Ontario Economic Briefing

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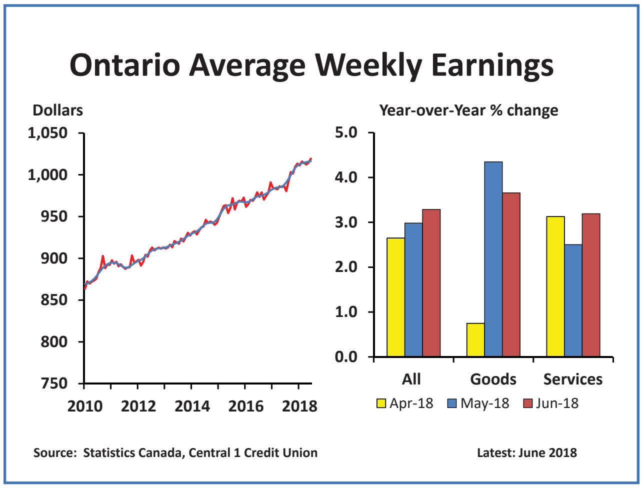
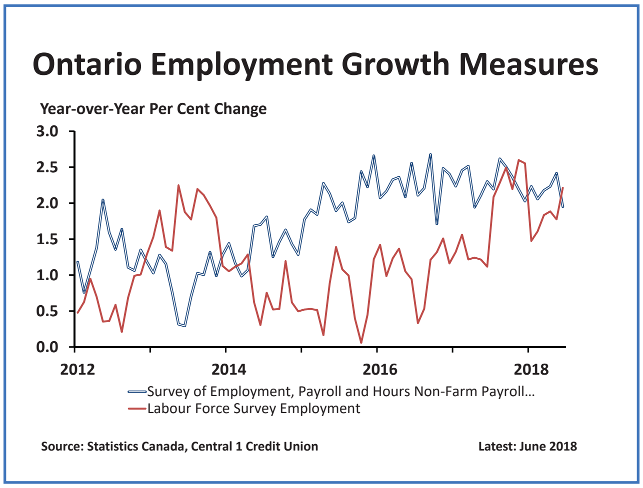
Highlights

- Ontario wages on the rise, employment gains steady in June
- Small and medium -sized business confidence subdued
- Transportation manufacturing growth lags broader economy





Upward trend in wages continue

Ontario average weekly earnings (AWE) rose for a second straight month in June, re-establishing a mild upward trend for 2018. According to the latest Survey of Employment, Payrolls, and Hours (SEPH) average weekly earnings rose 0.5 per cent from May to a seasonally-adjusted $1,019.30. This compared to a 0.3 per cent gain nationally. Year-over-year, Ontario AWE was up a solid 3.3 per cent. The recent trend has turned higher, albeit growth momentum has slowed from 2017

Monthly growth was led by a 0.6 per cent increase in the services-producing sectors. Specifically, information and culture industry wage earnings rose 9.3 per cent to $1,465 which likely captures some growth in the technology sector. Real estate rental and leasing earnings rebounded seven per cent after a prior month decline, aligning with a bottoming of the housing market sales slump, and management of companies increased 10 per cent. Forestry, logging, and mining posted strong gains in the goods-sector, but were offset by flat construction wage earnings and a dip in manufacturing.

While various factors influence average weekly earnings, including hours worked, industry composition of employment growth and job tenure split, the growth trend has generally been positive. Year-over-year growth has fluctuated near three per cent for much of the last year. Smoothing out some of the monthly volatility with the quarterly average, industries with the strongest same period gain include finance and insurance (7.5 per cent), real estate, rental and leasing (8.5 per cent), accommodations and foodservices (9.2 per cent), retail and wholesale trade (5.5 per cent), and forestry and logging (7.1 per cent). Most industries are showing considerable growth, and with employment growth near two per cent, suggests moderate growth in aggregate household income.

On the jobs front, the number of persons on payroll continued to climb in June, rising 0.1 per cent to about 6.47 million persons. This marked a two per cent year-over-year gain, maintaining the general trend over the past year and similar to estimated employment growth from the Labour Force Survey. Industries showing significant and above-average job growth over the past year have included construction (up 3.2 per cent), utilities (up 8.4 per cent), and professional, scientific and technical services (up 5.6 per cent). The main industry showing a contrary trend was information and cultural industries (down 6.9 per cent).

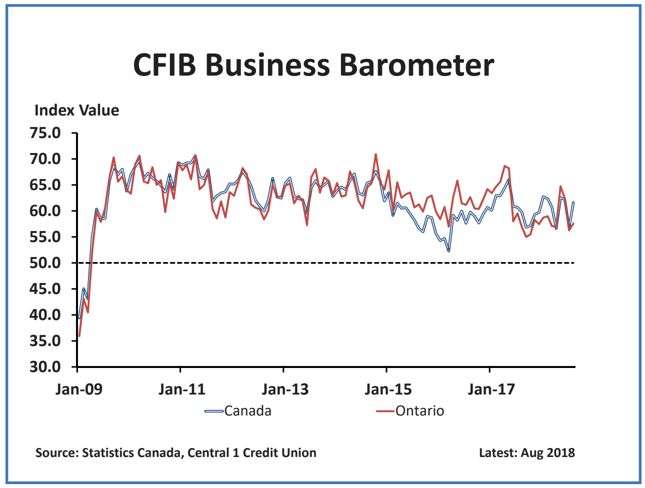
Business confidence edges higher, but trade uncertainty still weighs

The latest Canadian Federation of Independent Business (CFIB) Business Barometer reading pointed to a rebound in small- and medium-sized business confidence in August, following a July plunge. The reading, on a scale of 0 to 100, rose from 56.8 points in July to 61.6 points in August, but remained moderate and below June's level. Some of the alarm has subsided following a frenzy of negative North American Free Trade Agreement (NAFTA) stories. Recent signs that a new NAFTA deal may be near, strong GDP growth in the second quarter, and relatively firm data in recent months could buoy spirits going forward. If NAFTA renegotiation fails to reach a near-term deal, confidence will remain low, potentially impacting hiring and investment. The recent appeals court decision which overturned approvals of the Trans Mountain pipeline expansion could also be a damper, particularly in Alberta.

Like the national picture, Ontario's Barometer reading rose, but only by a sliver to remain at a sluggish 57.6 points. The number of businesses expecting an improved business performance over the next year is just slightly outpacing the number anticipating a worsening performance. At the same time, hiring intentions were solid, with 18 per cent looking to increase full-time staffing over the next three to four months, and with 14 per cent cutting back. The net differential was relatively high amongst provinces, and relatively few businesses cited insufficient demand as a constraint to sales and production. Despite modest growth in the economy, trade uncertainty around NAFTA and fears of auto-tariffs may still be weighing on the psyche of Ontario businesses. Optimism is likely to return once a new deal is imminent or signed, which should contribute to further rise in hiring and investment plans.

Transportation output lags as Canadian economy grows

On the economic growth front, Canadian gross domestic product (GDP) on an industry-basis was virtually unchanged from May following a prior month surge of 0.5 per cent. While the broad economy remains in expansion mode, with a strong pick in the second quarter as whole, the transportation equipment manufacturing sector has moved in the opposite direction in the latest quarter. This is specifically relevant to Ontario which comprises more than two-thirds of value-added production of the sector in Canada.



Canadian transportation equipment manufacturing slowed for a third straight month in June with a 0.5 per cent month-to-month decline (down 6.3 per cent annualized). The decline was largely driven by motor vehicle manufacturing activity which fell 3.1 per cent from May, with a pick up in motor vehicle parts manufacturing (up 1.7 per cent).

On a quarterly basis, the sector contracted nearly 10 per cent annualized, compared to a more than three per cent gain across all provinces. This significant shift in output can be partly traced back to a surge in first quarter activity (up 14 per cent annualized) in the first quarter following atypical plant shutdowns. Nonetheless, production has trailed year-ago levels by about three per cent and is below year-end 2017. This coincides with easing U.S. vehicle sales since late 2017, impacting both vehicle and parts manufacturing exports. While we await word on a new NAFTA agreement, negative uncertainty persists for the auto sector, given U.S. threats of auto tariffs.

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