Ontario Economic Briefing

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Highlights

- Wholesale sales growth slowed in May due to sluggish growth in many sectors
- Increased truck and passenger vehicle sales lift May's total sales
- Gains in both goods and services increased payroll employment in May
- Economic growth was modest in the first quarter

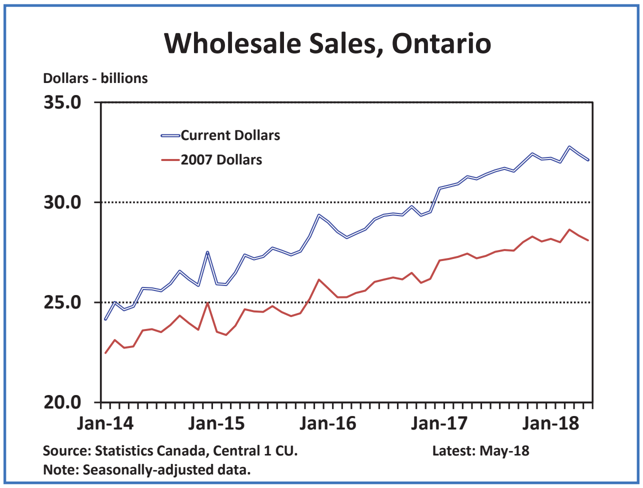
Wholesale sales volumes slightly down in May

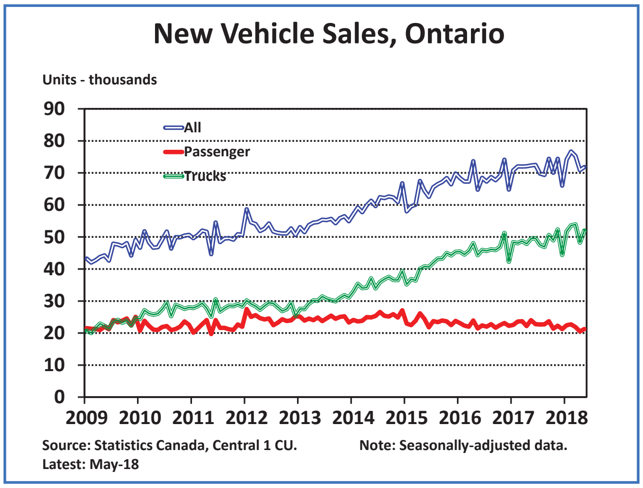
Seasonally-adjusted wholesale sales in Ontario decreased by 0.9 per cent in May to $32.1 billion. Wholesale sales in Ontario have decreased three of the first five months of 2018. Month-over-month sales volumes declined in the following sectors (percentage drop and share of total sales volumes in parentheses):

- Food, beverage and tobacco merchant wholesalers (6.5 per cent, 14.9 per cent share)
- Personal and household goods merchant wholesalers (2.1 per cent, 15.4 per cent share)
- Motor vehicle and parts merchant wholesalers (4.6 per cent, 23.6 per cent share)
- Machinery, equipment and supplies merchant wholesalers (0.3 per cent, 20.7 per cent share)

Together, the above sectors made up close to 75 per cent of the sales volume in May and their decreases anchored wholesale sales volume growth.

Over the first five months of the year, wholesale sales are 4.3 per cent (to $161.5 billion) higher than the same timeframe last year due to stronger volumes each month in 2018 compared to the same month last year. The only sector to report below last year's volumes so far this year was motor vehicle and parts merchant wholesalers which is 2.5 per cent lower at $39.9 billion.





Imports and exports of vehicles and manufacturing sales of vehicles both declined in May leading to the decline in wholesale sales volumes of this large sector (23.6 per cent share of total volumes). Trade concerns, high gasoline prices, and consumers paying down debt is keeping activity in this sector muted. The same can be said of food, beverage and tobacco sales: as consumers tighten belts, sales declined.

New car sales increased in May

May's new vehicle sales increased by 1.4 per cent (all figures seasonally-adjusted) following a drop of 5.9 per cent in April. The increased sales in May reversed two consecutive months of declining new car sales in Ontario after a very strong start over January and February. The turnaround in new car sales was due to strong growth to both passenger vehicle sales (3.7 per cent) and trucks (7.7 per cent).

The average price of a new vehicle increased 6.6 per cent to $44,099. The price of passenger vehicles declined 6.7 per cent in May to $32,848 while the average price of a truck increased by 4.2 per cent to $48,007. Over 72 per cent of vehicle sales in Ontario were truck sales, which helped lift the average price as robust demand for trucks continued.

After last month's decline, payroll employment turned around in May by 25,215 net new hires

After April's slight decline, May's payroll employment numbers turned around and posted a 0.4 per cent month-over-month gain. Performance by industry was mainly positive with a few exceptions.

In the goods-producing sector strong payroll employment gains in utilities (2.7 per cent gains or 1,304 net new hires) and construction (0.5 per cent gains or 1,665 net new hires) more than made up the continued drop in manufacturing, which dropped a further 0.1 per cent month-over-month or 455 net new hires.

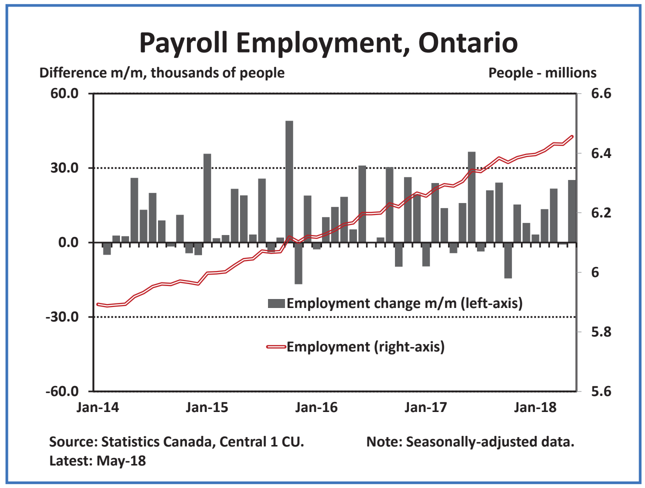
Almost all sub-sectors in the services industry posted payroll employment gains in May with only two exceptions:

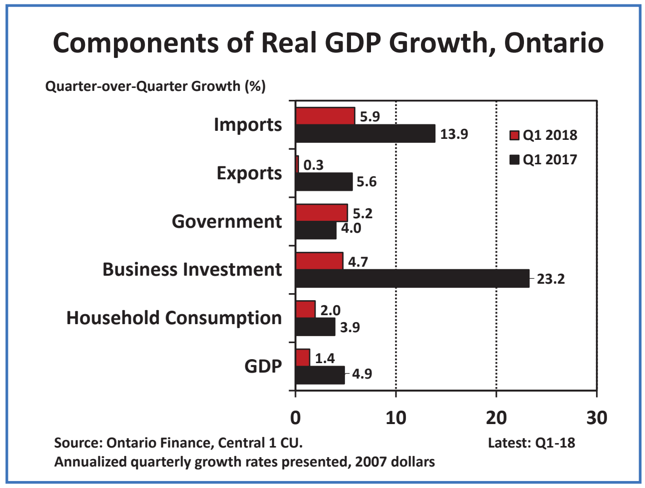
- Informational and cultural industries (0.6 per cent decline or 860 net new hires), and
- Management of companies or enterprises (1.3 per cent decline or 439 net new hires).

Together, these two sectors accounted for 2.8 per cent of total payroll employment. Several large subsectors posted gains in May. Trade posted a 0.6 per cent gain or 6,555 net new jobs; health care and social assistance posted a 0.3 per cent gain or 2,435 net new hires; and public administration posted a 0.7 per cent gain or 2,879 net new hires.

Average weekly earnings increased month-over-month in May by 0.3 per cent, due to gains in services-sector wages (0.2 per cent) but nearly no change to goods-sector wages (0.03 per cent decline). Year-over-year, the fixed-weight index increased by 2.6 per cent and now tracks slightly higher than the monthly average of 2.5 per cent over the first five months of 2018. Moreover, over the last three months, year-over-year index growth has been steadily climbing.

Both this survey (The Survey of Employment, Payrolls and Hours), which this section draws its data from, and the Labour Force Survey point to continued hiring of labour, regardless of the minimum hourly wage hike put in place in January and some of the uncertainties in the economy surrounding trade relations with major trading-partner nations. Employers remain optimistic, on average, about their enterprises' prospects.





Ontario posts 1.4 per cent real GDP growth in the first quarter of 2018

The latest reading of provincial economic accounts show Ontario posted modest economic growth in the first quarter of 2018. Over the first three months of the year, Ontario posted real Gross Domestic Product (GDP) annualized growth of 1.4 per cent over the last quarter of 2017. Currently, real GDP growth is tracking significantly lower than our forecast for 2018 of 2.1 per cent. Moreover, Ontario's real GDP is significantly lower than the reading record during the first quarter of 2017 (4.9 real annualized growth).

Growth in the first quarter of 2017 was buoyed by strong residential investment, consumer demand, and trade – three areas that have since moderated and are slowing growth. As noted in our recently released forecast,[1] Ontario is entering a slower phase of growth and these economic account numbers support that.

[1] https://www.central1.com/wp-content/uploads/2018/07/ea-2018_ont04.pdf

Annualized household consumption growth is tracking well below the longer-term trend. Over the last 21 quarters, household consumption has averaged three per cent, but this latest reading was two per cent. Household expenditures in goods and services continued to increase but at a slower pace. In the first quarter of 2018, goods and services increased by 2.4 and 1.8 per cent annualized respectively which is well below the respective readings from the last year's first quarter of six and 2.5 per cent annualized growth. In the first quarter of 2018, households spent less on semi-durable (no change quarter-over-quarter) and non-durable goods (-1.1 per cent annualized growth quarter-over-quarter). Household's expenditures on services increased by 1.8 per cent annualized over the final quarter of 2017 but remained well below the long-term average of 2.4 per cent.

Business investment, an area we expect to post a modest upswing in growth this year, seems to be doing just that. The latest reading on business investment points to an annualized growth rate of 4.7 per cent over the last quarter of 2017 and well above the long-term average of 2.9 per cent.

Quarter-over-quarter government expenditures grew by 5.2 per cent, annualized. This surpassed the fourth quarter annualized reading of 3.7 per cent.

Net exports suffered in the first quarter at nearly zero. Exports growth was quite anemic coming in at an annualized 0.3 per cent while imports grew at an impressive clip: 5.9 per cent annualized.

Currently, real household consumption is tracking lower than our forecast for 2018 of 2.5 per cent growth. Household consumption was supported at the start of the year by the minimum hourly wage hike, but increased debt-loads, higher interest rates, and new housing policies restricting mortgage credit has slowed down household consumption compared to the same period last year. Existing home sales in Ontario decreased by 13.2 per cent quarter-over-quarter in the first three months of 2018 and 29.3 per cent year-over-year. Housing investment is occurring in renovations rather than new purchases as people would rather renovate their current home than try to be pre-approved for another mortgage for a new home, given the new mortgage related rules.

Over the same timeframe, new car sales have also declined. In the first quarter of 2018, new car sales in Ontario declined 2.7 per cent quarter-over-quarter. Tighter budgets and robust gasoline prices are keeping households from purchasing a new car. Retail sales have also felt the pinch as consumers have become more conscious with their expenditures. In the first quarter of 2018, retail sales volumes declined 17.9 per cent over the fourth quarter of 2017.

Regardless of trade-related uncertainties, businesses still felt confident about their prospects at the start of the year. For example, according to the Canadian Federation of Independent Business's Ontario small-business confidence index, in the first quarter, the index increased 2.1 per cent to 58.3 points over the fourth quarter. Any reading over 50 signifies expansionary prospects for business on average. As a result, businesses continued to invest by either expanding capacity or renovating current capacity. Worth noting though, this business investment reading was done before the current trade-related tiff between the U.S. and Canada, where both nations have imposed tariffs on certain groups of products. Beyond the first quarter, subsequent readings of Ontario's business investment will moderate given these tariffs. With these new changes, our forecast for business investment in 2018 may be downgraded.

Ontario's first quarter government expenditures growth is currently tracking above our forecast of 2.1 per cent growth in 2018. Of all the components of real GDP growth, this is the only one that also posted higher quarter-over-quarter growth to start 2018 compared to the same reading for the first quarter of 2017. Looking at 2017-18 fiscal year expenditures by ministry, the following ministries account for 85 per cent of expenses and increased significantly from the 2016-17 fiscal year:

- Advanced Education and Skills Development (6.1 per cent growth)
- Community and Social Services (6.5 per cent growth)
- Education (six per cent growth)
- Finance (4.2 per cent growth)
- Health and Long-Term Care (4.3 per cent growth)
- Transportation (69.3 per cent growth)

Many of the above expenditures by ministry are aimed at helping key groups such as seniors, youth, and the community in general through joint transportation and infrastructure projects (i.e., Hamilton LRT, Eglinton LRT, Ottawa LRT, Toronto subway expansion). If Ontario's economy is adversely affected by any policy shocks, government intervention would likely increase, and expenditures would ramp up to help protect the economy from falling into a prolonged recession.

Finally, net exports were nearly zero in the first quarter due to sluggish exports growth. Over two-thirds of Ontario exports go abroad. With current trade uncertainty in the air and decreased U.S. demand for Ontario-manufactured automobiles, international exports decreased by an annualized rate of 0.7 per cent. Domestic exports to other provinces increased by an annualized rate of 2.2 per cent but this was not sufficient to lift exports. Currently, exports growth is tracking near our forecast for 2018. Again, this data was compiled before trade tensions ramped up between Canada and the U.S. We expect international exports to be lower for the rest of the year and may have to downgrade our forecast for exports as for business investments.

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