

Highlights:

- Non-farm payroll increased in June by 4.4 per cent supported by growth in both goods and services sector
- Small business confidence dips in August, recovery phase slowing down
- Economic restart benefits many Ontario businesses, closures down 34.4 per cent
- Real Canadian GDP moved up 6.5 per cent in June

Payrolls increased in June supported by the economic restart

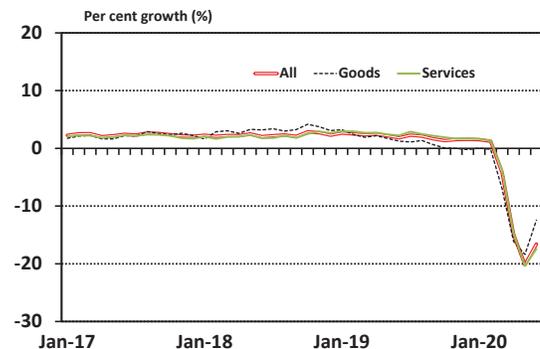
Based on the latest Survey of Employment, Payroll and Hours (SEPH), non-farm payroll counts in Ontario increased 4.4 per cent in June due to 7.1 per cent growth in the goods-sector and 3.7 per cent growth in the services-sector. The economic pickup from the restart seen in the Labour Force Survey (LFS) is now also showing up in the SEPH.

Significant hiring occurred in several sectors but concentrated largely in services. Hiring increased in retail trade (up 10.4 per cent or over 57,600 workers), accommodation and food services (up 16.3 per cent or over 33,700 workers), transportation and warehousing (up 4.2 per cent or over 10,600 workers), construction (up 9.8 per cent or over 28,000 workers), manufacturing (up 6.5 per cent or over 36,700 workers), and health and social assistance (up 3.9 per cent or over 24,500 workers).

Average weekly earnings fell in June by 1.5 per cent. Much of the net hiring done in June came from the services sector (70.5 per cent share). Rehiring by employers on the restart in the services-sector likely occurred in lower-paid jobs which pulled down overall average weekly wages. The average hourly fixed-weight earnings index moved up 1.8 per cent year-over-year in June – a much slower pace of growth from 4.2 per cent in May.

Workers who were laid off in March through May are gradually being recalled and are counted on payrolls in SEPH. Yet, in June, much of Southwestern Ontario, including the City of Toronto remained in stage two

Non-farm payroll employment, Ontario

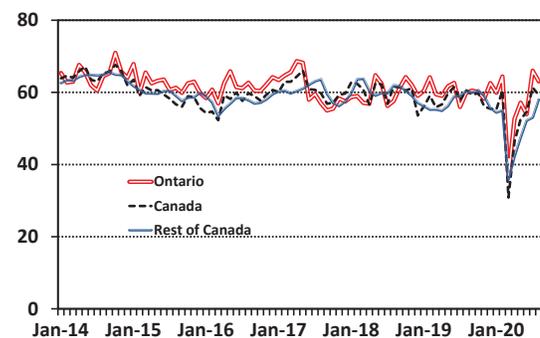


Source: Statistics Canada, Central 1 CU.

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

Latest: Jun.-20

Small-business confidence index



Source: CFIB, Central 1 CU.

Note: Above 50 indicates expectations of stronger performance next year

Latest: Aug.-20

of the three-stage reopening plan as these regions were slower to get the virus to a manageable level for public health. Rehiring would have been greater in June had these regions been in the third phase like the rest of the province. Like the LFS, non-farm payroll hiring data for the rest of the summer will continue to trend up. Beyond the summer boom in rehiring much uncertainty remains for the Fall and Winter seasons. With modest business investment expected over the medium term not all employees will be recalled, especially if consumers remain timid and continue limiting face-to-face interactions and focusing largely on e-commerce.

Small business confidence declines slightly in August

Ontario small business confidence declined slightly in August to 63.1 points down from 66 points in July. As

the index currently stands, small business confidence reverted below pre-pandemic levels in February (64.4 points). Year-over-year, the index remained 3.2 points ahead of last year.

Over the next three months, 23 per cent of employers expect full-time hiring to decrease (down from 33 per cent in July) and 27 per cent of respondents feel the general state of business in the province is bad (down from 42 per cent in July). Both measures continue to decline as more businesses get back up and running.

Average capacity utilization continued to trend up in August (up to 70 per cent from 59.2 per cent in July). Moreover, 22 per cent of businesses are up to 100 per cent capacity utilization (up from 13). Thirteen per cent of small businesses reported 30 per cent or lower capacity utilization.

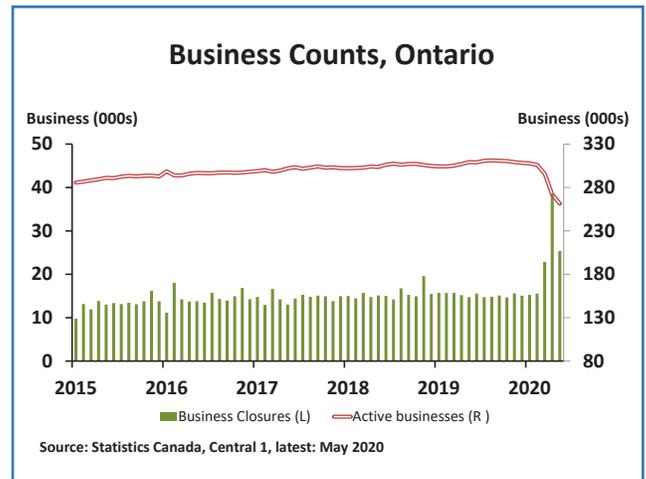
The index is a 12-month outlook, the decline in August may signify some realities setting in for many small businesses even for those that have opened their doors and are using above average capacity. To borrow from the popular baseball film, *A Field of Dreams*: “If you open up, they may not come like before.” Even though Ontario is well into the restart there is still ample fear among many. Several sources of anecdotal evidence point to fewer people going to cinemas, restaurants, and shops. For small businesses that make their money directly interacting with the public on a continual basis, the recovery will likely be slower than other industries.

Finally, the percentage of businesses which report that they are cutting jobs or say they are in bad shape continue to decline. However, this is likely due erosion i.e. businesses which needed to cut jobs have done it already and those which were in bad shape at the start of the pandemic have likely exited by now and only businesses which still exist factor into the sample for this survey.

Uncertainty remains a factor for the rest of 2020. Should the province experience a strong second wave, then hard earned gains may erode, and more businesses will face difficulties.

Business closures in Ontario fell in May

Statistics Canada released its latest estimates of business closures for the month of May. Closures have eased significantly falling 34.4 per cent to 25,370 businesses (all figures in this section are seasonally adjusted unless otherwise stated) after increasing by 47 per cent in March and 69 per cent in April.



Even with the economic restart, which began in May, helping many businesses from closing this metric remains elevated. The long-term monthly average for business closures in Ontario is 15,299 businesses. May's estimate is nearly 66 per cent above that average. While closures occur for a myriad of reasons, the pandemic has forced many to close due to health requirements, or low demand. April business closures more than doubled year-go levels (up 154.4 per cent), and while May levels improved, were still 72.1 per cent higher than a year ago. Due to the nature of the virus, closures have been largely concentrated to businesses with continual client facing exposures. Sectors that have been able to pivot to remote work or able to physically distance better have been able to remain afloat.

Despite the pandemic, businesses have continued to open in Ontario albeit at a slower clip. In May, an additional 13,460 businesses opened their doors (up 1.8 per cent from April) adding to the 3.2 per cent growth in openings from April. With greater use of e-commerce it's likely many businesses are leveraging technologies to open a greater number of virtual stores particularly in essential goods and services.

Total active businesses declined 3.8 per cent from April and 15.4 per cent on a year-over-year basis. Among metro areas the number of active businesses continued to erode but at a slower pace. In April, active businesses in metro areas fell by 8.8 per cent and in May active businesses fell by 4.6 per cent. On a year-over-year basis active business in metro areas fell by 15.8 per cent in May.

Active businesses in Toronto fell by 5.1 per cent in May. Among other large metro areas, including Toronto, active businesses fell by an average 4.1 per cent in May. Here is a short list of the other large metro areas:

- Ottawa-Gatineau (down 4.3 per cent)

- Greater Sudbury (down 4.0 per cent)
- Hamilton (down 4.0 per cent)
- Kitchener-Cambridge-Waterloo (down 3.1 per cent)
- London (down 3.9 per cent)
- St. Catharines-Niagara (down 4.5 per cent)

The pace of business closures has likely continued to decline amidst the restart phase while re-openings have picked up. That said, economic uncertainty has likely tempered overall openings. There remain risks going forward. Some re-opened businesses may close permanently given lower revenues and operating capacity in the new environment, while a second wave of COVID-19 remains a concern.

Canadian Real GDP growth continues to trend up

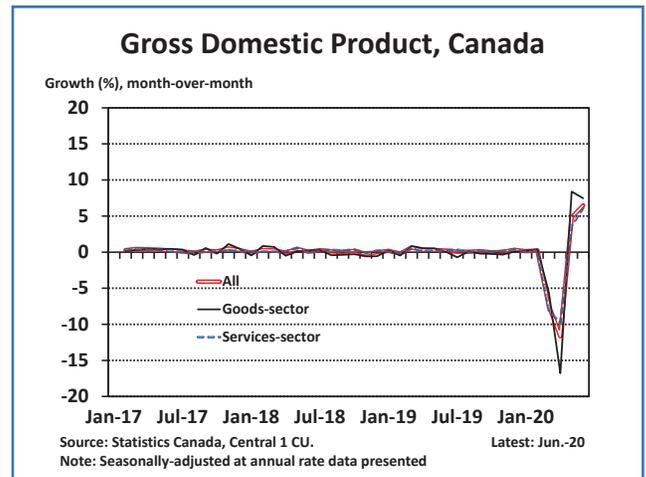
Real gross domestic product (GDP) grew 6.5 per cent at seasonally adjusted at annual rate (SAAR) in June, following a 4.8 per cent SAAR increase in May, the largest monthly increase since the series started in 1961. Economic restarts in most regions of the country helped push growth up.

While May and June's gains offset some of the March and April declines, economic activity was about 9 per cent below February's pre-pandemic level. Canadian SAAR GDP moved up due to growth in both the goods-sector (up 7.5 per cent SAAR) and the services-sector (up 6.1 per cent SAAR).

The manufacturing sector grew 14.6 per cent SAAR in June following an 8.1 per cent SAAR expansion in May. Growth in durable and non-durable manufacturing contributed to the largest monthly increase since the series began in 1961, with many factories operating at a much higher capacity in June. Despite the continued gains in June, manufacturing activity was about 12 per cent below February's pre-pandemic level.

Transportation equipment manufacturing moved up 57 per cent SAAR as motor vehicle and parts plants continued to scale up production, following a pandemic-induced shutdown, and aerospace (up 3.6 per cent SAAR) and miscellaneous transportation manufacturing (up 9.4 per cent SAAR) posted increases

Increased retail activity particularly for motor vehicle and parts dealers also helped lift demand for transportation equipment manufacturing. Consumers



benefitted from the restart to fix existing vehicles or purchase new vehicles. There's anecdotal evidence to suggest many people are purchasing cars to avoid taking public transportation especially in dense cities and risk being exposed to the virus.

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