 4.2 per cent in 2007, 4.1 per cent in 2008, 4.5 per cent in 2009 and 4.6 per cent in 2010. There is a wide range of views on three-month treasury bill yields next year, ranging from a low of 3.0 per cent to a high of 4.8 per cent. Private-sector forecasts for 10-year Government of Canada bonds in 2008 range from a low of 3.7 per cent to a high of 4.9 per cent. Ministry of Finance interest rate assumptions are deliberately set above average private-sector forecasts. Although interest rates are projected to edge higher over the medium term, they are expected to remain well below their historical averages.

**Canadian Interest Rate Outlook
(Annual Per Cent)**

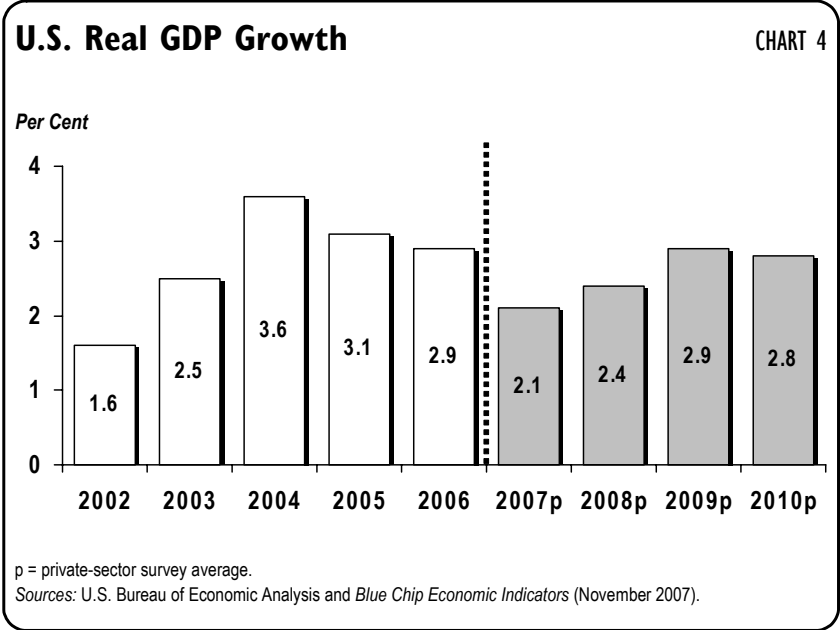
Table 6

	2007p	2008p	2009p	2010p
Three-Month Treasury Bill Rate	4.1	4.2	4.6	4.7
10-Year Government Bond Rate	4.3	4.5	5.0	5.3

p = projection.

Source: Ontario Ministry of Finance.

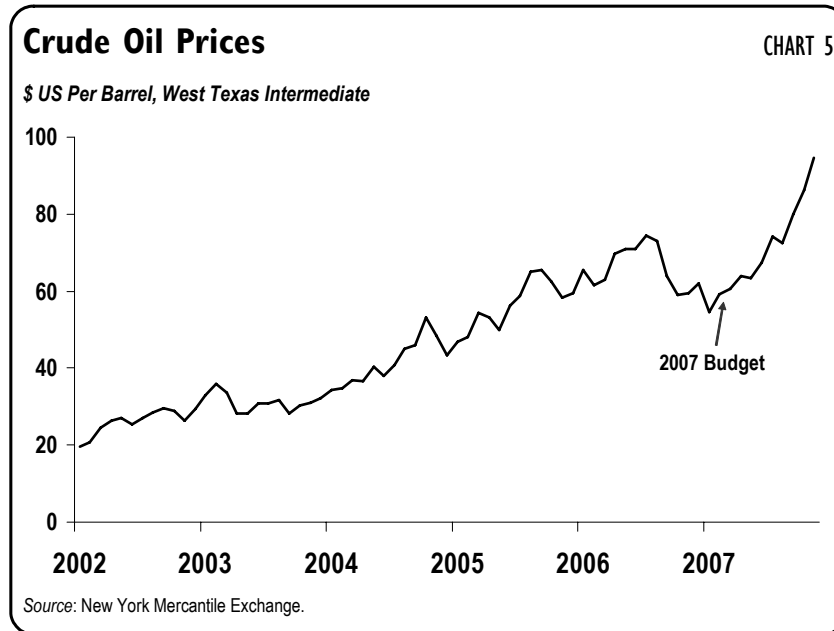
UNITED STATES SET TO OVERCOME SETBACKS



The economic performance in the United States is critical for Ontario as the lion’s share of the province’s international merchandise exports is U.S.-bound. Private-sector forecasters expect U.S. GDP growth of 2.1 per cent in 2007, well below the previous three years when growth averaged 3.2 per cent.

Growth in the United States is expected to improve as financial market concerns are resolved and the housing market recovers. Real GDP growth in the United States is expected to grow by 2.4 per cent in 2008, 2.9 per cent in 2009 and 2.8 per cent in 2010. A pickup in U.S. growth is important to Ontario exports, particularly U.S. spending on autos and building materials produced in Ontario.

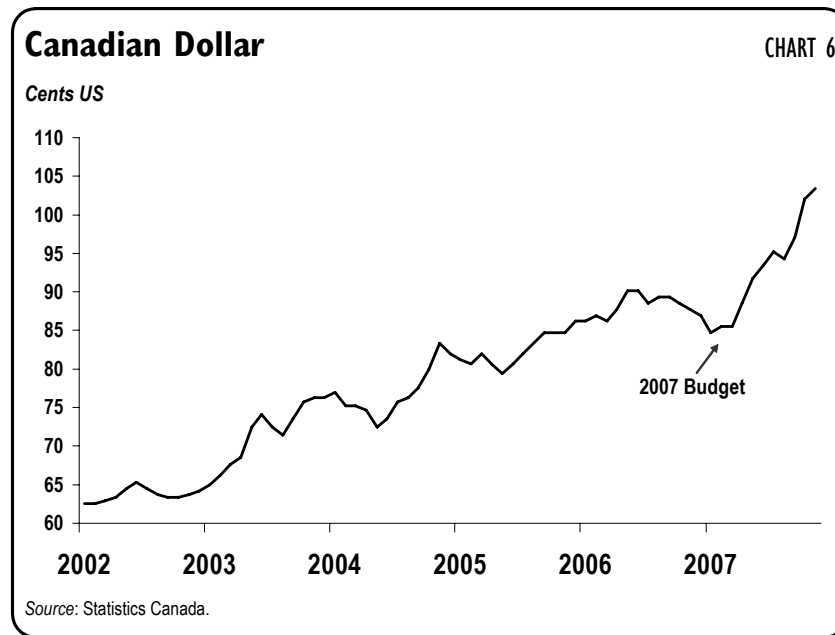
OIL PRICES ARE EXPECTED TO REMAIN HIGH



Higher oil prices, which raise costs for Ontario businesses and consumers, tend to dampen economic growth. Oil prices rose over 150 per cent from \$26.10 US per barrel in 2002 to \$66.10 US per barrel in 2006. In 2007, oil prices soared from less than \$50 US per barrel in mid-January to a new record high of \$99.29 US per barrel in November. This was a result of strong global demand, numerous refinery outages and geopolitical risks. It was also due to continued production restraint by OPEC (Organization of the Petroleum Exporting Countries) members and slower-than-expected growth in non-OPEC supply, which helped tighten oil-market supply-and-demand balance.

Private-sector forecasters expect oil prices to remain elevated over the forecast horizon, as healthy global demand and limited surplus capacity will keep markets relatively tight and vulnerable to supply disruptions. Private-sector forecasters call for oil prices to average \$78.30 US per barrel in 2008, \$72.30 US per barrel in 2009 and \$68.60 US per barrel in 2010. Significant volatility still exists in oil markets as analysts' projections for 2008 range from less than \$60 US per barrel to \$80 US per barrel.

STRONGER CANADIAN DOLLAR CHALLENGES BUSINESS



The stronger Canadian dollar is a serious challenge for businesses as it makes it more difficult to compete with foreign producers, both in the Canadian market and abroad.

On a trade-weighted basis, the Canadian dollar has appreciated more than any other major currency since the beginning of 2002, creating challenges for Ontario's economy — in particular, Ontario's export-oriented manufacturing, agriculture and forestry sectors. Travel from the United States to Ontario also has been adversely affected by the strength of the dollar. However, the higher dollar lowers the cost of imported machinery and equipment since about 60 per cent is imported, providing a good opportunity for factories to upgrade technology and improve efficiencies.

The Canadian dollar has appreciated by about 65 per cent from early 2002 to November 2007, climbing above parity with the U.S. currency in late September for the first time since November 1976. The dollar has been quite volatile this year. From a low of 84.2 cents US on February 8, the dollar climbed to a high of 110.3 cents on November 7. Recently, it has eased back to trade below parity with the U.S. dollar. Through all this, the Canadian dollar has averaged about 93 cents US so far in 2007, on pace to mark the fifth straight annual increase. Private-sector forecasters expect it to average about 98.5 cents US per year in 2008 through 2010.

There is a significant divergence of views on the Canadian dollar, with forecasts ranging from an annual average of 104.7 cents US to 92.6 cents US next year. The wide range of projections reflects differing views about global growth, commodity prices and the long-run fair value of the dollar.

HIGH DOLLAR WILL CHALLENGE ONTARIO'S TRADE PERFORMANCE

Ontario's net export balance has diminished in both value and volume due to reduced exports to the United States, largely attributable to the strong Canadian dollar and weaker U.S. demand. While exports to the United States have declined, those to the rest of the world have increased dramatically. Over the past five years, the Canadian dollar value of Ontario merchandise exports to the United States declined by 7.4 per cent while exports to other countries nearly doubled (+93.8 per cent). This has occurred to a lesser degree on the import side. Over the 2002 to 2006 period, the value of Ontario imports from the United States fell 2.8 per cent, while imports from all other countries grew 38.5 per cent, with China accounting for nearly half of that growth.

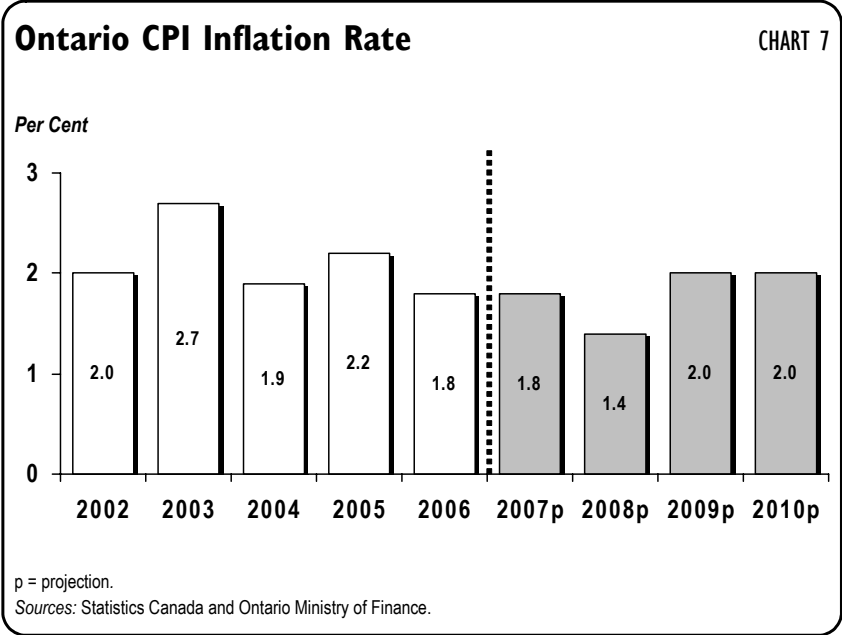
In recent years, interprovincial trade has also increased in importance to Ontario, accounting for 31.5 per cent of the value of Ontario's exports in 2006. Strong growth in Western Canada is expected to continue to boost Ontario's exports.

Weaker growth in the United States, a stronger Canadian dollar and restructuring in the auto industry will hold down exports in the near term. However, the opening of a new Toyota plant in Woodstock in 2008 will give exports a lift. The auto sector currently accounts for 41 per cent of Ontario's international merchandise exports, with 97 per cent of auto exports destined for the United States.

Strong global growth, particularly from India and China, will provide ongoing strength for Ontario industrial goods and materials exports.

Ontario real exports are projected to rise by 1.5 per cent in 2007. In 2008, real export growth is expected to slow to 1.0 per cent due to weaker U.S. demand. Real export growth is expected to strengthen in 2009 and 2010, averaging 2.7 per cent, reflecting stronger domestic demand in the United States and buoyant global demand. There is a wide range of views on the outlook for Ontario's trade balance, reflecting different views on the dollar, U.S. demand and how quickly Ontario exporters will adjust to the competitive global market.

INFLATION WILL REMAIN STABLE



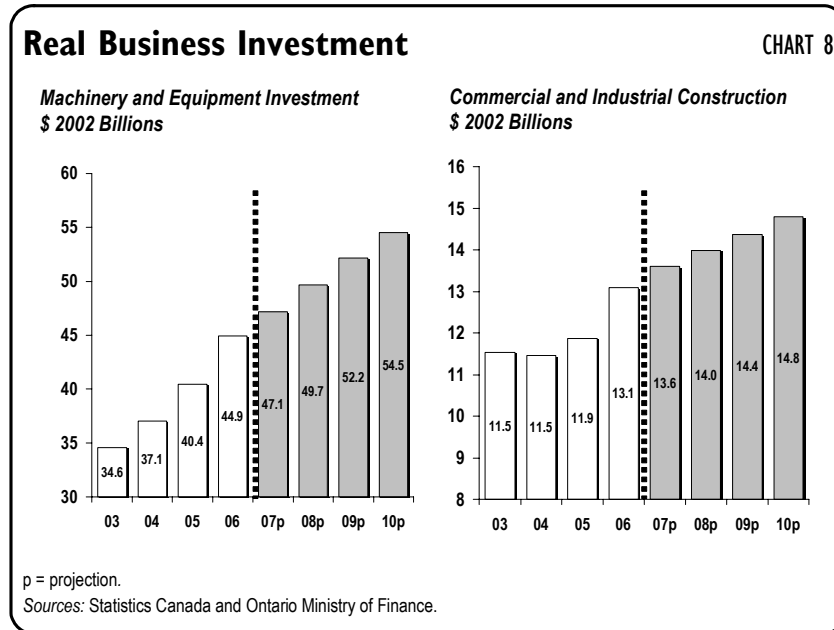
Ontario’s consumer price index (CPI) inflation rate has been low and stable in recent years, averaging 2.1 per cent over the 2002 to 2006 period. It was 2.3 per cent in October and has averaged 1.7 per cent so far in 2007.

Inflation is expected to remain well contained over the forecast horizon. Ontario’s CPI inflation rate is expected to fall to 1.4 per cent in 2008. This incorporates the one percentage point cut in the federal goods and services tax (GST) on January 1, 2008 that will reduce the CPI inflation rate by an estimated 0.6 per cent. Ontario’s CPI inflation rate is expected to average 2.0 per cent in 2009 and 2010. The average private-sector forecast for Ontario inflation for 2009 to 2010 ranges from a low of 1.8 per cent to a high of 2.3 per cent. The narrow forecast range over the medium term reflects the private sector’s view that the Bank of Canada’s monetary policy will succeed in keeping inflation near the mid-point of its one to three per cent target range.



CONTINUED STRONG AND RESILIENT DOMESTIC ECONOMY

STRONG INVESTMENT SPENDING TO CONTINUE



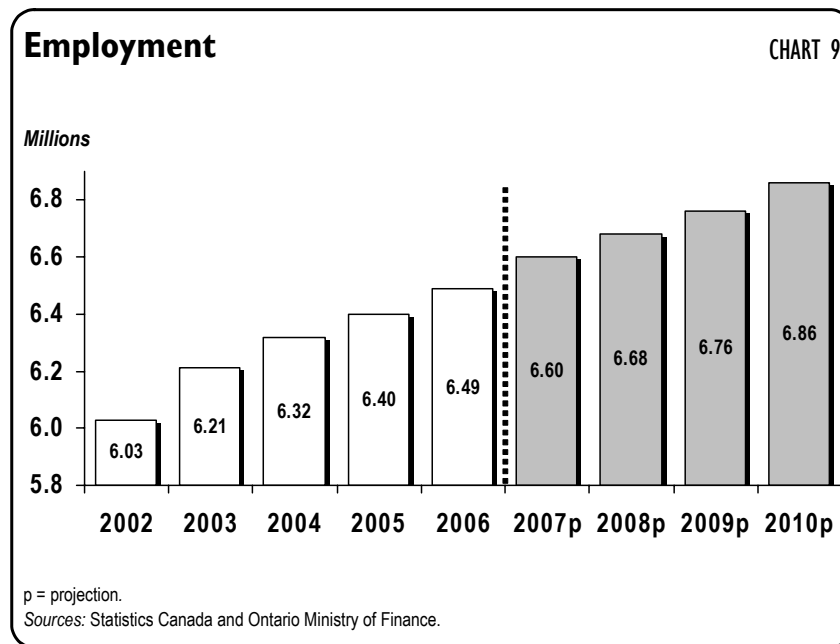
The outlook for business investment remains positive over the forecast horizon. Healthy balance sheets will continue to contribute to a positive investment climate. Ontario corporate profits have expanded in the last several years, reaching 11.5 per cent of GDP in 2006. Corporate profits as a share of GDP are projected to average 12.0 per cent in 2007 through 2010, above the historical average of 10.0 per cent. Corporate profits are projected to increase by 7.0 per cent in 2007 and by an average of 5.2 per cent from 2008 through 2010.

Investment spending rose strongly over the 2002 to 2006 period. Real machinery and equipment spending advanced by an average of 5.2 per cent and non-residential investment grew by 2.8 per cent annually. Strong investment spending has continued through the first half of 2007, with real machinery and equipment spending up 6.1 per cent and real non-residential construction spending up 5.1 per cent over the same period of 2006.

Machinery and equipment investment gives firms access to leading-edge technologies, improving productivity and enhancing competitiveness. Lower costs of imports will continue to contribute to strong investment in machinery and equipment. Real spending on machinery and equipment is projected to rise by 4.9 per cent in 2007, and 5.0 per cent annually from 2008 through 2010.

Strong growth in commercial and industrial construction is also expected, reflecting investment by utilities; transportation and warehousing; retail trade; and finance, insurance and real estate. Total real commercial and industrial construction spending is expected to increase by 3.8 per cent in 2007, and 2.9 per cent annually from 2008 through 2010.

MORE JOBS WILL BE CREATED



Almost 418,000 net new jobs have been created since October 2003. Over 95 per cent of those jobs were in occupations that paid an average over \$19.50 per hour, including jobs in natural and applied sciences, management, social sciences, and education. The strongest job growth over the past four years has occurred in:

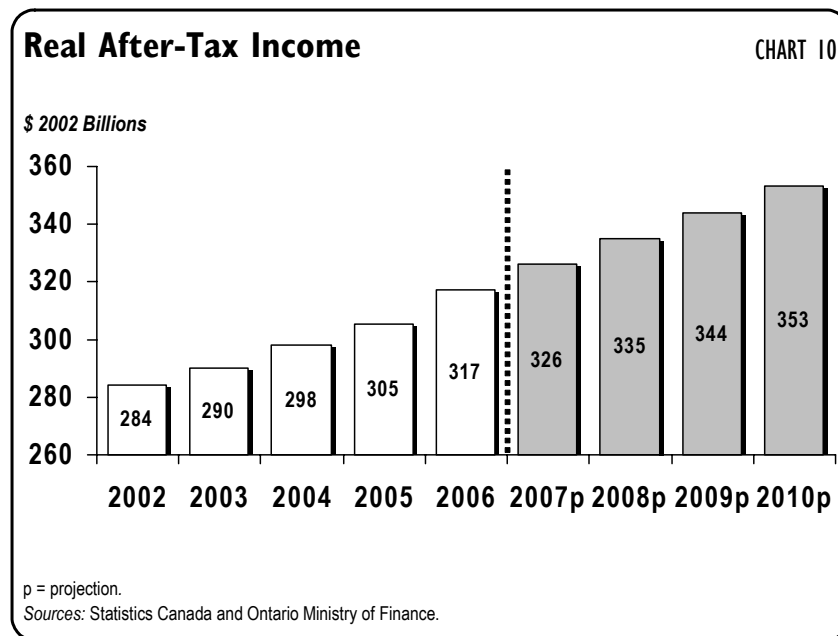
- educational services (109,600)
- wholesale and retail trade (80,600)
- health care and social services (56,300)
- finance, insurance, real estate and leasing (56,100)
- information, culture and recreation (43,700)
- professional, scientific and technical services (37,600)
- construction (36,200).
- public administration (31,900)

So far this year, the Ontario economy has created 102,800 net new jobs, with full-time positions accounting for 60 per cent of the increase. Job gains have been broadly based in the service sector and include 33,600 new positions in health care and social services; 29,900 in accommodation and

food services; 23,600 in professional, scientific and technical services; and 19,500 in education. On the goods-producing side, the construction industry added 8,700 jobs and utilities created 9,600 jobs.

Employment is expected to grow by 1.6 per cent for 2007 as a whole, following a 1.5 per cent gain in 2006. The unemployment rate is anticipated to average 6.4 per cent in 2007 — compared to a 10-year average of 6.8 per cent. Ontario is projected to create an additional 82,000 jobs in 2008, an increase of 1.2 per cent. Job growth is expected to pick up in 2009 and 2010, with an average increase of 1.3 per cent each year.

INCOMES WILL CONTINUE TO GROW



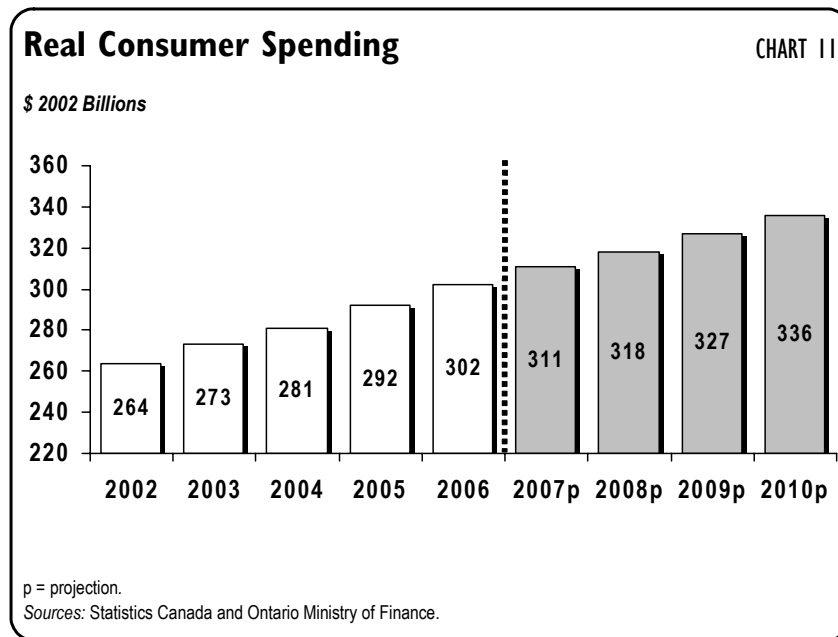
Over the 2002 to 2006 period, personal income grew strongly, rising by an annual average of 3.9 per cent, contributing to a 2.6 per cent annual gain in inflation-adjusted after-tax income. This rise reflects strong gains in labour income as employment growth averaged 1.8 per cent and hourly wage growth averaged 2.6 per cent a year.

Real after-tax income is up 3.6 per cent over the first half of 2007, reflecting buoyant labour income, unincorporated business income and investment income. Both total personal and labour income growth are solid, reflecting strong job creation, up 1.6 per cent, and healthy wage gains, up 2.8 per cent.

Personal income is projected to grow by 5.3 per cent in 2007, or 3.0 per cent after adjusting for inflation and taxes. Personal income growth is expected to soften to 3.8 per cent in 2008, leading

to a 2.6 per cent increase in real after-tax income. Looking ahead, personal income is forecast to grow by an average of 4.4 per cent in 2009 and 2010, in part reflecting stronger employment growth. Real after-tax income is expected to increase by an average of 2.7 per cent in 2009 and 2010.

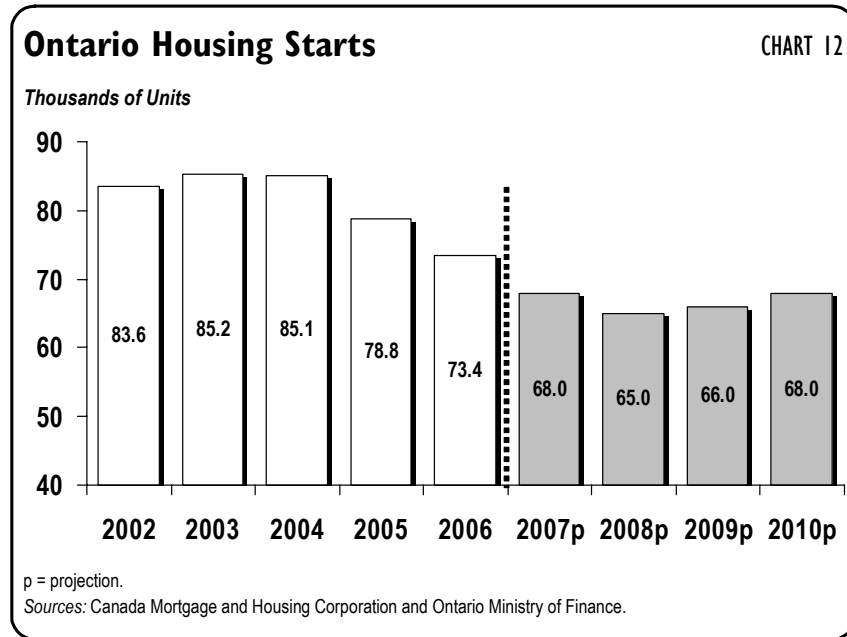
EMPLOYMENT AND INCOME GAINS WILL FUEL HOUSEHOLD SPENDING



Solid income growth has led to healthy household finances and strong consumer spending growth. Over the 2002 to 2006 period, retail sales expanded by an average of 4.3 per cent a year. Over the first nine months of 2007, they were up 3.7 per cent. Home-related purchases remain robust, with sales at furniture, home furnishings and electronics stores expanding 8.3 per cent in the first nine months of this year. Sales at new car dealers are up just 0.1 per cent compared to the same period last year, reflecting modest unit sales and lower prices. The moderate growth in new car sales has limited the growth in overall retail sales since new car sales normally account for about 20 per cent of Ontario retail sales. Retail sales are expected to grow by 3.6 per cent in 2007, 3.4 per cent in 2008, and by an average of 4.1 per cent in 2009 and 2010.

Consumer spending on both goods and services, in real terms, increased by a robust 3.4 per cent annually over the 2002 to 2006 period. Over the first half of this year, real personal expenditure rose by 3.8 per cent over the same period last year. Real consumer spending is expected to rise by 3.0 per cent in 2007, 2.4 per cent in 2008 and then average 2.8 per cent in 2009 and 2010, in line with real after-tax income.

HOUSING MARKET REMAINS HEALTHY



Ontario's housing market was a source of strength in the economy over the 2002 to 2006 period. Housing starts averaged 81,200 units annually, outperforming expectations. Housing resales also soared, reaching record levels in 2002, 2003 and 2004, and averaging gains of 3.7 per cent over the 2002 to 2006 period.

Ontario's housing market remains strong, with housing resales set to reach record levels in 2007. Housing starts have eased from 73,400 units in 2006 to an annual rate of 68,600 units so far this year. Rising house prices and upward movement in mortgage rates have dampened housing affordability, but new mortgage products such as longer amortization loans have helped to offset these effects and increased accessibility for buyers.

Housing starts are expected to total 68,000 units in 2007 and average 66,300 units over the 2008 to 2010 period. Ongoing strong international immigration will boost overall population and result in the creation of an average of 72,000 new Ontario households a year from 2008 through 2010.

Ontario's resale market has continued to surpass expectations. After slowing slightly in 2005 and 2006, home resales have surged in 2007 and are up over 10 per cent so far this year. Resales are projected to rise by 9.0 per cent in 2007 before easing by 2.9 per cent in 2008, and then to grow by an average of 1.5 per cent in 2009 and 2010. Strong demand has put upward pressure on prices. The average price of an Ontario home is projected to increase from \$299,000 in 2007 to \$329,000 in 2010, an increase of close to 10 per cent. Ontario's housing market is expected to remain healthy. There is little evidence of overbuilding and although housing prices have increased, low

interest rates and strong income growth mean that mortgage payments as a share of household income remain well below the peak in 1990.

Ontario's housing market does not face the same risks as the U.S. market. Adjustable-rate mortgages are less prevalent in Canada, with the sub-prime mortgage market accounting for only five per cent of total mortgage originations in Canada in 2006 compared to 22 per cent in the United States. In addition, Canadian financial institutions have tighter lending standards and most homebuyers in Canada must purchase insurance if they lack the required 20 per cent down payment.

DETAILS OF THE ONTARIO ECONOMIC OUTLOOK

The Ministry of Finance's outlook for the major external factors shaping Ontario's economic prospects is closely tied to private-sector forecasts. These factors include the U.S. economic outlook, interest rates, Canadian dollar exchange rate, oil prices and economic growth in the rest of Canada. The Ministry of Finance's forecast for real GDP growth is deliberately prudent, 0.1 percentage point below the average private-sector forecast in every year. Developing revenue estimates requires highly detailed economic forecasts that often go well beyond what is readily available from most private-sector forecasters. As such, the more detailed components of the outlook, such as those in this table, are based on a combination of private-sector forecasts and macro-econometric models. Professional judgment also plays a role, especially in interpreting model results, judging the reasonableness of private-sector forecasts and incorporating the latest information.

Table 7 shows the key details of the Ministry of Finance's economic outlook for the 2007 to 2010 period.

The Ontario Economy, 2005 to 2010
(Per Cent Change)

Table 7

	Actual		Projected			
	2005	2006	2007	2008	2009	2010
Real Gross Domestic Product	2.9	2.1	1.9	1.8	2.4	2.8
Personal consumption	3.6	3.5	3.0	2.4	2.7	2.9
Residential construction	1.8	1.1	(0.2)	0.9	2.0	2.5
Non-residential construction	3.6	10.4	3.8	2.9	2.7	3.0
Machinery and equipment	9.1	11.2	4.9	5.4	5.0	4.5
Exports	2.2	(0.2)	1.5	1.0	2.5	2.9
Imports	3.9	2.7	3.0	2.7	3.0	3.0
Nominal Gross Domestic Product	3.9	3.9	5.0	3.8	4.0	4.7
Other Economic Indicators						
Retail sales	4.8	4.1	3.6	3.4	4.1	4.2
Housing starts (000s)	78.8	73.4	68.0	65.0	66.0	68.0
Personal income	4.5	4.8	5.3	3.8	4.3	4.5
Wages and salaries ¹	5.0	4.5	4.9	3.8	4.0	4.2
Corporate profits	(1.8)	3.9	7.0	5.4	4.9	5.2
Consumer Price Index	2.2	1.8	1.8	1.4	2.0	2.0
Labour Market						
Employment	1.3	1.5	1.6	1.2	1.3	1.4
Job creation (000s)	81	95	103	82	86	94
Unemployment rate (per cent)	6.6	6.3	6.4	6.6	6.4	6.3

¹ Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.