Economics | Forecast / Outlook Reports

Economic Analysis of Ontario

Volume 12 • Issue 3 | ISSN: 0834-3980

central 1 Economics

HIGHLIGHTS

- K-shaped recovery theme continues with some sectors thriving while others continue to struggle.
- A vast vaccination campaign and significant vaccine uptake by citizens will allow the economy to have a brighter outlook for the rest of 2021 and beyond.
- Real GDP growth forecast to increase 6.1 per cent in 2021, 4.1 per cent in 2022, and 2.2 per cent by 2023.
- Unemployment rate forecast to fall to 7.5 per cent in 2021, 6.0 per cent by 2022, and 5.8 per cent by 2023.
- Ontario's population forecast to increase 0.7 per cent in 2021, then ramp up by 1.2 per cent in 2022, and 1.8 per cent by 2023.
- Despite a much brighter outlook there remains some risks to the outlook

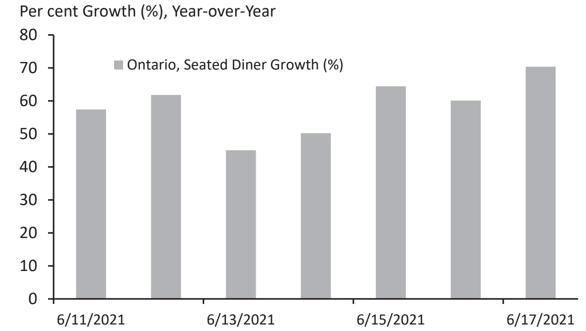
Recent trends

Over the last 15 months the economy has been on a roller coaster ride subject to public health restrictions as waves of COVID-19 infections ebb and flow. Recently, with the start of the third wave, public health restrictions ramped up again and erased labour market gains through the early spring particularly in high-contact service areas. Ontario's unemployment rate ballooned from a pandemic era low of 7.5 per cent in March 2021 to 9.3 per cent by the end of May 2021. Since the start of the pandemic over 307,000 jobs have been lost with many jobs losses happening for service sector full-time workers.

Ontario's K-shaped recovery has been a pandemic era theme. As noted above, as certain sectors continue facing difficulties other areas are largely insulated such as retail, manufacturing, construction, the resale homes sector, and related sectors.

With over a year under their belts dealing with rolling public health restrictions many retailers have effectively pivoted to curbside pickup and e-commerce. Over the first four months of 2021 retail sales are still

Restaurant sector showing signs of recovery on economic reopening



Source: Open Table, Central 1 Credit Union
Latest: June 17, 2021.

tracking over 14.0 per cent ahead of last year's pace, public health restrictions notwithstanding.

Despite the recent semiconductor shortage that has forced auto and auto part manufacturers to close shop or slow down production, the manufacturing sector sales volumes are pacing 13.0 per cent higher than last year due to strong growth in areas such as food, petroleum and coal, chemicals, fabricated metals, machinery, and transportation equipment manufacturing sales. With the U.S. economy opening much sooner than the Canadian economy, the manufacturing sector has also benefited from exports growth to the U.S. as economic activity increases in that country.

Even with population growth range bound as immigration, non-permanent residents, and interprovincial migration remain constrained both new housing starts, and resale home sales remain robust supported by strong demand from Ontarians due to low mortgage rates, increased savings to put towards a down payment, and a greater need for more space as many buyers entering homeownership work remotely. Year-to-date, new housing starts, and resale home sales remain elevated despite some moderation over the last two months for both segments. Housing starts in all areas with 10,000 residents or more are pacing 35 per cent higher than last year largely from strong building activity in urban centres and condo apartments. Only skilled labour and materials restraints continue to impede developers from breaking ground on more projects. Likewise, resale home sales are pacing 82.9 per cent ahead of last year's pace with strong growth throughout the province as people benefit from remote work to purchase a primary or secondary home farther out from large urban centres. Very strong demand has tightened both segments and lifted prices. The average resale home price in Ontario is tracking 30.0 per cent higher ($841,755) year-to-date while the average new single-detached home contract price is tracking 6.8 per cent higher ($951,509).

Future building intentions remain robust due to a large backlog of projects remaining. Year-to-date residential and non-residential building permit volumes are ahead of last year's pace by 54.3 per cent and 5.8 per cent respectively. Significant growth in single-family home construction helped lift residential permit volumes thus far while the downgrade from commercial space investments due to the pandemic has more than been offset by gains to industrial and institutional investments to lift non-residential permit volumes.

The Outlook

The spring was quite difficult for Ontario's economy which was restrained by rolling public health restrictions aimed at stemming COVID-19 infection growth. Yet, since March, the province has effectively installed a robust mass vaccination campaign supported by strong and continual supply of vaccines, something that was an issue at the start of 2021 (i.e., January and February). Moreover, strong vaccine uptake by citizens has started to bear fruit[1] and this will brighten the economic outlook considerably for the remainder of 2021.

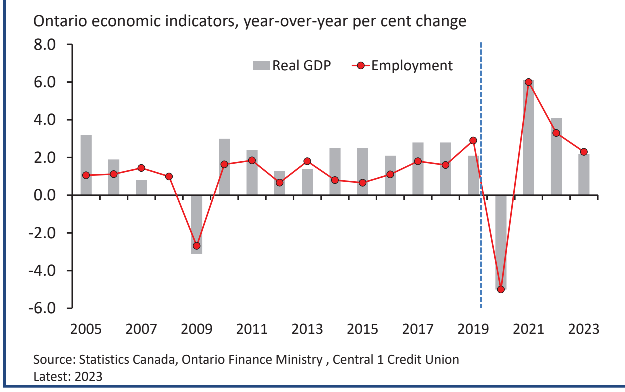
Some current projections suggest that by the August 2021 holiday long weekend, at current vaccine supply and uptake by citizens, well over 70 per cent of the eligible population will be fully vaccinated allowing the province to comfortably move into stage three of their three stage reopening plan[2] . Under stage three more outdoor and finally greater indoor activity can occur.

Real gross domestic product (GDP) in 2021 is forecast to come in at 6.1 per cent up from 5.0 per cent down in 2020 on broad-based economic growth once restrictions are lifted. Areas supporting the recovery in

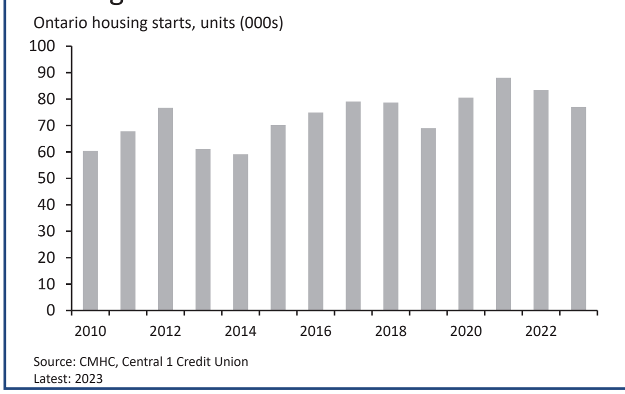
1 https://toronto.citynews.ca/2021/06/18/more-than-20-of-ontario-adults-fully-vaccinated-province-reports-more-than-300-new-cases/

2 https://toronto.ctvnews.ca/ontario-reveals-three-step-reopening-plan-starting-with-outdoor-activities-to-ease-pandemic-restrictions-1.5436123

Strong rebound expected once economy opens



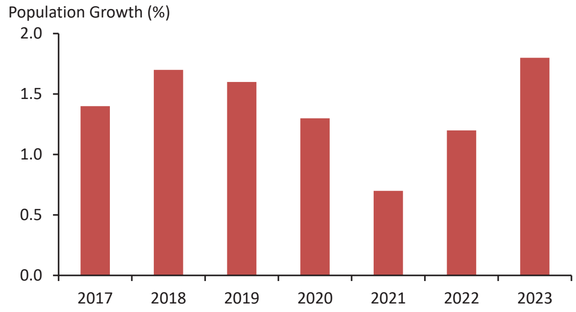
Large backlog of projects will mean increased housing starts in 2021



2021 to the end of the forecast will include, household consumption growth, business investment, construction, and immigration. By 2022 real GDP is forecast to climb an additional 4.1 per cent, well above recent trend, and in 2023 come in at 2.2 per cent.

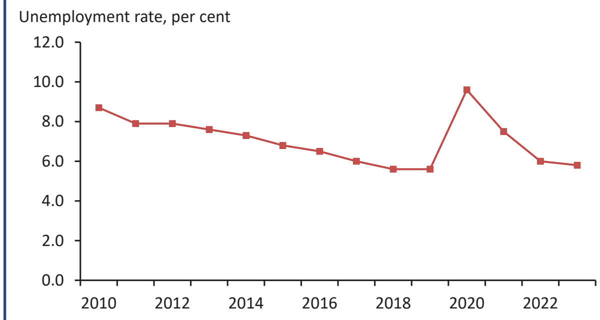
With much of economic life able to return in late summer with likely minimal restrictions (i.e., indoor masks but no physical distancing), capacity at shops and other businesses can return to pre-pandemic levels. Consumers have been sitting on substantial savings through the rolling lockdowns and will be eager to spend. Already, in stage one some anecdotal evidence shows that the public has eagerly returned in large numbers to restaurant patios. For example, data from Open Table online reservations shows that in Ontario for June 17, 2021, reservations are up 70 per cent year-over-year and steadily climbing since restaurants entered stage 1 on June 11, 2021. Household consumption is forecast to increase 6.1 per cent in 2021 and by 5.7 per cent in 2022 before settling down to 2.9 per cent growth by 2023.

Despite pandemic ending in 2021 immigration will remain quite restrained until 2022



Source: Statistics Canada, Central 1 Credit Union

Strong economic recovery post-pandemic will push down unemployment rate



Source: Statistics Canada, Central 1 Credit Union
Latest: 2023

Some businesses and producers are already getting ready for a flurry of consumer activity as the pandemic wanes, ramping up capacity through investments in machinery, space, and other capital. This will only intensify as sectors previously dormant throughout the pandemic start to invest once again to meet consumer demand here and abroad if they have international markets exposure. Low interest rates will facilitate these investments even further. Business capital formation is forecast to increase 13.0 per cent in 2021, 6.6 per cent by 2022 and 2.1 per cent by 2023. Machinery and equipment investments are forecast to ramp up 9.3 per cent in 2021, 18.1 per cent by 2022, and decline slightly by 2023 once interest rates have climbed.

The opening of the economy and the border to movements of people will only benefit the construction sector further. With more skilled labour expected to be allowed to arrive in Ontario post pandemic, residential and non-residential developers will continue to chip away at the large backlog of projects yet to break ground. Residential structures are forecast to increase 11.5 per cent in 2021, 1.8 per cent by 2022 and decline modestly by 1.4 per cent by 2023. Non-residential structures are forecast to climb by 21.7 per cent in 2021, 3.1 per cent in 2022, and 7.6 per cent by 2023.

With many of the industrialized economies opening around the same time as Canada, exports are expected to climb. Particularly, for Ontario, the U.S. will need more goods and services which will drive exports. Exports from Ontario are forecast to increase 4.1 per cent in 2021, 5.8 per cent by 2022, and 3.7 per cent by 2023.

With an awakening economy the province's labour markets will benefit. The unemployment rate is forecast to decline from 9.6 per cent in 2020 to 7.5 per cent in 2021 as hiring growth outstrips labour force growth substantially especially for sectors in services that have been dormant for over 15 months and will be eager to open and return to profitability. In 2022, the average unemployment rate will come down further to 6.0 per cent and by 2023 the unemployment rate will be closer to pre-pandemic level (5.8 per cent) as much of the slack in the economy will be soaked up by then.

The pandemic has kept flows of new residents from other parts of the country and abroad to Ontario to a trickle but once the pandemic is expected to be brought under control in 2021 borders will open and travel will rebound. The population is forecast to increase by 0.7 per cent in 2021 and rebound in 2022 (up 1.2 per cent) and 2023 (up 1.8 per cent) based on much stronger flows of permanent residents and non-permanent residents into Ontario.

Risks to the forecast

The outlook is bright for Ontario for the rest of the year and beyond but there are a few downside risks worth discussing which may affect the outlook:

- the emergence of new COVID-19 variants;
- persistent supply chain issues; and,
- diminished consumer expenditures after 15 plus months of lockdowns.

New COVID-19 variants of concern (VOCs) keep emerging; first the Alpha variant out of the United Kingdom (U.K.) and now the Delta variant out of India. That said, MRNA vaccines have been shown to provide protection, while curtailing general COVID-19 cases. Risks remain that further mutations of the virus could emerge and interrupt the recovery phase and border re-openings.

Supply chain problems could persist longer than expected. Currently, the auto sector is facing production issues and some plants have slowed down production due to key materials shortages such as computer semiconductors. Moreover, the auto sector is not the only sector facing production issues from this semiconductor shortage. Large video game manufacturers are facing large backlogs of orders and are unable to currently meet market demand. For homebuilders and renovators, lumber shortages have also been a big issue and part of the reason for the large backlog of new housing yet to break ground.

Even with businesses open to welcome consumers back in the second half of 2021 some consumers may alter the amount of money they spend on non-essential items, and this may affect the scope of the recovery. According to a new survey by Leger[3] only about 30 per cent of those Canadians surveyed are better off financially now than pre-pandemic and a very reduced number of people (less than 15 per cent) will spend at the same level as they did before the pandemic.

Even with all the good news in the air finally after 15 plus months of pandemic there is still some significant uncertainty in the air that will not endanger the recovery but may put some downward pressure on the scope of the recovery and how long the recovery phase will need to last until Ontario is back at full capacity once again.

Edgard Navarrete
Regional Economist
Central 1 Credit Union
enavarrete@central1.com
www.central1.com

3 https://www.msn.com/en-ca/money/topstories/new-headaches-emerge-as-retailers-and-manufacturers-get-ready-for-the-great-return/ar-AALbL7O?ocid=BingNewsSearch

Ontario Forecast Table - June 2021

	2017	2018	2019	2020	2021	2022	2023
GDP at market prices	4.3	4.1	3.8	-5.0	8.1	7.2	4.7
Real GDP, expenditure-based	2.8	2.8	2.1	-5.0	6.1	4.1	2.2
Household consumption	4.2	2.9	1.9	-5.9	6.1	5.7	2.9
Government expenditure	1.8	4.0	1.4	-1.2	0.7	0.6	1.3
Government capital formation	7.9	6.1	0.8	-4.6	-1.5	4.2	1.4
Business capital formation	2.5	4.4	-1.1	-5.4	13.0	6.6	2.1
Residential structures	0.8	-3.6	0.5	1.0	11.5	1.8	-1.4
Machinery and equipment	6.4	6.5	-0.6	-19.1	9.3	18.1	-0.5
Non-residential structures	0.4	19.8	-4.3	-6.3	21.7	3.1	7.6
Final domestic demand	3.5	3.4	1.2	-4.7	5.8	4.6	2.3
Exports	0.5	1.1	2.1	-10.7	4.1	5.8	3.7
Imports	3.1	2.3	0.6	-10.5	6.7	5.6	2.4
Employment	1.8	1.6	2.9	-5.0	6.0	3.3	2.3
Unemployment rate (%)	6.0	5.6	5.6	9.6	7.5	6.0	5.8
Personal income	4.2	4.6	4.3	6.8	-3.3	4.9	4.3
Disposable income	4.6	4.6	4.2	13.4	-6.4	4.0	3.0
Net operating surplus: Corporations	1.6	0.6	0.0	-14.5	3.0	20.5	4.8
CPI	1.7	2.4	1.9	0.6	2.5	2.1	2.3
Retail sales	7.7	4.5	2.3	-3.7	8.6	9.3	5.0
Housing starts, 000s	79.1	78.7	69.0	80.6	88.1	83.4	77.0
Population Growth (%)	1.4	1.7	1.6	1.3	0.7	1.2	1.8
Key External Forecasts							
U.S. Real GDP	2.4	2.9	2.3	-3.5	6.8	3.9	2.0
Canada Real GDP	3.1	2.3	1.9	-5.4	6.1	4.0	3.0
European Union Real GDP	2.7	1.9	1.2	-7.0	4.5	4.0	2.2
China Real GDP	6.0	6.9	6.1	2.3	9.0	5.0	4.9
Japan Real GDP	2.2	0.3	0.8	-5.0	4.0	1.5	0.9
Canada 3-month t-bill, %	0.71	1.40	1.66	0.50	0.18	0.35	0.90
Canada GoC long-term Bond, %	2.18	2.33	1.73	1.05	2.00	2.20	2.40
U.S.-Canada Exchange Rate, cents/dollar	77.1	77.2	75.4	74.6	82.0	81.0	80.0
Crude Oil WTI USD$ per barrel	50.9	64.9	57.0	38.5	66.0	70.0	68.0
Henry Hub Natural Gas Price, US$ per mmbtu	2.99	3.17	2.57	2.01	3.10	3.25	3.10

Chief Economist: **Bryan Yu** Business Economist: **Alan Chow** Regional Economist, Ontario: **Edgard Navarrete** Economic Research Associate: **Ivy Ruan**