Ontario Economic Briefing

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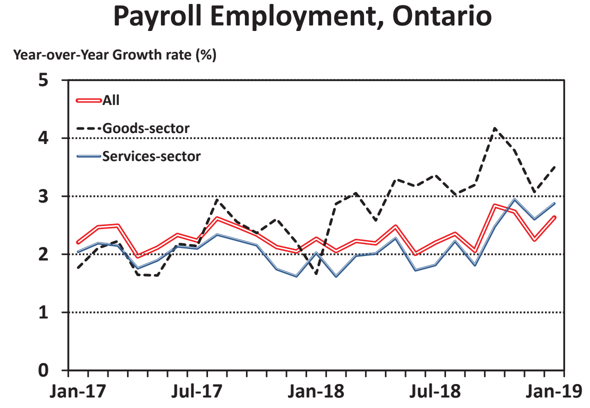
Highlights:

- Hiring increased in January offsetting last month's job losses
- Exports rebounded strongly in January
- After two months of gains small-business confidence fell sharply in March
- International immigrants continued to lift Ontario's population in 2018
- Motor vehicle and parts manufacturing increased by 3.7 per cent in January



Source: Statistics Canada, Central 1 CU. Latest: Jan.-19
Note: Seasonally-adjusted data

Payroll employment lifted in January due to strong job gains in the services sector

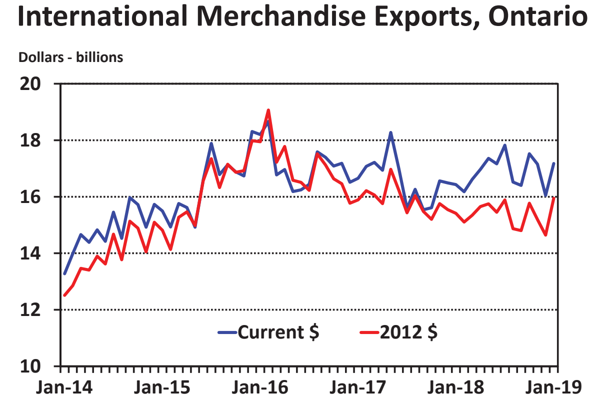
Total payroll employment increased 0.4 per cent or 23,346 net new hires. Hiring increased in both the services and the goods-sectors contributing to the overall gains in January. Net hiring in the goods-sector continues to oscillate between positive and negative gains month-over-month.

While construction hiring increased in the goods-sector (2,789 net new hires) other areas like manufacturing (586 net losses) and utilities (673 net losses) shed significant jobs to keep overall growth modest. In the services-sector only, the following areas posted net job losses: transportation and warehousing (645 net job losses), information and cultural industries (412 net job losses) and finance and insurance (3,366 net job losses), which were comfortably offset by gains in all other areas.

Year-over-year payroll employment is 3.0 per cent above last year's pace. The goods-sector is 3.5 per cent above last year's pace while the services-sector is up 2.9 per cent.

While employment moved up, average weekly earnings declined in January by 0.1 per cent to $1,030.74. Average weekly earnings in the services-sector declined by 0.4 per cent to $986.15 while earnings in the goods-sector increased by 0.9 per cent to $1,238.44. Year-over-year, the fixed-weight index increased by 3.1 per cent—a slightly lower rate of growth from December's 3.7 per cent.

Increased employment and lower wages could be a symptom of employers taking on more people but at reduced wages, perhaps in part-time positions in lieu of full-time positions. With uncertainty still in the air regarding the economy, employers may be looking for ways to get work done while reducing costs where possible in case a correction in the economy occurs. We are not calling for a recession to hit Ontario, but the economy will evolve at a modest pace compared to the last several years.



Source: Statistics Canada, Central 1 CU. Note: Seasonally adjusted.
Latest: Jan.-19

Exports increased by 7.0 per cent in January

Seasonally-adjusted exports increased significantly in January moving up by 7.0 per cent to $17.2 billion. The gains in January erased the 6.5 per cent drop in exports in December. Imports increased by a modest 2.1 per cent to $30.6 billion in January. The strong gain in exports relative to imports decreased the deficit in net exports.

The strong gain in exports in January was due to strong growth in several large export segments, including:

- Metal and non-metallic mineral products
- Motor vehicles and parts
- Industrial machinery, equipment and parts
- Forestry products and building and packaging materials
- Energy products

Lower exports in large segments included:

- Farm, fishing and intermediate food products
- Basic and industrial chemical, plastic and rubber products
- Consumer goods

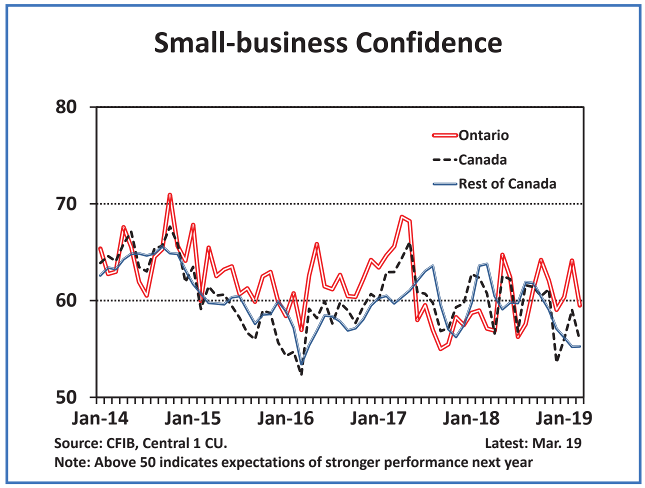
Year-over-year, total exports and imports were above last January's pace by 4.5 per cent and 8.0 per cent respectively.

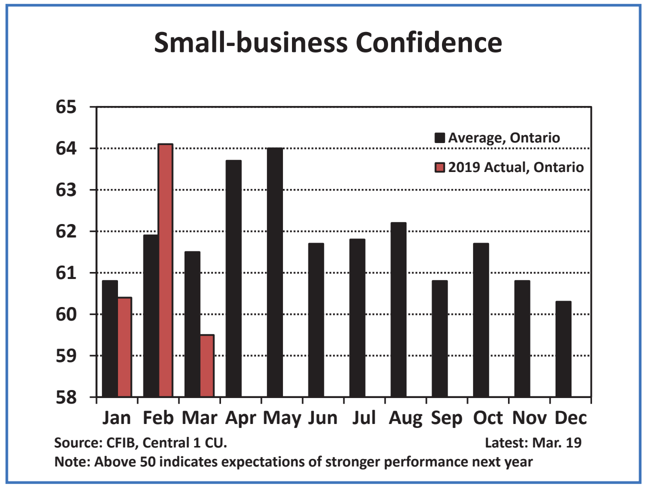
Energy exports increased in January due to stronger crude oil prices. Metal and non-metallic mineral product exports increased from higher exports of refined gold to the United Kingdom, as well as an increase in gold transfers to Hong Kong. Meanwhile, farm, fishing and intermediate food product exports fell because of lower exports of other crop products, mainly due to lower exports of soybeans to China.

Small-business confidence fell sharply in March erasing last month's gains

The small-business confidence report came out this week with March numbers. Ontario's small-business confidence took the largest month-over-month hit in March falling 4.6 points to 59.5. The decline in confidence erased the gains posted last month. Historically, healthy index levels should be nearer to 65. Year-over-year, Ontario's index is up 2.4 points from the same period last year with the positive year-over-year gap significantly down from the 5.2 points gap posted in January. The economy continues to weigh on businesses and is keeping them from investing in labour or capital. Businesses would like to expand their operations but with overall consumption growth slowing down, the potential risk to expansion outweighs the gains for many. Business confidence in Ontario will likely remain in a luke-warm holding pattern for most of the first half of the year at least.

Short-term employment plans deteriorated—16 per cent of owners are looking to hire and 10 per cent





are expecting to reduce staffing. About 47 per cent of respondents said their firms are in good shape, while 9 per cent said their businesses are in bad shape.

Nationally, the barometer decreased to 55.9 points (decline of 3.1 points). Meagre month-over-month growth in several provinces and declines in others anchored Canada's small-business confidence in March.

Ontario's population continued to expand by 1.8 per cent in 2018

This week, Statistics Canada released its provincial and sub provincial population estimates as of July 1, 2018. Ontario's population increased by 1.8 per cent or 251,312 net new Ontarians to 14.3 million. From 2017, Ontario's rate of population increased from 1.4 per cent to 1.8 per cent.

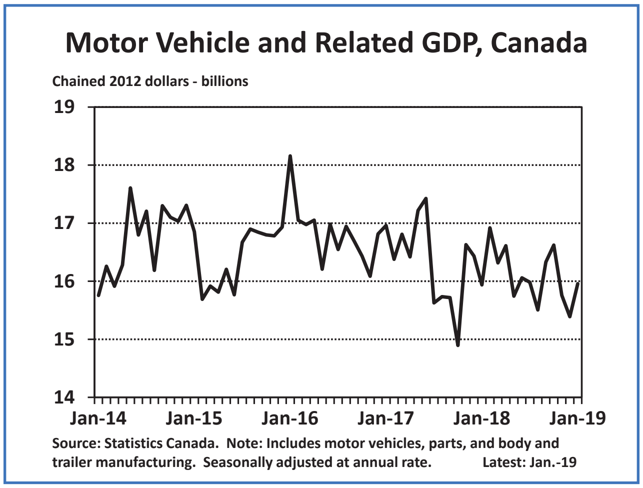
Among the province's economic regions, Toronto continues to post the largest net gains in net population with 49.4 per cent of the 251,312 net new Ontarians living or settling in Toronto. The largest rate of population growth occurred in Kitchener-Barrie-Waterloo, which posted 2.4 per cent growth in 2018 over 2017 with a total population of 1.4 million (32,229 net new Ontarians or 12.8 per cent of total net gain in Ontario). The chart below outlines year-over-year population growth in Ontario by economic region along with total net population change and share of the net population change. Worth noting, no economic region in Ontario posted negative population growth in 2018.

	Y/Y Growth	Net change	Growth share
Ontario	1.8%	251,312	100.0%
Ottawa	1.9%	25,873	10.3%
Kingston-Pembroke	1.4%	6,440	2.6%
Muskoka-Kawarthas	2.0%	7,743	3.1%
Toronto	1.9%	124,119	49.4%
Kitchener-Waterloo-Barrie	2.4%	32,229	12.8%
Hamilton-Niagara Peninsula	1.5%	22,045	8.8%
London	2.3%	15,715	6.3%
Windsor-Sarnia	1.4%	9,278	3.7%
Stratford-Bruce Peninsula	1.4%	4,404	1.8%
Northeast	0.5%	2,571	1.0%
Northwest	0.4%	895	0.4%

International migrants, either permanent or non-permanent residents, accounted for most of the net gain in population growth in Ontario. Of the 251,312 net new Ontarians, 43 per cent were permanent residents and 34 per cent were non-permanent residents—either foreign students, seasonal labourers or work permit holders. The remaining 23 per cent in net growth came from net increase (16 per cent) and interprovincial migration (7 per cent). Importantly, net interprovincial migration into Ontario has been positive since 2015, as more people return home or residents from western provinces look for better opportunities in Ontario.

Ontario's population is highly urbanized. Out of the 14.3 million people living in the province in 2018, 81.8 per cent live in a census metropolitan area (CMA). Moreover, the share of people living in a CMA has steadily climbed from 80 per cent of Ontario's population in 2006 to the 81.8 per cent in 2018.

By specific CMA, 54.2 per cent of the 231,103 net new Ontarians lived in Toronto. Toronto's population increased by 2.0 per cent (an increase of 0.5 percentage points from 2017) but the fastest growing CMA was Kitchener-Cambridge-Waterloo, which expanded by 2.6 per cent (an increase of 0.5 percentage points from 2017). With a thriving tech sector, many people from abroad and other parts of Canada are coming to this CMA to take advantage of potential work opportunities. Anecdotal evidence from the media points to



many U.S. tech sector workers in moving to places like Kitchener-Cambridge-Waterloo CMA due to the strong anti-immigrant sentiment and tougher path to citizenship in the U.S. Toronto CMA—being the most diverse economy in Ontario—continues to attract foreigners as a first entry point into Canada.

Below are some summary statistics for Ontario's CMAs.

	Y/Y Growth	Net change	Growth share
Ottawa - Gatineau	2.5%	26,550	11.5%
Kingston	2.2%	3,795	1.6%
Belleville	1.8%	1,975	0.9%
Peterborough	3.1%	3,941	1.7%
Oshawa	1.8%	7,143	3.1%
Toronto	2.0%	125,298	54.2%
Hamilton	1.1%	8,820	3.8%
St. Catharines - Niagara	1.6%	6,658	2.9%
Kitchener - Cambridge - Waterloo	2.6%	14,240	6.2%
Brantford	1.3%	1,958	0.8%
Guelph	1.7%	2,675	1.2%
London	2.4%	12,575	5.4%
Windsor	2.5%	8,577	3.7%
Barrie	2.0%	4,208	1.8%
Greater Sudbury	1.1%	1,839	0.8%
Thunder Bay	0.7%	851	0.4%

Motor vehicle and parts manufacturing rebounds in January

Canadian industry gross domestic product (GDP) grew 0.3 per cent month-over-month with gains from both the goods and services-sectors.

Manufacturing GDP, which is important to Ontario, also turned the corner in January after two months of declines. This was driven by growth in motor vehicle and parts manufacturing, which is a large component of transportation equipment manufacturing.

Motor vehicle and parts manufacturing posted increased activity in all sub-sectors including 3.7 per cent month-over-month growth in January. Motor vehicle body manufacturing posted a remarkable turn-around that saw activity increase by 11.2 per cent in January after posting a 7.8 per cent decline in December. Despite January's strong numbers, more data is needed to see this sector's true trend. Over the last few months the sector has been bouncing—from months with strong growth numbers like January to months with declining numbers. To round out this area, motor vehicle manufacturing and motor vehicle parts manufacturing both rebounded by 1.7 per cent and 4.4 per cent respectively, after two consecutive months of declines.

The automobile sector is at a crossroads with changing client tastes and needs and new technologies encroaching on older technologies. This week, Fiat Chrysler Automobiles (FCA) announced that it will be cutting its workforce[1]. The plant, which is located in Windsor, is the region's largest employer with over 6,100 employees spread out among three shifts. Its current three shifts will dwindle down to two starting September 2019—resulting in 1,500 employees losing their jobs. The closure is due to sluggish demand for minivans for the plant which produces more than 1,400 minivans a day. This, coupled with the closure of the GM plant in Oshawa, could erode transportation equipment manufacturing in late 2019 and beyond.

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[1] https://www.cbc.ca/news/canada/windsor/fca-assembly-plant-windsor-layoff-1.5075834