

### Highlights:

- Job losses slowed in May as economy re-opened;
- Small business confidence posts impressive gains in July, but uncertainty high;
- 5 per cent of small businesses may never be profitable again;
- Reduced business investment results in sharp decline to non-residential permit volumes;
- Canadian GDP jumps up 4.5 per cent in May.

### Pace of job losses slowed in May

Based on the latest Survey of Employment, Payroll and Hours (SEPH), non-farm payroll counts in Ontario fell an additional 6.3 per cent in June over May due to a 2.9 per cent fall in goods sector payrolls and a 6.9 per cent fall to service sector payrolls.

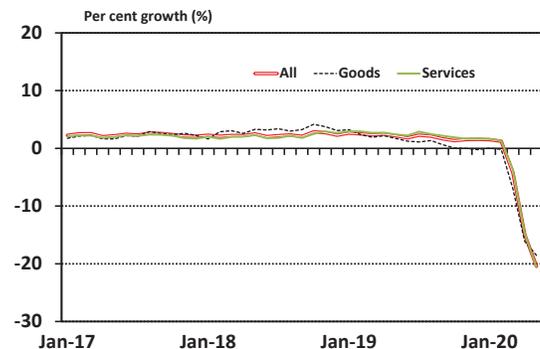
Average weekly earnings increased in May by 3.1 per cent, a much slower pace of growth than the 6.4 per cent posted in April. The average hourly fixed-weight earnings index moved up 4.3 per cent year-over-year in May - up from 3.7 per cent in April. The overall growth in wages reflects a large number of lower-paid workers in the service sector getting laid off and likely claiming the Canadian Emergency Response Benefit (CERB), while other higher paid workers have been able to keep working through the pandemic.

The restart of the economy in Ontario likely slowed the pace of job losses in May as many temporarily laid off workers were slowly recalled to their jobs and moved away from fiscal supports such as the CERB to payrolls once again. June's job loss figures are expected to continue slowing as more parts of Ontario have restarted. June Labour Force Survey results, which reflect labour market conditions for the week of June 14 to 20, showed that the labour market recovery was well underway.

### Small-business confidence jumps up in July, highest index value in the country

Ontario's small-business confidence index pole vaulted in July, moving up 12 points from June to 66 points. July's value was higher than the national aver-

### Non-farm payroll employment, Ontario

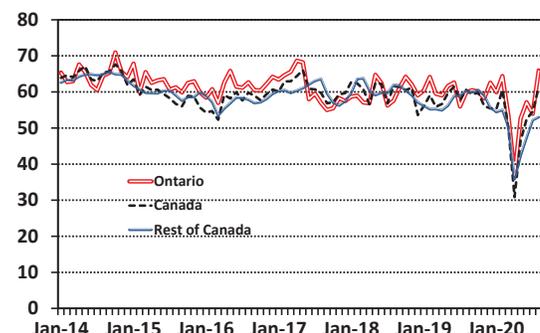


Source: Statistics Canada, Central 1 CU.

Note: Y/Y growth presented, Y/Y = year-over-year

Latest: May-20

### Small-business confidence index



Source: CFIB, Central 1 CU.

Note: Above 50 indicates expectations of stronger performance next year

Latest: Jul.-20

age (61.3 points) and the highest value of any region in Canada. Moreover, July's value was even higher than the value in February (64.4 points) before the start of the pandemic in Ontario. Year-over-year, Ontario's index value was ten points above.

Over the next three months, 33 per cent of employers expect full-time hiring to decrease (down from 36 per cent in June) and 42 per cent of respondents feel the general state of business in the province is bad (down from 44 per cent in June). Both these measures have been gradually declining over the last few months as the economy slowly restarts.

Average capacity utilization increased to 59.2 per cent from last month's reading (up 2.1 per cent) but it remains below what most small businesses in the province need to consistently turn a profit. Even with the restart in the economy strict rules to minimize the risk of new COVID-19 outbreaks in the province is keeping businesses' hands tied and they are unable to

tap into all its resources fully. Thirteen per cent of businesses are up to full capacity in July (up from 11 per cent in June) while 23 per cent of businesses surveyed reported 34 per cent capacity utilization or lower down from 33 per cent in June.

The jump in confidence could illustrate over-confidence by businesses as regions restart but it reflects a smaller sample size e.g. as smaller businesses close their doors permanently, the results may be skewing higher as those businesses that remain feel confident because they are relatively unscathed so far.

Current confidence levels notwithstanding, five months remain in 2020 and uncertainty is still high. Many things could happen that erodes hard earned gains. A second wave of the virus could erupt, or a treatment or vaccine could be approved. Moreover, the Canadian Federation of Independent Business (CFIB) does a regular survey of its members during the pandemic. Even though conditions continue to improve for small and medium enterprises (SMEs) many are not yet out of the woods especially in client facing services. In the latest survey CFIB reported that five per cent of businesses may never be profitable again and 14 per cent of businesses are considering filing for bankruptcy due to the pandemic with this sentiment skewing heavier to client facing businesses such as retail or hospitality

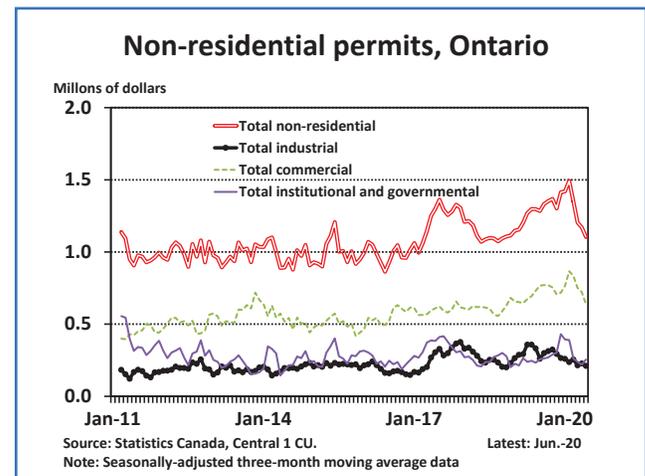
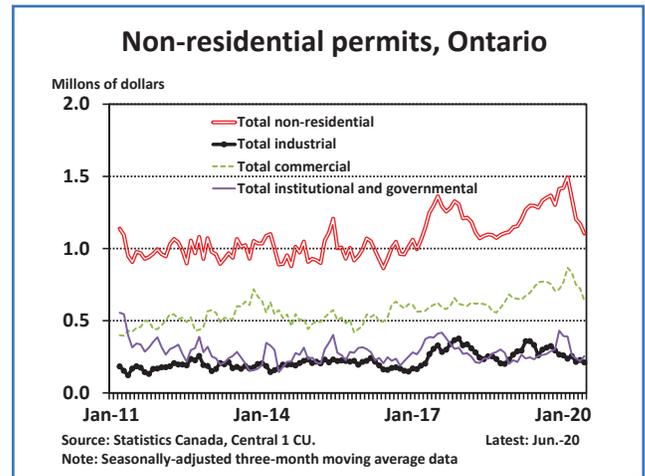
### Non-residential building permit volumes recoiled in June despite the economic restart

As expected, non-residential building permits recoiled 17.8 per cent in June to \$1.1 billion, after jumping 31.8 per cent in May. This was due to developers working through the backlog of ready-to-go projects in May, but declining business investments led to a fall in new permit volumes fell in June.

Contractions to commercial (down 38.5 per cent to \$481.2 million) and industrial (down 24.7 per cent to \$202.3 million) permit volumes offset gains to institutional volumes (up 60.3 per cent to \$371.7 million).

It is worth considering that permits can be volatile, and this could be what is happening currently, especially since new COVID-19 public health directives are slowing down activity at construction sites but also at municipal offices where permits are filed and approved.

With the recoil in June over the first half of 2020 non-residential building permits are lagging last year's total by 1.8 per cent. Industrial permit volumes are 25.4 per cent off last year's pace while commercial and



institutional volumes are 6.9 per cent and 3.8 per cent respectively ahead of last year's pace.

Total non-residential building permit volumes in Ontario remained nearly unchanged in the second quarter of 2020 (down 0.2 per cent) over the first quarter. Over the same period in 2018 and 2019 the average growth from the first quarter to the second quarter was 35.3 per cent.

Over the first half of 2020 non-residential building permit volumes in metro areas are lagging last year's pace by 1.3 per cent due to a wide decline in future building intentions across ten of the province's 16 census metropolitan areas (CMAs).

### Economic restart boosts Canadian GDP

After two months of near zero economic and social activity apart from essential goods and services many regions of the country started to restart their economies from May onwards including Ontario. The restart helped to lift Canadian GDP at seasonally adjusted at annual rate (SAAR) by 4.5 per cent after a record month-over-month GDP SAAR drop of 11.7 per cent in April. The pickup in activity in May came from both the

goods sector (up 8 per cent) and the services sector (up 3.4 per cent).

Moreover, Statistics Canada had reported last month a preliminary GDP estimate for May of three per cent growth, with the economic restart across the country this estimate was easily overshoot as consumers after months inside were eager to return to restaurant patios, nail salons, new car showrooms, etc.

The manufacturing sector rose 7.4 per cent in May following a 22.4 per cent decline in April, when many operations experienced full or partial shutdowns in response to local and provincial emergency measures introduced to slow the spread of COVID-19.

Within manufacturing, the transportation equipment manufacturing subsector (up 30.5 per cent) contributed substantially to growth. Most automotive plants gradually reopened midway through the month and the output of motor vehicles and motor vehicle parts slowly resumed. One area that continued to struggle with nearly zero air travel as Canadian borders, and for that part many other countries' borders, remained closed was aerospace manufacturing which fell 5.1 per cent in May adding to the 10.6 per cent drop in production from April.

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