Ontario Economic Briefing

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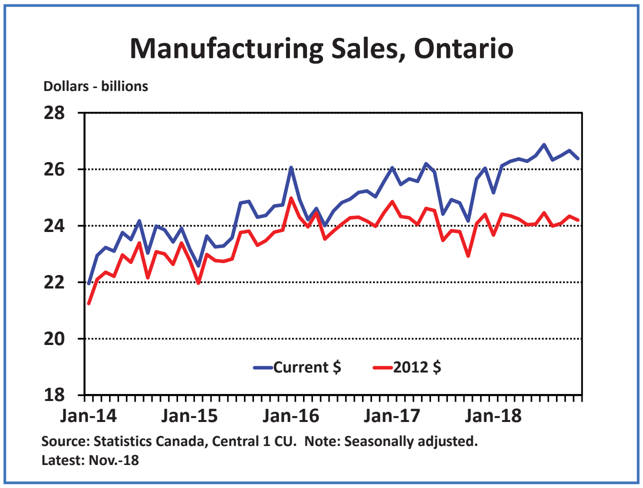
Highlights:

- Manufacturing sales down 1.1 per cent month-over-month
- Retail sales down 1.6 per cent to $18.9 billion in November
- Tourist visits increased by 2.2 per cent in November
- Employment Insurance (EI) beneficiaries increased by 2.6 per cent in November



Manufacturing sales pulled down by three large sectors in November

Ontario's manufacturing sales declined in November over October by 1.1 per cent to $26.4 billion (all figures seasonally-adjusted). November's month-over-month decline in sales halted two consecutive months of modest month-over-month growth. Nationally, manufacturing sales also declined 1.4 per cent to $57.3 billion due to Ontario's month-over-month decline and five other provinces totaling over 60 per cent of activity.

Ontario's manufacturing sales month-over-month decline was mainly due to three large sectors posting lower sales volumes that more than offset gains in all other sectors:

- Petroleum and coal product manufacturing (11.5 per cent down)
- Machinery manufacturing (2.3 per cent down)
- Transportation equipment manufacturing (1.8 per cent down)

Together, the three above sectors made-up 42.9 per cent of sales volumes in November.

Year-to-date (YTD) sales of petroleum and coal product goods are up 24 per cent from last year. November's sales volumes decline is atypical of this year and reflects increased supply and lower prices particularly of gasoline and gasoline by-products such as diesel.

Machinery is also up by 10.4 per cent YTD, the decline in sales in November marked only the fourth time sales declined month-over-month in 2018. The drop to sales activity in machinery in November could be businesses taking a respite from further investments following significant investments made in the ten months prior. Businesses may want to see how the first quarter of the year plays out before making further investments especially with some looming risks on the horizon. Risks include sluggish U.S. growth, increased interest rates in late 2019, decreased consumer consumption in Ontario and trade policy shocks from escalating tensions between the U.S. and China.

Transportation equipment manufacturing sales volumes have had a more difficult 2018 than the above two mentioned sectors. A few large month-over-month sales volume swings has eaten away at growth in 2018. Motor vehicle manufacturing sales have weighed on this sector in 2018 even though motor vehicle parts manufacturing and aerospace product and parts manufacturing have posted increased sales in 2018 relative to 2017. Plant closures and decreased new auto demand given significant gasoline prices affected auto manufacturing. Many motorists chose to repair their used vehicle, sell their vehicle, take public transit or use ride sharing services to a greater extent— rather than purchase a new car.

Total YTD sales are up 3.8 per cent to $289.4 billion. Manufacturing sales remained above last year's pace even with this month's month-over-month decline. Moreover, it is worth noting that November's month-over-month decline is still above November 2017's volume and the same holds true for ten of eleven months in 2018. The only time manufacturing sales volumes have been down year-over-year were in January.

Retail sales decline month-over-month in November for only the second time in 2018

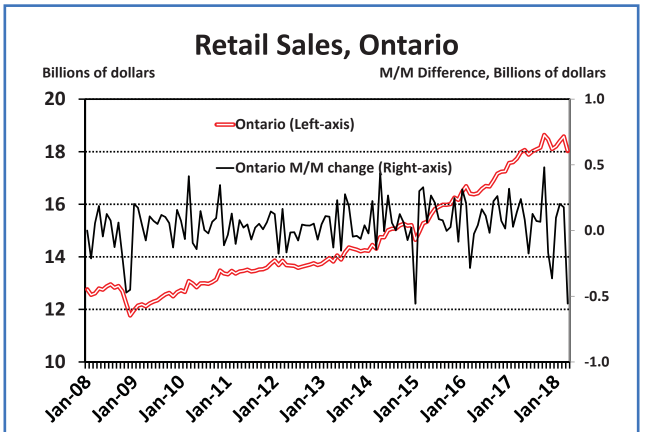
Ontario retail sales numbers were released this week and for only the second time this year, sales volumes posted a month-over-month decline. In November, Ontario sales declined by 1.6 per cent (all figures seasonally-adjusted unless otherwise stated) to $18.9 billion halting six consecutive months of month-over-month sales growth.

By sector, total retail sales declined in November due to strong moderations in sales in the following large sectors: motor vehicle and parts, building materials and garden equipment and supplies, gasoline stations and miscellaneous store retailers. Energy costs continued to weigh on car sales and gasoline station sales. Decreased demand for housing has dampened residential investment and sales of building materials.

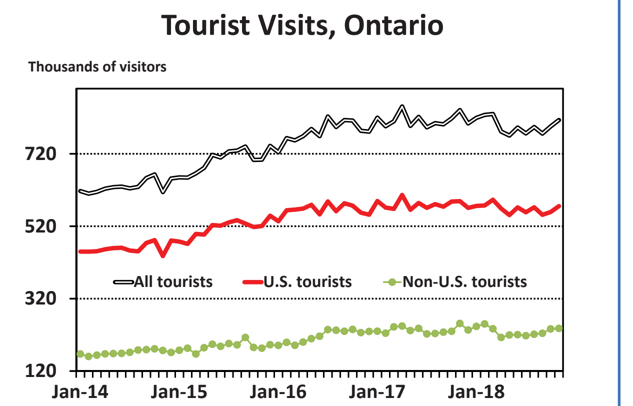
Retail sales in Ontario's regions carving out the Toronto Census Metropolitan Area (CMA) followed October's trend and made-up the majority of sales at a 58.2 per cent in November. Unfortunately, sales volumes month-over-month declines recorded in both the Toronto CMA (1.5 per cent decrease to $7.9 billion) and areas excluding the Toronto CMA (1.7 per cent decrease to $11 billion) led to November's drop to sales volumes over the previous month.

November's drop in retail sales is likely due to shrinking pools of funds reserved for disposable income due to housing policy and interest rate challenges. Moreover, with large mortgage loans to service in the Toronto CMA—it is not a surprise that the share of retail sales outside of this metro market are climbing as consumers outside Toronto CMA may not be as stretched. Over the first eleven months of 2018 retail sales in the Toronto CMA have averaged 41 per cent of the provinces total compared to 41.8 per cent in 2017. Of course, one month does not make a trend and we would have to wait for December's and January's numbers to come in to see if, in fact, this a trend or an atypical blip.

Despite November's month-over-month decline year-to-date (YTD) retail sales volumes in Ontario remained at 4.1 per cent (YTD figures are actual figures) above last year's pace at $204.4 billion. Over the course of 2018 monthly sales volumes were all above the corresponding month in 2017. Furthermore, retail sales have been climbing robustly over the last couple of years. Similar YTD figures from 2015 to 2018 point to sales volumes in 2018 being higher than 2015 to 2017 figures by an average of 12.4 per cent.



Source: Statistics Canada, Central 1 CU.
Note: Seasonally-adjusted, M/M = month-over-month
Latest: Nov.-18



Source: Statistics Canada, Central 1 CU.
Latest: Nov.-18
Note: Seasonally-adjusted data presented.

Healthy gain in U.S. resident visits to Ontario lifts November's numbers

Tourist visits to Ontario moved up an additional 2.2 per cent (or 17,497 net visitors) in November to 813,202 visitors. This followed last month's increase of 2.6 per cent (all figures in this section are seasonally-adjusted unless otherwise noted). Increased visits by U.S. residents, which made-up 70.8 per cent of November's total, contributed largely to November's gains. Non-U.S. resident visits also contributed to growth but to a lesser degree, increasing by 0.6 per cent (or 1,364 net visitors) to 237,735 visitors.

Visits to Ontario from non-U.S. residents came mostly from people hailing from Europe, Asia, Central America and the Caribbean. Together, these three regions accounted for 87 per cent of all non-U.S. resident visitors.

Year-to-date (YTD), total visitors to Ontario lagged last year's total by two per cent due to fewer visitors coming from the U.S. for most of 2018. Except for February and March, visits from U.S. residents have tracked lower than 2017 Non-U.S. resident visits are also lagging last year's total by 1.7 per cent. Unlike

U.S. resident numbers, which have not been able to close the gap, non-U.S. visitor numbers have been steadily closing the gap since a large dip in April.

Even though fuel prices have been dipping over the last few months, transportation costs are mostly fixed (i.e., plane or train tickets). A large part of U.S. residents are coming by car to Ontario so the lower gasoline prices have made the decision to travel an easier one. For those travelers not coming by car—fixed dampened inflationary pressures allow them more spending power to enjoy while travelling—hence their decision to visit as well.

November's Employment Insurance Increase ate a large chunk of last month's decrease

Employment Insurance (EI) numbers were released this week and after four consecutive months of month-over-month beneficiary declines, November's numbers point to a 2.6 per cent jump in beneficiaries to 115,700 (2,970 net new beneficiaries). Moreover, the jump in beneficiaries in November was the largest month-over-month percentage jump in 2018 so far eclipsing March's 2.5 per cent increase.

Of the 2,970-net increase in beneficiaries, close to 80 per cent were concentrated in Ontario's Census Metropolitan Areas (CMA) with nearly 63 per cent of the workers affected between 25 to 54 years of age. In fact, all workers over 25 years of age accounted for just over 84 per cent of those needing EI in November.

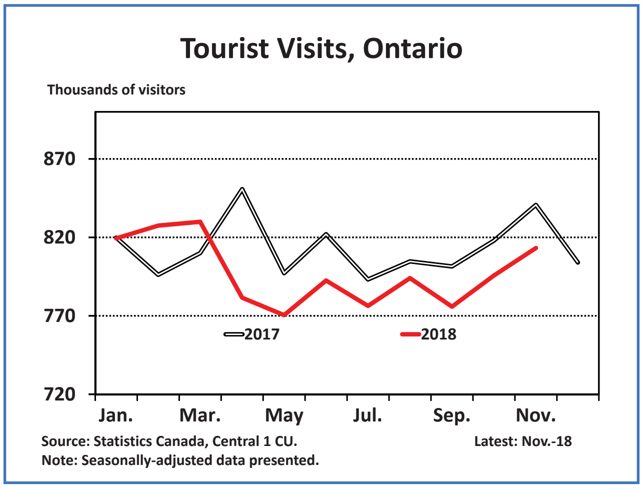
Specific CMAs with significant net increases in beneficiaries included Toronto, Windsor, Sudbury and Oshawa. Windsor's large increase coincided with the temporary shutdown of an automobile manufacturing plant.

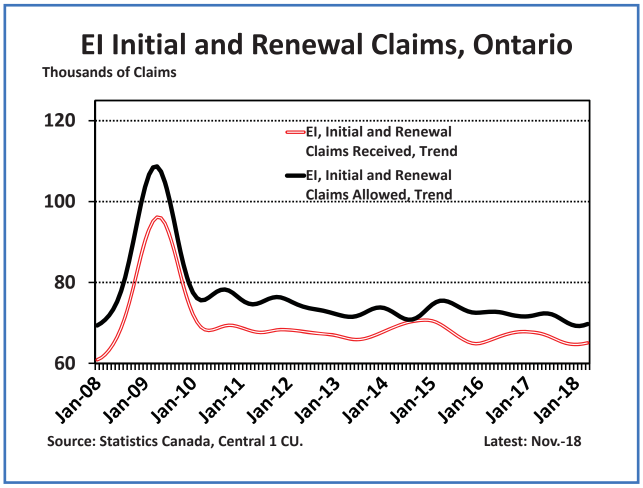
Below is a table with all CMAs and this month's month-over-month changes.

Three major industries' lay-offs were responsible for the jump in beneficiaries in November:

- Sales and service occupations (4.9 per cent increase or 730 net beneficiaries)
- Trades, transport and equipment operators and related occupations (3.5 per cent increase or 1,230 net beneficiaries)
- Occupations in manufacturing and utilities (8.0 per cent increase or 710 net beneficiaries)

Seasonally-adjusted initial and renewal-received claims increased 3.4 per cent in November to 73,940 beneficiaries. Despite the month-over-month decline, November's total is still 3.5 per cent lower than the long-term monthly average number of beneficiaries.





Edgard Navarrete
Regional Economist
Central 1 Credit Union
enavarrete@central1.com / P **905 282 8501**
www.central1.com

	M/M growth	M/M net difference
Hamilton	0.7%	40
London	0.8%	30
Kitchener	0.8%	30
Tbay	1.4%	20
Toronto	1.8%	710
Ottawa	1.9%	110
Brantford	2.8%	40
SCN	4.0%	170
Kingston	4.1%	50
Oshawa	4.2%	130
Barrie	4.5%	80
Peterborough	6.8%	70
Sudbury	7.2%	140
Guelph	8.3%	80
Windsor	21.7%	680
All metro areas	3.0%	2,380