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NEWS RELEASE

Toronto housing boom driving economic growth in Ontario; masks weak business investment

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TORONTO—Weak business investment in Ontario has the provincial economy increasingly dependent on Toronto's housing market for growth, leaving the province especially vulnerable if the market slows, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"Toronto's hot housing market is the one leg propping up Ontario's otherwise weak and vulnerable economy, making the spectre of a possible housing bubble burst or even just a slowdown all the more worrying," said Philip Cross, former chief economic analyst for Statistics Canada and author of ***Ontario's One Cylinder Economy: Housing in Toronto and Weak Business Investment***.

The study finds that housing—both homebuilding costs and record high prices—accounted for over a quarter (29.0 per cent) of Ontario's economic growth in 2016.

And in the first quarter of 2017, housing starts in Ontario reached more than 85,000, the highest level on record going back to 1990. More than 60 per cent of these new homes were in the GTA.

Unfortunately, Toronto's housing market is increasingly driving the entirety of Ontario's economy because of anemic business investment.

Crucially, firms plan to invest only $50.9 billion in Ontario in 2017, less than the pre-recession peak of $53.8 billion in 2008. This is particularly true in manufacturing—still the third largest employer in the province—where firms invested nearly $8.5 billion in 2007 compared to a planned $6.2 billion this year.

The paper identifies several factors that are currently working to discourage business investment in Ontario.

- **High electricity costs:** Industrial users (auto plants, for example) in Ontario typically pay more than $80 per megawatt-hour—approximately 40 per cent more than in Quebec. And according to Ontario's auditor general, provincial government policy mistakes increased hydro costs for Ontarians by $37 billion between 2006 and 2014.
- **High labour costs:** Ontario's labour costs are the highest in the country outside of Atlantic Canada, according to Statistics Canada. And even though Ontario already had one of the highest minimum wages in Canada, the provincial government increased it again in January and is now proposing an increase to $15 an hour by 2019.
- **High taxes:** Ontario has the second-highest marginal personal income tax rate of any province or state in North America at 53.5 per cent, nearly 10 percentage points higher than neighbouring Michigan. Ontario's corporate income tax rate, while more competitive, is the 18th highest out of 44 jurisdictions in developed countries.

"The entire provincial economy is so reliant on Toronto's housing market for growth, that a cooling off—or worse, a burst—would be felt across Ontario, not just in the GTA," Cross said.

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