Ontario Economic Briefing

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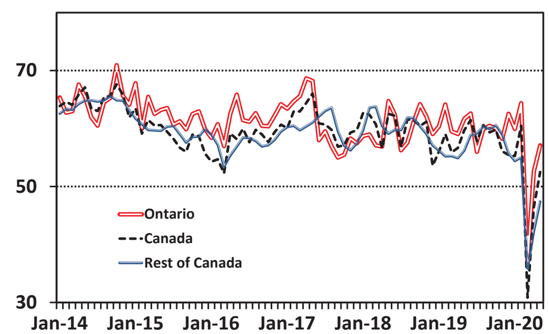
Highlights:

- Small business confidence nearly unchanged over the last two weeks of May
- Non-residential building permit volumes slid by over 23 per cent in April, the fourth month in a row of decline
- Non-farm payroll employment fall by over 310,000 net jobs in March
- Transportation equipment manufacturing contracted 21.1 per cent as facilities were shuttered in March



Source: CFIB, Central 1 CU. Latest: May.-20
Note: Above 50 indicates expectations of stronger performance next year

Small-business confidence plateaus and business owners remain unclear how restricted capacity will impact operations

Small-business confidence has increased 4.5 points in the second half of May from 52.6 points in April as businesses utilize the monetary and fiscal supports which have been introduced to protect the economy from the negative impacts of the COVID-19 pandemic.

Numbers have now plateaued as the confidence index gradually rises from the drop over 27 points in March when the COVID-19 impact was initially felt. It currently stands at 57.1 points, nearly unchanged from the 57.2 points reported over the first two weeks in May. Much of this lift reflects the fact that much of the initial opening up of the economy now seems to be fully internalized by businesses.

Going forward, it remains to be seen to what extent consumers will return to in-person purchasing or if they will favour online purchases. Similarly, it is too soon to predict consumer spending patterns, for example, will they just tighten their belts and eschew non-essential purchases like shoes, clothing, electronics? Businesses must operate under new physical distancing restrictions and business owners are likely concerned about whether they can survive financially on diminished revenue streams.

Relative to the end of April, small-business confidence increased 4.5 points from 52.6 points and year-over-year is still down 4.6 points from 61.7 points.

According to new data from the Canadian Federation of Independent Business (CFIB), 39 per cent of employers expect full-time hiring to decrease (unchanged from the first half of May) and 46 per cent of respondents feel the general state of business in the province is bad (down from 53 per cent from the first half of May).

Average capacity utilization moved up to 45.9 per cent (up 5.8 per cent from the first half of May) lifted by some businesses opening their doors after two months of quarantine under the province's first phase opening plans. Only five per cent of businesses are up to full utilization (unchanged from first half of May) and 39 per cent of businesses reported 34 per cent capacity utilization or lower, down from 49 per cent in the first half of May.

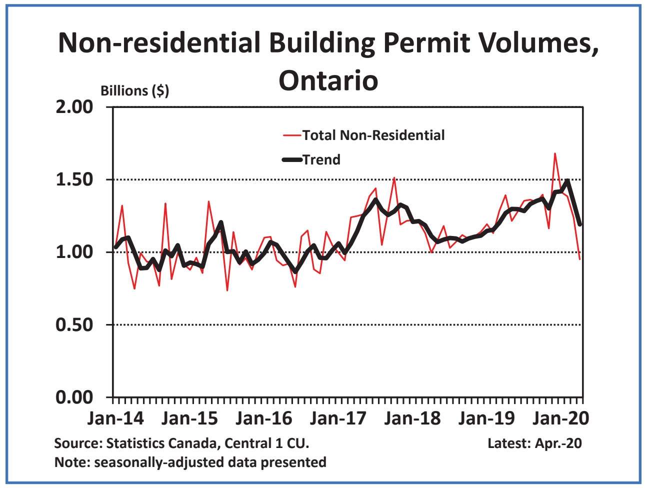
Recoil in business investment pulls down non-residential building permit volumes

Non-residential permit volumes continued to slide in Ontario for the fourth consecutive month and the month-over-month slide in April is the deepest loss in volumes since the start of the pandemic (down 23.3 per cent). The deep fall in April building permits was caused by a general decline in non-residential building intentions. Commercial permit volumes, the largest component of non-residential building, fell 9.8 per cent. Industrial and institutional permit volumes fell 37.8 per cent and 46.2 per cent, respectively.

Year-to-date, total non-residential building intentions are 0.3 per cent off last year's pace as the strong declines in March and April eat away further at the gains relative to last year. Commercial permit volumes remained 19.1 per cent above last year's pace. Institutional and industrial permit volumes both were 6.7 per cent and 33 per cent respectively off last year's pace.

Non-residential building permit volumes in all metro areas fell 19.6 per cent month-over-month in April. Permits increased in six metro markets including Toronto but the permit volumes were so meek and the declines in all other markets so strong that it comfortably offset any gains posted in those five markets.

Even with the economy starting to open up and most of Ontario continuing to effectively flatten the epi-curve, with the Greater Toronto Area (GTA) the sole exception, future building intentions will take longer to recover as investments will be made in a measured manner to minimize further losses in 2020.



Viral suppression measures snuffed out any job creation in March, over 310,000 jobs shed

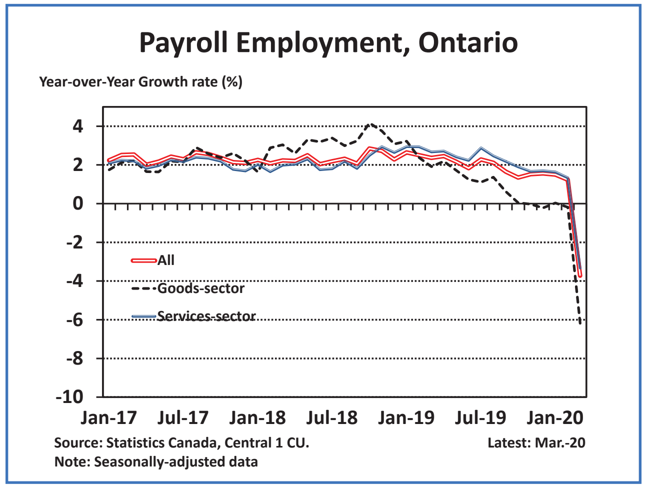
Ontario employers shed over 310,000 net jobs in March amounting to an unprecedented decline of 4.7 per cent month-over-month, according to the March non-farm and payroll data. No sector was left untouched from layoffs but services was hardest hit as many non-essential services were deemed too dangerous to public health to remain open. The services sector shed nearly 78 per cent of the over 310,000 jobs in March. One trend of note in the services data was that jobs were saved in industries which could quickly pivot to working from home.

The following key sectors in goods and services posted deep cuts in March:

- Construction (down 5.9 per cent)
- Manufacturing (down 6.6 per cent)
- Wholesale and retail trade (down 5.1 per cent)
- Healthcare and social assistance (down 3.2 per cent)
- Accommodation and food services (down 15.6 per cent)
- Education (down 0.9 per cent)
- Transportation and warehousing (down 4.2 per cent)

Building sites and auto plants were shuttered contributing largely to the shedding of construction and manufacturing employment. Food and meat processing plants were deemed essential and were able to remain open but the closure of all other manufacturing offset any insulation from layoffs in food and meat manufacturing plants.

With April data from the Labour Force Survey in the books, it is already a given that April non-farm payroll numbers will be even more grim. The job losses in this survey only capture a shutdown of half the month of March. April data will reflect the full shut down of the economy which occurred for an entire month.



Average weekly earnings held up in March despite the shedding of jobs. Overall average weekly earnings increased 0.6 per cent in March with services posting a 1.1 per cent increase. Average weekly wages in the goods sector fell 0.8 per cent. Year-to-date average weekly earnings remained 3.4 per cent above last year's pace. While weekly earnings remained steady, the sharp decline in employment means aggregate income for workers fell sharply in March.

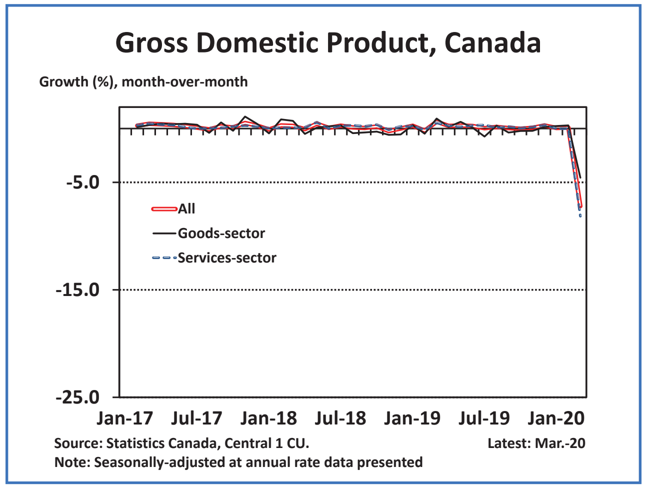
Canadian seasonally adjusted GDP fell 7.2 per cent in March, steepest fall in several decades

Canadian seasonally adjusted at annual rate (SAAR) Gross Domestic Product (GDP) fell by 7.2 per cent in March over February a drop in GDP not seen in several decades. The COVID-19 pandemic compelled governments to urge citizens to shelter at home. Diminished economic activity severely declined national output.

Quarantine measures affected both the goods and services sector with month-over-month declines in activity of 4.6 per cent and 8.1 per cent, respectively.

The manufacturing sector fell 6.5 per cent in March to its lowest level since the second half of 2016, as many factories were shut down or faced sharply reduced demand during the second half of the month. Of all manufacturing capacity in the country only around 22 per cent were unaffected by the stay at home orders. Gains in food, beverages, and tobacco manufacturing as households stocked up to ride out the quarantine ensured not all manufacturing plants were shuttered.

Durable goods manufacturing was especially hard hit in March due to the shuttering of transportation equipment manufacturing on either side of the Canada-U.S. border which fell 21.1 per cent. Specifically, motor vehicle manufacturing fell 35.2 per cent and motor vehicle parts manufacturing fell 27.7 per cent. Aerospace products and parts manufacturing fell 3.7 per cent as airlines around the world were forced to park their fleets and reconsider future operational needs as the outlook for this industry became dimmer as the virus took foothold across several regions.



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