Ontario Economic Briefing

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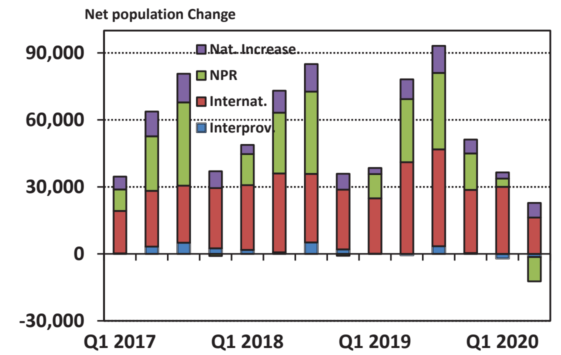
Highlights:

- Active businesses remained stable in June but Fall and Winter challenges to increase closures;
- Ontario's population growth significantly below trend;
- Building permit volumes fall in August as businesses reconsider large non-essential investments;
- Real Canadian GDP increased in July marking three consecutive months of growth post lockdowns

Components of Population Growth, Ontario



Source: Statistics Canada, Central 1 CU. Latest: Q2-20
NPR = non permanent resident

Business closures slowed in June but pandemic related challenges ahead

The continued easing of COVID-19 restrictions resulted in a slower pace of Ontario business closures in June (12.8 per cent) compared to May (33.6 per cent), the latest estimates from Statistics Canada's experimental new series on business openings and closures show.

There was a 40 per cent rise in businesses opened in June (up from a 7 per cent rise in May) however, business closures (at 22,555 businesses) remain substantially higher than the long-term monthly average (up by 46.3 per cent).

Business closures declined across sectors such as retail sales, accommodation and food services as the province moved further along the three-phase plan allowing many businesses to open again and stave off permanent closures.

Active businesses remained nearly unchanged in June moving down from 260,458 businesses in June from 260,468 businesses in May. A greater number of businesses openings offset business closures for the first time since the start of the pandemic. Despite that, active businesses in Ontario are still down by nearly 50,000 from pre-pandemic level in February.

The number of active businesses increased across nearly all metro areas in June for the first time since the start of the pandemic measures in March. The only market to post fewer active businesses in June was Toronto (down 0.6 per cent) largely because most parts of the Toronto metro area were lagging behind other markets graduating into the third phase of the economic restart plan in June.

Looking ahead, the Fall and Winter will be very challenging for some client facing businesses such as restaurants and bars and increased closures are expected which will eat away at active business counts if additional government supports to bridge businesses to the other side of the pandemic are not provided.

Ontario's population significantly below trend as pandemic affects immigration and new births

Statistics Canada just released population estimates for the second quarter of 2020. Ontario's population increased to 14.7 million at the start of the third quarter an increase of just over 10,500 net new residents from the start of the second quarter. As expected, the pandemic has adversely affected population growth. Closed borders allowing fewer international flows of people than normal, fewer births and more people moving out of Ontario all compounded to keep net population growth modest and significantly lower than the net 39,400 person quarterly long-term average.

With schools moving to greater use of online teaching, fewer foreign students are applying for student visas. Equally, for net-nonpermanent residents, a weakened economy is keeping many away from Ontario until things turn around and work opportunities are more abundant.

Until the pandemic is brought substantially under control many people that would have come to Ontario from abroad will remain at home and households looking to start families will put off that decision until the economy is at or very close to full capacity output again.

Non-residential permit volumes recoil in August on weaker commercial and institutional investments

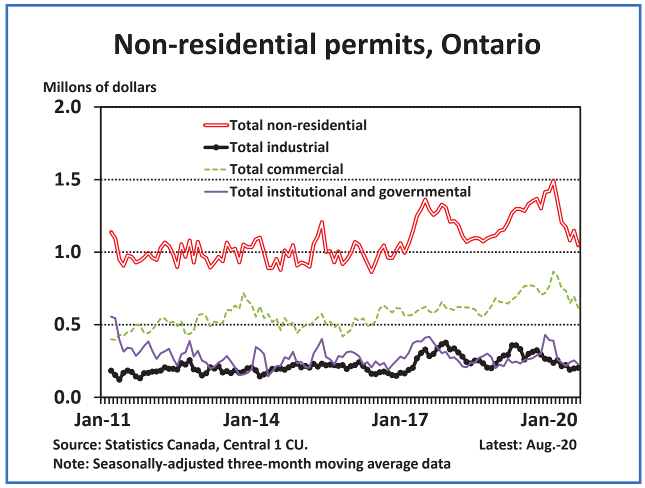
Non-residential building permit volumes, even in during an expansionary phase, can be quite erratic from month to month and even more so during a pandemic given such high levels of uncertainty. Total non-residential building permit volumes fell 15.7 per cent in August to $990 million after moving up 20.2 per cent in July on a few large projects including the Project Python by Amazon in Ottawa-Gatineau. The drop in future building intentions came largely from weaker investments in commercial (down 26.1 per cent) and institutional (down 27.9 per cent). Industrial permit volumes increased 41.4 per cent but it was not enough to offset the weakness in the two previously mentioned sectors. Year-to-date, non-residential permit volumes continue to underperform relative to last year and still lag 2019 totals by 7.4 per cent. Industrial and institutional building permits lag by 29.4 per cent and 9.2 per cent respectively while commercials are still holding up ahead of last year by 3.1 per cent.

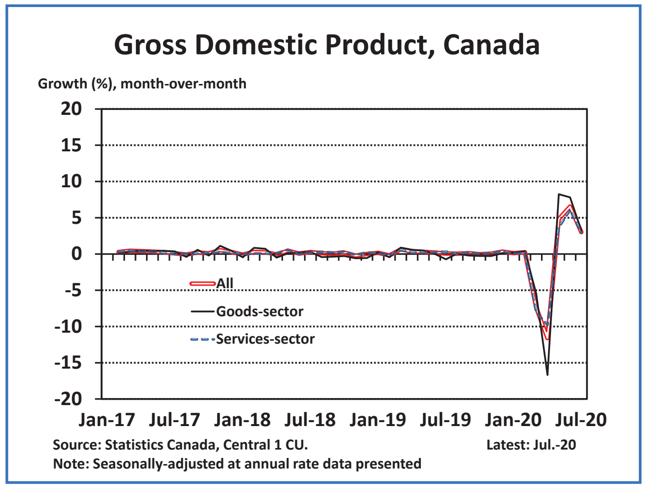
Non-residential building permit volumes declined by 24.7 per cent to $768 million in all metro areas in August with half of the 16 metro areas in Ontario posting declines and the other half modest increases including Toronto which accounted for 68.9 per cent of all non-residential investment.

Last month it was mentioned that the growth since the restart was likely from pre-pandemic activity. Now that the construction sector has had the summer to chip away at the backlog the data is catching up to the reality that businesses are rethinking large non-essential investments, and this is having adverse effects on total volumes. A few large projects from multinationals such as Amazon last month may cause a blip, but it seems like the economy is now settling into a very modest path of growth past the initial surge on restart.

Canadian Real GDP grows an additional three per cent in July

Real gross domestic product (GDP) grew three per cent in July, following a 6.5 per cent increase in June.

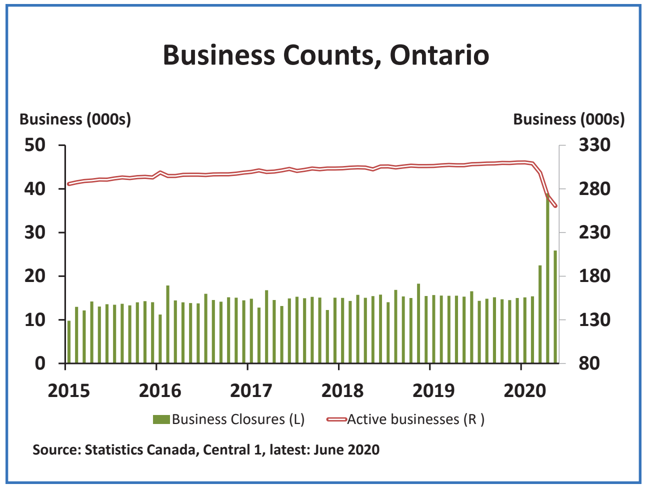




This marked three consecutive months of economic rebound following the steep losses reported from March to April during lockdowns. Despite robust growth since the restart in many regions of Canada, current production levels have yet to return to pre-pandemic production in February.

The manufacturing sector grew 5.9 per cent in July, following a 15.1 per cent expansion in June, as many factories continued ramping up their production. Like overall national production, despite the continued gains through July, manufacturing activity remained about 6 per cent below February's pre-pandemic level. The gap between current production levels and pre-pandemic full capacity utilization levels is shrinking but it remains sizeable. With COVID-19 active caseloads rising and now doubling every 10 to 12 days in manufacturing centres such as Ontario even regional lockdowns in the Fall and Winter could undo hard earned gains. Uncertainty remains high for the next six months.

Durable manufacturing grew 5.7 per cent in July, three straight months of growth, with a sizeable contribution to this growth coming from transportation equipment manufacturing which moved up 16.6 per cent. Motor vehicle (up 10.5 per cent) and motor vehicle parts manufacturing (up 38.6 per cent) continued scaling up production, following a pandemic-induced shutdown, to meet increased consumer demand. Fears of using public transportation are compelling many to invest in private transportation at increasing numbers.



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