Ontario Economic Briefing

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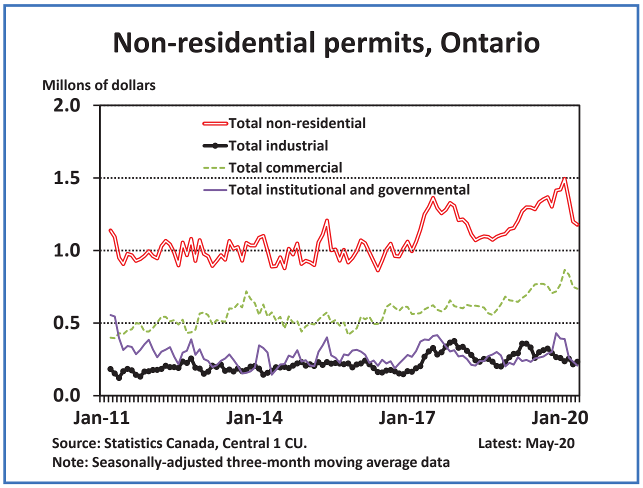
Highlights:

- Non-residential building permit volumes jumped 36.9 per cent in May
- Durable goods manufacturing plummets largely on a deep fall to motor vehicle and parts manufacturing
- Trade slowly rebounding



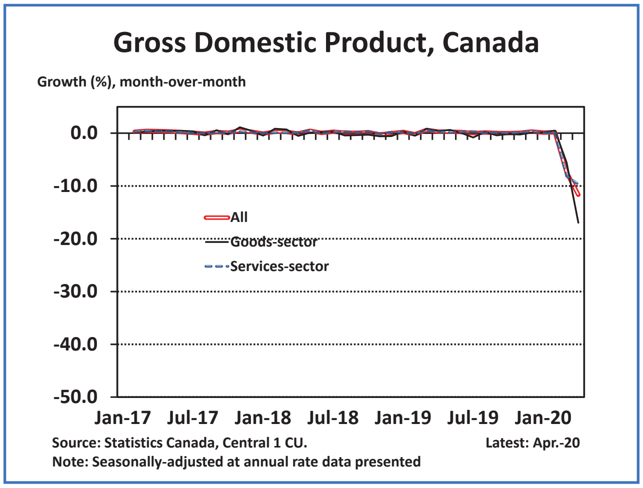
May jump in non-residential permit volume stopped a four-month skid

Non-residential permit volumes increased substantially in Ontario in May moving up 36.9 per cent stopping a four-month slide. All areas of non-residential construction resumed with robust growth in May. Industrial permits increased 67.4 per cent, commercial permits increased 26.3 per cent, and institutional permits moved up 49.3 per cent.

Policy changes in May, which opened construction activity again helped the rebound seen in May's data. In Ontario, some non-residential construction projects were reopened starting May 4. Additionally, the province moved into Stage 1 of reopening on May 19, which included a full resumption of all construction projects.

Year-to-date, non-residential permit volumes remained 1.8 per cent above last year's pace with the recovery in May. Commercial permits are typically the largest component of non-residential permits in Ontario and this are remained 19.3 per cent above last year's pace and helped offset losses to industrial (25.7 per cent down year-to-date) and institutional (8.8 per cent down year-to-date).

In Ontario's metro areas non-residential building permits increased 40.3 per cent in May lifted by activity across many large markets including Toronto (up 30.7 per cent), Ottawa-Gatineau (up 77.5 per cent), Hamilton (up 48.7 per cent), and, London (up 578.6 per cent). Only a few areas experienced decreased non-residential activities: Oshawa (down 54.6 per cent), St. Catharines-Niagara (down 30.8 per cent), and Windsor (down 36.1 per cent). Large goods-sector exposures in these areas, particularly in manufacturing, likely led to fewer business investments.



Canadian monthly GDP posts largest one-month drop in activity in April

Canadian GDP seasonally adjusted at annual rate (SAAR) fell an additional 11.6 per cent in April adding to the 7.5 per cent drop in March. Furthermore, all sectors reported significant drops in economic activity in April as measures to stem the COVID-19 viral spread took a full bite out of economic activity with a full month of measures such as business closures and stay-at-home measures across the country. Since this economic series started in 1961 April's month-over-month fall in activity is the most significant ever such is the economic shock of the pandemic on Canada's economy.

As with other metrics, bottom should be reached in April. Statistics Canada's preliminary estimate for May shows a 3.0 per cent expansion. Into May, several provinces started to slowly progress to open their economies in a phased manner following the advice of public health experts. Yet, even with a phased approach to the economy opening do not expect a V-shaped bounce back in activity. Consumer confidence is battered as is personal finances from deep job losses and wage and savings declines. It will take some time for economic losses to be turned around barring another wave of the virus in the Fall and Winter undoing hard earned gains to reopen the economy.

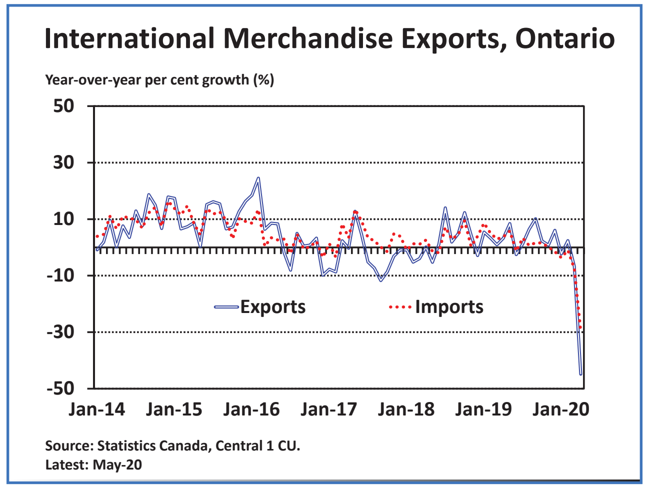
Manufacturing fell 22.5 per cent in April as many plants were shuttered and a select few worked with very reduce capacities to protect public health. Transportation equipment manufacturing fell 49.6 per cent in April as many auto producing plants closed in both the U.S. and Canada. Motor vehicle and motor vehicle and parts production fell off dramatically in April each losing 97.7 per cent and 86.4 per cent of activity, respectively. Aerospace product and parts manufacturing was down 10.6%, reflecting continued lower demand from airlines, as non-essential air travel came to a standstill.

Trade slowly rebounding but pandemic has created a significant hole to rebound from

Merchandise trade volumes rebounded slightly in May with the resumption of activity in areas like auto plants and higher crude oil prices, but Ontario's trade volumes continue to severely lag last year's pace despite a slight rebound in May. Compared to the same month last year imports and exports both lagged by 37.9 per cent and 44.7 per cent respectively, the year-over-year gap in imports widened in May compared to April further reflecting supply challenges at a time when various economies around the world were progressively re-opening. The gap in exports remained relatively unchanged.

Year-to-date, Ontario imports remained 16.6 per cent off last year's pace while exports remained 20.1 per cent off last year's pace largely due to the pandemic bringing economic activity to a near standstill from mid-March up to mid-May.

Year-to-date, all sectors remained in the red but with economic activity slowly opening several sectors began to chip away at the gap left by the pandemic. Motor vehicle and parts production and trade of passenger and truck vehicles increased, as well as parts as shops could gradually returned to production. Consumer good exports also gradually began



to rebound in May as consumers continue to take advantage of e-commerce to obtain essential goods.

The airline industry continues to suffer due to the pandemic. In May, the year-over-year gap in trade of aircraft and other transportation equipment and parts continued to widen as many potential travellers remain on the sidelines and airline companies are having to make tough choices and cut new investments in equipment given a significantly weakened travel and tourism industry.

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