Economics / June 2020

Economic Analysis of Ontario

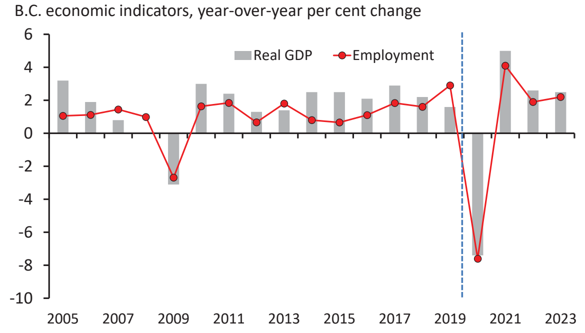
Volume 11 • Issue 2 | ISSN: 0834-3980

Ontario forecast update 2020 - 2023

Highlights:

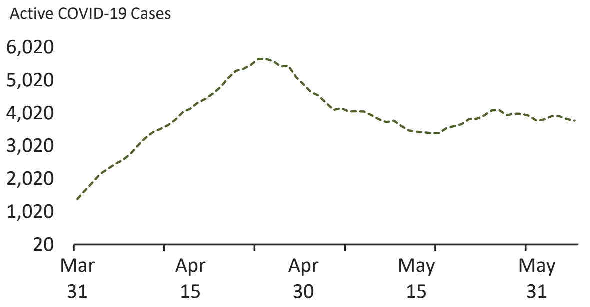
- Baseline Ontario forecast: real GDP contracts by 7.4 per cent and unemployment surges to 10 per cent in 2020; recovery trajectory very uncertain as virus dictates pace of reopening
- Gradual economic recovery expected through second half of 2020 with unemployment to remain above trend over forecast horizon
- Average home values hold up but new housing starts to contract by 29 per cent this year
- Motor vehicle manufacturing faces continued headwinds

Economic output falls steeply in 2020 due to pandemic



Source: Statistics Canada, Ontario Finance Ministry , Central 1 Credit Union
Latest: 2023

Ontario gradually flattening epi-curve but risk remains for another wave



Source: Ontario Public Health, Central 1 CU
Note: Latest- June 5, 2020.
Active cases are the difference between total cases and healed and resolved cases

A tempered and uncertain recovery has begun in Ontario as businesses, services and public spaces begin opening on a regional basis. Twenty-four of the province's 34 public-health regions – excluding the Greater Toronto Area, Hamilton, the Niagara region, Windsor and Haldimand-Norfolk – are now entering 'phase 2' of the recovery plan.

The severity of the acute economic shock caused by the COVID-19 pandemic has been unprecedented as it is worse than the Great Recession of 2008-09. Ontario's annual unemployment rate averages at 10.1 per cent this year and real GDP is forecast to contract by 7.4 per cent, driven by sizeable trade exposures in tourism, new car production, agriculture and diminished domestic consumption in housing and retail. Poor business conditions are expected to continue into mid-year before a re-opening of the economy underpins a stronger recovery phase through 2021, when GDP is expected to see a 5 per cent rise, followed by a 2.6 per cent rise in 2022 and a 2.5 per cent increase in 2023.

Suppression policies are being relaxed at a staggered pace and, as a result, economic activity is expected to lift during the second half of the year. That said, headwinds from poor global economic conditions, public health concerns and fears of a second wave of COVID-19 will constrain growth.

It is still too early to know if the slide is temporary or structural. The speed and shape of recovery depends on how effectively the province can stem the spread of COVID-19. While a baseline forecast is presented here, there is substantial uncertainty because the longer the virus is a threat, the longer the economy will remain on pause.

COVID-19 effects on the economy: an overview

Since mid-March, when Ontario's society and economy went into lockdown, the resulting effects on the economy have been brisk and punishing especially for client-facing businesses in services. Revenues fell as domestic and foreign business activity dried up, and numerous restaurants and retailers have closed completely. Those which have been able to pivot have been able to remain afloat for the time being but significant uncertainty is still ahead of them.

Given the nature of economic data, there is often a lag between events occurring and results being reflected in the statistics, but the data that is becoming available paints a very grim picture.

Only 20 per cent of businesses in Ontario were open in mid-May, which was lower than the national average of 28 per cent, according to the Canadian Federation of Independent Business (CFIB). While businesses such as grocery and other food stores have thrived as consumers focus on essentials, clothing and shoe retailers, auto dealerships and spas have been starved.

Physical distancing measures have eaten away severely at revenues with close to half of the respondents to the CFIB survey saying they have lost 70 per cent of revenues. Furthermore, data from Statistics Canada shows that employment in Ontario fell by 14.5 per cent or close to 1.1 million jobs between January and April. Employees from small to medium businesses have borne the brunt, with over 77 per cent of these job losses occurring in operations with 99 or fewer employees. Larger businesses have undoubtedly been affected too but they are more likely to be able to survive. With one million jobs lost, the unemployment rate swelled from 5.2 per cent in January to 11.3 per cent by April.

Accommodation and food services have been hardest hit as tourism has dried up. In March, as borders were shut to non-essential travel, tourist visits fell 55.8 per cent or close to 640,000 net fewer tourists.

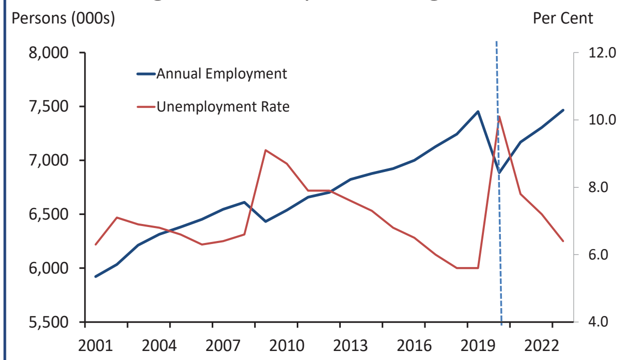
Retail sales have also felt the strain of the tourism shut down and diminished domestic spending on non-essential goods. In March, retail sales dollar volumes fell 9 per cent over February.

Educational services have been hit as many educational institutions have moved to an e-learning model.

In the goods sector, areas such as construction and manufacturing have been impacted as auto production stopped and residential and business investments are on pause. For example, in March, manufacturing sales fell 14.3 per cent to $22.3 billion over February and were well below the monthly average sales volume of $23.7 billion from January 2002 to March 2020.

The existing homes market, an engine of economic growth in Ontario pre-COVID-19, has also been frozen. During the nine-year period of strong growth in Ontario's housing market following the 2008-09 Great Recession, sales and new listings averaged 17.382 and 29,176 units respectively. In March 2020, new listings and sales dropped seven and 11.1 per cent

Labour market shock from pandemic strong and far reaching, return to pre-crisis gradual



Source: Statistics Canada, Central 1 Latest: 2023

respectively from this long-term average. By April, new listings and sales had fallen by 63.3 per cent and 62.3 per cent from this long-term average. Where possible, the market has pivoted by introducing virtual showings, but for the most part both buyers and sellers have retreated from big-ticket purchases. Average home values have diminished over the last two months but have held up with year-to-date average prices still 13.7 per cent above last year's pace.

For all the negativity in the data there is a small glimmer of hope. Ontario has slowly started to open its economy. It is likely that April and May data will be the trough from which a tempered and uncertain recovery begins.

Government support swift and unprecedented in scope

This recession is like no other. Rather than supply or demand excesses, this downturn was largely by decree as the Government of Canada combats the pandemic. Indeed, the government's COVID-19 Economic Response Plan has been breathtaking in its magnitude. The temporary measures aimed at bridging the economy to the other side of the pandemic, improving employment figures and minimizing the extent of long-term damage include: emergency cash benefits for individuals through the Canada Emergency Response Benefit; wage subsidies of up to 75 per cent for nearly all businesses via the Canada Emergency Wage Subsidy; interest-free emergency loans for small business with possibility of partial loan forgiveness via the Canada Emergency Business Account; one-time top ups to Ontarians' public retirement income supplements and frozen electricity prices to provide households in Ontario some financial breathing room. With thick borders compromising the flow of temporary workers into Ontario, the province has also worked to provide the agriculture sector with a forum to hire unemployed Ontarians to offset the loss in their temporary workforces and protect the province's food supply.

The costs of these emergency supports are expected to be substantial and a large fiscal deficit is likely due to lost tax revenues when the economy was idle.

Choppy waters ahead in 2020

The forecast presented here is Central 1's baseline scenario which assumes that the economy begins to gradually open up in May, with gradual range-bound growth over the second half of the year hampered by physical distancing rules, lower capacity and a consumer base whose personal balance sheets are somewhat battered and confidence levels weakened. Many businesses that were already struggling pre-crisis will likely not survive the pandemic, compounding the drag on growth going forward even as the economy opens up. This is evident in figures from the lobby group Restaurants Canada which revealed that the Ontario restaurant industry has shed over 300,000 jobs, the worst recoil in jobs in the 75 years history of this trade association. Some major retailers too have had to restructure, close shops, or seek bankruptcy protection.

Agriculture:

Despite current strong domestic demand for food and other staples, the agriculture sector will face some headwinds in 2020 due to its trade exposure. Both grain and livestock outlooks look bullish as demand for these types of goods, particularly in emerging markets, wanes thus tightening profit margins.

Auto manufacturing:

The motor vehicle manufacturing sector will remain challenged with Ontario's real motor and vehicle parts output expected to fall by 19.3 per cent this year. Auto manufacturing is a key sector in Ontario, employing a sizeable share of the labour force and accounting for a substantial share of GDP. The auto sector was facing headwinds prior to the pandemic as the General Motors (GM) plant in Oshawa began winding down as a result of waning demand domestically and internationally, especially in the U.S. which is a key market for Ontario autos. In 2019, new car sales fell 2.2 per cent to over 843,500 units in Ontario and motor vehicle and parts exports posted only 1.6 per cent growth for 2019. Into 2020, demand for new cars will further scale back and production and plants remain shuttered for most of the year. Recent national GDP (seasonally adjusted at annual rate) sheds some light into the extent of the economic fall out for this sector. In March, transportation equipment manufacturing fell 21.1 per cent. Specifically, motor vehicle manufacturing fell 35.2 per cent and motor vehicle parts manufacturing fell 27.7 per cent.

Construction:

Construction-sector growth will be range bound as both residential and non-residential investments decline in 2020 as many businesses rethink big investments. In 2020, retail sales are expected to fall 10.6 per cent, affecting commercial investments, rebounding in 2021 by 7.7 per cent and then growing at 4.4 per cent per year. The jump in 2021 will reflect the unleashing of pent-up demand in the second half of the year providing a lift to retailers which remain open. Consumption may overshoot temporarily as households make up for some lost time, although many households and business owners will bear the scars of income loss.

Educational Services:

Educational services will face some headwinds as many primary and secondary schools move to an e-learning style of teaching and foreign students' numbers dwindle or dry up as the borders remain thick.

GDP and exports:

Some sectors will be largely insulated, such as businesses which can utilize e-commerce and those with workers who can work effectively from home, for example: professional, scientific and technical services and public administration. The health sector will also remain relatively firm this year, given increased requirements for care and increased government investments, although private practices are experiencing loss of income.

The International Monetary Fund calls for a three per cent contraction to the global GDP in 2020, substantially worse than what occurred during the 2008-09 Great Recession.

First quarter Ontario exports are trending 2.5 per cent below last year's pace with second quarter expected to post a steeper fall in activity. Decreased appetite for foreign products and supply chain issues due to thicker borders will offset any potential benefit from a weaker Canadian dollar in 2020. Exports are expected to fall by 12.8 per cent in 2020 and then pick-up by 9.1 per cent in 2021. Over the last two years of the forecast, exports will settle in the range of three to 3.9 per cent growth per year.

For 2020, real GDP is expected to fall 7.4 per cent, doubling the contraction posted in the recession of 1991. Undoubtedly, this pandemic-driven recession will be one of the most drastic economic contractions since the Great Depression. Economic output is expected to increase by 5 per cent by 2021. While growth in 2021 is substantial, it will still not be sufficient to return the economy to pre-crisis output. Over the latter part of the forecast output will be growing in the range of 2.5 per cent to 2.6 per cent per year.

Housing market:

With sellers and buyers stranded at home and unable to close on deals, the housing market will remain frozen for half the year, gradually recovering over the back half of 2020. Yet, even with a strong surge in activity in the second half of 2020 the home ownership market will post lower numbers in 2020 relative to 2019. An existing home sales contraction in the minimum range of 10 to 20 per cent is likely for 2020. New home construction will face major challenges in 2020 with many households still willing but unable to purchase a new home due to unstable job and wage situations despite very low mortgage rates. As an example, a recent survey commissioned by the Toronto Region Real Estate Board shows that homebuying desire remained stable, even during the COVID-19 crisis, relative to the five-year average. On the supply-side new home construction will moderate as developers bring fewer projects to market given higher costs incurred and greater risk. In 2020, new housing starts will contract nearly 29 per cent to 49,100 units and grow by an average of 15.4 per cent per year thereafter.

Recent changes by the Canada Mortgage and Housing Corporation (CMHC) to tighten its mortgage default insurance will add further drag to existing homes demand in a market already weakened by the pandemic.

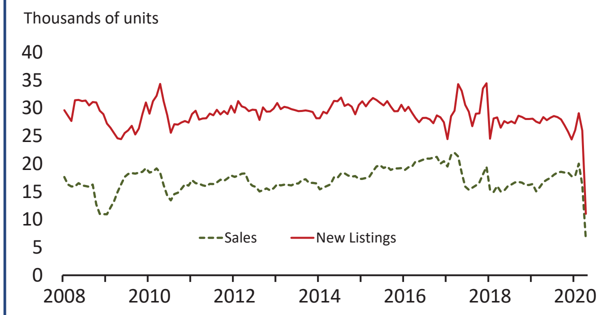
Population:

A weakened economy and thicker borders will affect all immigration (i.e., permanent, and non-permanent). Population growth will slow down to 1.2 per cent in 2020 from 1.7 per cent in 2019 and thereafter range between one and 1.3 per cent over the next three years.

Tourism:

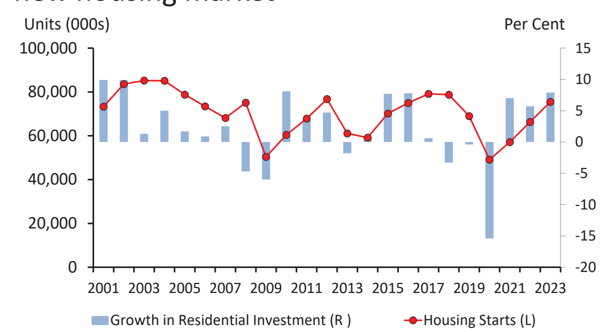
This pandemic has touched all sectors but tourism-related sectors such as accommodation and food services have been hardest hit, with a 27.5 per cent

Pandemic grinds existing homes market activity to a trickle



Source: CREA, Central 1 CU
Note: Latest April 2020

Existing homes market weakness seeps into new housing market



Source: Statistics Canada, Ontario Finance Ministry, CMHC, Central 1 CU
Latest: 2023

fall in GDP this year. A 14 per cent increase in output is forecast next year, then growing in the range of 2.8 per cent to 2.9 per cent in 2022 and 2023.

Unemployment:

Unemployment is expected to reach 10.1 per cent in 2020 before moving down to 7.8 per cent in 2021 and range between 6.4 per cent and 7.2 per cent over the last two years of the forecast. Government supports such as commercial rent and wage subsidies will keep unemployment from peaking higher in 2020, yet post-crisis some structural unemployment will keep this metric above trend over the next four years.

An uncertain recovery

The economy’s emergence from hibernation is not without considerable uncertainty. While Ontario has been able to flatten the COVID-19 epi-curve effectively, once the economy begins to open more widely the risk of another wave is always back of mind and the provincial government has signaled as much. Political leadership has stated they are not hesitant to lock down the economy again if new case growth gets out of hand, thus undoing any economic growth gained up to that point. As a result, the economic recovery over the next 12 to 36 months could follow a variety of scenarios from a “U” shaped recovery all the way to a “W’ shaped recovery. As Dr. Anthony Fauci, Director of America’s National Institute of Allergy and Infectious Disease said: “You don’t make the timeline, the virus makes the timeline.”

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

Bryan Yu
Deputy Chief Economist
byu@central1.com / P **604.742.5346**
Mobile: 604.649.7209

Provincial Tables

	2017	2018	2019	2020	2021	2022	2023
GDP at market prices	4.6	3.7	4.1	-6.8	5.6	3.8	3.6
Real GDP, expenditure-based	2.9	2.2	1.6	-7.4	5.0	2.6	2.5
Household consumption	4.1	2.5	2.0	-8.3	5.3	2.8	2.9
Government expenditure	2.0	3.7	2.8	1.0	1.2	1.0	1.0
Government capital formation	7.9	6.2	1.2	-1.3	-3.3	-0.5	3.3
Business capital formation	3.8	1.4	-1.3	-16.2	6.1	4.1	1.6
Residential structures	0.6	-3.3	-3.0	-15.4	7.0	5.7	7.9
Machinery and equipment	13.9	11.5	0.0	-21.3	3.5	3.7	-2.9
Non-residential structures	3.2	1.0	1.5	-12.2	4.1	1.0	-6.3
Final domestic demand	3.7	2.6	1.5	-7.3	4.1	2.5	2.3
Exports	0.4	0.9	2.8	-12.8	9.1	3.9	3.0
Imports	3.1	1.6	1.3	-11.6	7.1	3.2	2.7
Net exports, $2007 bil.	-4.6	-7.4	-1.9	-6.4	0.2	3.0	4.1
Employment	1.8	1.6	2.9	-7.6	4.1	1.9	2.2
Unemployment rate (%)	6.0	5.6	5.6	10.1	7.8	7.2	6.4
Personal income	4.5	4.5	4.1	-6.1	3.7	3.0	3.5
Disposable income	4.6	4.7	3.8	-6.2	4.6	3.0	3.5
Net operating surplus: Corporations	2.7	-0.9	4.4	-8.2	11.1	6.6	1.1
CPI	1.7	2.4	1.6	1.0	1.4	1.3	1.4
Retail sales	7.7	4.4	2.2	-10.6	7.7	4.4	4.4
Housing starts, 000s	79.1	78.7	69.0	49.1	57.1	66.3	75.5
Population Growth (%)	1.4	1.7	1.7	1.2	1.0	1.1	1.3
Key External Forecasts							
U.S. Real GDP	2.4	3.0	2.3	-7.0	5.0	2.0	2.2
Canada Real GDP	3.1	2.0	1.6	-7.7	5.3	2.2	1.8
European Union Real GDP	2.7	1.5	1.2	-8.0	5.0	1.6	1.7
China Real GDP	6.0	6.6	6.1	0.0	8.0	5.7	5.5
Japan Real GDP	1.9	0.8	0.7	-6.0	4.0	0.9	0.8
Canada 3-month t-bill, %	0.7	1.4	1.7	0.3	0.3	0.4	0.5
Canada GoC long-term Bond, %	2.2	2.4	1.8	1.1	1.1	1.5	1.8
U.S.-Canada Exchange Rate, cents/dollar	77.1	77.2	76.2	71.9	73.0	74.1	76.3
Crude Oil WTI USD$ per barrel	50.9	65.0	57.0	31.0	42.0	50.0	55.0
Henry Hub Natural Gas Price, US$ per mmbtu	3.0	3.2	2.6	2.0	2.5	2.7	2.9

Source: Statistics Canada, CMHC, Central 1 CU

Real Gross Domestic Product: Industries
Provincial Forecast

	2017	2018	2019	2020	2021	2022	2023
All industries	713,254.0	730,276.0	741,794.0	686,824.0	721,346.0	739,898.0	758,110.0
% change	3.0	2.4	1.6	-7.4	5.0	2.6	2.5
Goods-producing industries	166,211.0	170,047.0	169,803.0	153,660.0	163,968.0	170,138.0	175,793.0
% change	2.9	2.3	-0.1	-9.5	6.7	3.8	3.3
Agriculture, forestry, fishing & hunting	7,537.0	7,886.0	8,085.0	7,613.0	8,263.0	8,567.0	8,848.0
% change	3.8	4.6	2.5	-5.8	8.5	3.7	3.3
Mining	7,780.0	7,573.0	7,558.0	6,934.0	7,530.0	7,873.0	8,199.0
% change	-6.0	-2.7	-0.2	-8.3	8.6	4.6	4.1
Utilities	13,438.0	14,016.0	14,032.0	13,108.0	13,623.0	13,887.0	14,158.0
% change	-0.1	4.3	0.1	-6.6	3.9	1.9	2.0
Construction	51,011.0	51,915.0	52,598.0	48,675.0	50,141.0	51,788.0	53,420.0
% change	6.0	1.8	1.3	-7.5	3.0	3.3	3.2
Manufacturing	87,292.0	89,619.0	88,497.0	78,221.0	85,382.0	89,037.0	92,223.0
% change	2.3	2.7	-1.3	-11.6	9.2	4.3	3.6
Service-producing industries	546,925.0	559,893.0	571,649.0	535,846.0	560,195.0	572,650.0	585,278.0
% change	3.0	2.4	2.1	-6.3	4.5	2.2	2.2
Wholesale trade	46,479.0	46,757.0	46,213.0	39,863.0	42,707.0	43,882.0	45,055.0
% change	4.3	0.6	-1.2	-13.7	7.1	2.8	2.7
Retail trade	36,287.0	37,112.0	37,804.0	33,172.0	35,563.0	36,522.0	37,699.0
% change	7.3	2.3	1.9	-12.3	7.2	2.7	3.2
Transportation and warehousing	28,679.0	29,497.0	29,718.0	26,498.0	28,150.0	28,926.0	29,701.0
% change	4.1	2.9	0.7	-10.8	6.2	2.8	2.7
Information and cultural	27,539.0	27,884.0	28,909.0	25,087.0	27,273.0	27,930.0	28,595.0
% change	3.5	1.3	3.7	-13.2	8.7	2.4	2.4
Finance, insurance & real estate	101,637.0	102,699.0	104,954.0	98,199.0	103,395.0	106,493.0	109,649.0
% change	2.5	1.0	2.2	-6.4	5.3	3.0	3.0
Owner-occupied dwellings	57,236.0	58,914.0	60,352.0	61,654.0	63,220.0	64,714.0	65,959.0
% change	3.0	2.9	2.4	2.2	2.5	2.4	1.9
Professional, scientific, and technical	48,508.0	50,953.0	52,076.0	49,568.0	52,498.0	54,090.0	55,559.0
% change	3.6	5.0	2.2	-4.8	5.9	3.0	2.7
Admin., support, management	26,827.0	27,260.0	28,088.0	25,258.0	26,728.0	27,408.0	28,093.0
% change	-0.1	1.6	3.0	-10.1	5.8	2.5	2.5
Education	40,956.0	42,075.0	42,865.0	41,043.0	41,772.0	41,786.0	41,909.0
% change	1.7	2.7	1.9	-4.3	1.8	0.0	0.3
Health care and social assistance	47,708.0	49,386.0	50,916.0	51,524.0	51,752.0	52,144.0	52,805.0
% change	2.4	3.5	3.1	1.2	0.4	0.8	1.3
Arts, entertainment and recreation	6,154.0	6,301.0	6,504.0	5,072.0	5,308.0	5,451.0	5,599.0
% change	3.5	2.4	3.2	-22.0	4.7	2.7	2.7
Accommodation and food	15,166.0	15,408.0	15,764.0	11,423.0	13,119.0	13,492.0	13,888.0
% change	4.1	1.6	2.3	-27.5	14.9	2.8	2.9
Other services	13,491.0	13,600.0	13,842.0	12,966.0	13,380.0	13,733.0	14,080.0
% change	0.7	0.8	1.8	-6.3	3.2	2.6	2.5
Public administration	50,260.0	52,046.0	53,643.0	54,520.0	55,330.0	56,077.0	56,684.0
% change	2.5	3.6	3.1	1.6	1.5	1.4	1.1

Source: Statistics Canada, Central 1 CU

Labour Market Indicators: Ontario

Provincial Forecast

Employment by Industry: Ontario	2017	2018	2019	2020	2021	2022	2023
All Industries	7,128.0	7,242.4	7,452.6	6,887.0	7,170.1	7,302.8	7,467.0
% change	1.8	1.6	2.9	-7.6	4.1	1.9	2.2
Agriculture	68.5	69.0	74.0	70.2	74.1	75.8	77.6
% change	-11.8	0.7	7.2	-5.2	5.6	2.3	2.3
Other primary	35.1	34.8	35.3	32.6	34.4	35.5	36.7
% change	-2.0	-0.9	1.4	-7.7	5.5	3.1	3.4
Utilities	47.2	56.6	54.7	51.9	53.3	54.1	54.8
% change	-4.6	19.9	-3.4	-5.1	2.8	1.4	1.3
Construction	512.5	525.1	542.8	495.8	503.3	515.6	530.7
% change	1.7	2.5	3.4	-8.7	1.5	2.4	2.9
Manufacturing	769.3	767.6	761.1	683.1	716.7	733.5	753.2
% change	2.4	-0.2	-0.8	-10.3	4.9	2.3	2.7
Trade	1,068.9	1,074.2	1,098.4	971.8	1,016.8	1,037.8	1,067.8
% change	3.5	0.5	2.3	-11.5	4.6	2.1	2.9
Transportation & warehousing	341.4	379.1	403.0	368.2	382.8	390.1	399.1
% change	4.3	11.0	6.3	-8.6	4.0	1.9	2.3
FIREL	560.5	563.9	588.2	553.3	577.0	592.0	607.0
%change	0.9	0.6	4.3	-5.9	4.3	2.6	2.5
PST, BBS	943.7	957.5	998.5	954.6	1,001.9	1,031.3	1,057.5
% change	2.5	1.5	4.3	-4.4	5.0	2.9	2.5
Education	497.1	521.2	548.7	524.6	533.4	533.0	534.0
% change	-1.1	4.8	5.3	-4.4	1.7	-0.1	0.2
Health & social services	869.5	851.6	905.7	915.2	918.3	924.3	935.1
% change	3.7	-2.1	6.4	1.0	0.3	0.7	1.2
Accommodation & food	454.3	468.2	457.8	324.4	388.6	394.5	410.9
% change	-0.5	3.1	-2.2	-29.1	19.8	1.5	4.2
ICR, Other services	588.8	608.5	604.8	556.5	579.5	590.9	604.7
% change	-0.9	3.3	-0.6	-8.0	4.1	2.0	2.3
Public administration	371.2	365.0	379.8	385.2	390.2	394.6	398.1
% change	5.2	-1.7	4.1	1.4	1.3	1.1	0.9

Note: PST = professional and scientific services, FIREL = Finance, Insurance, Real Estate, and Leasing

ICR = Information, Culture, and Recreation, BBS = Business Building Services

Labour Market Indicators: Ontario

	2017	2018	2019	2020	2021	2022	2023
Labour force, 000s	7,579.8	7,673.0	7,890.6	7,661.1	7,778.5	7,866.9	7,978.2
% change	1.2	1.2	2.8	-2.9	1.5	1.1	1.4
Employment, 000s	7,128.0	7,242.4	7,452.6	6,887.0	7,170.1	7,302.8	7,467.0
% change	1.8	1.6	2.9	-7.6	4.1	1.9	2.2
Unemployment rate, %	6.0	5.6	5.6	10.1	7.8	7.2	6.4
Source population, 000s							
% change	1.4	1.8	1.9	1.4	1.1	1.2	1.3
Labour force participation rate %	64.9	64.5	65.1	62.3	62.6	62.5	62.6
Average hourly wage rate, $	34.65	35.53	36.75	36.28	36.43	36.75	37.4
% change	3.6	2.6	3.4	-1.3	0.4	0.9	1.8

Source: Statistics Canada, Central 1 CU