



## Highlights

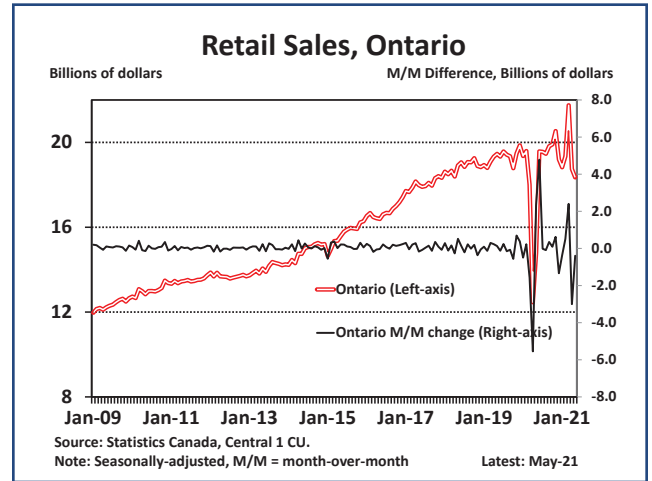
- Retail sales continued to be affected by public health measures in May
- Sales fell for the fourth month in the last half year period
- Ontario real GDP increased 1.2 per cent in the first quarter of 2021
- Growth was led by strong business investments, current government expenditures and to a much lesser extent household consumption

## Retail sales fell 2.1 per cent in May

Retail sales volumes for May were released this week by Statistics Canada. Sales in Ontario fell 2.1 per cent, the fourth time over the last six months sales have fallen month-over-month as public health restrictions restricted business operation and household mobility. With the dip in sales recorded in May sales were 6.3 per cent below the pre-pandemic volume recorded in February 2020. Over the first five months of 2021 retail sales remained 16.0 per cent ahead of last year's pace

Sales in The Toronto metro area fell 2.5 per cent and in the rest of Ontario excluding Toronto sales fell 1.8 per cent. Over the first five months of 2021, retail sales remained 9.4 per cent and 20.9 per cent respectively ahead of last year's pace.

Retail sales fell in all but one area in May: gasoline stations (up 4.1 per cent). Most of the decline in May was led by large sectors such as motor vehicle and parts (down 6.2 per cent), food and beverage stores (down 1.2 per cent), health and personal care stores (down 1.2 per cent), and general merchandise stores (down 1.5 per cent). Together these areas typically account for over 70 per cent of monthly sales. Core retail sales fell 6.4 per cent in May.

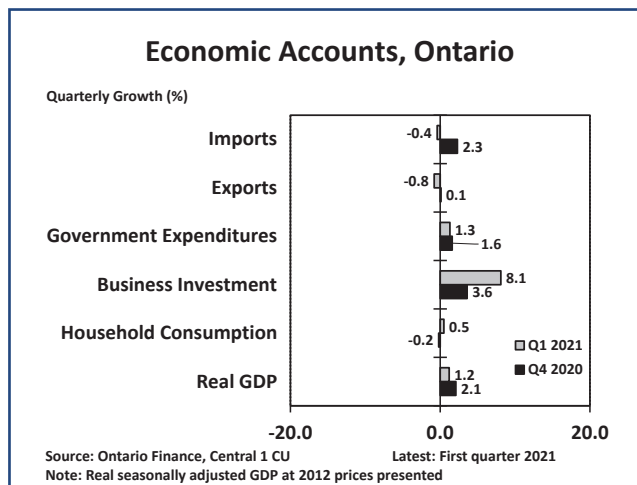


Continued public health measures affected the retail sales sector in Ontario. With the province entering stage one of its three stage plan on June 11, 2021, it is expected that June's retail numbers when they are released next month will show the start of a rebound in activity in the retail sector. Statistics Canada's advanced estimate of June national sales shows a 4.4 per cent monthly increase.

## Ontario's economy increased 1.2 per cent in the first quarter despite continued public health measures

Ontario Finance released recently economic accounts for the first quarter of 2021. According to the latest estimates the province's seasonally adjusted and real (2012 dollars) Gross Domestic Product (GDP) increased 1.2 per cent in the first quarter adding to the 2.0 per cent growth over the final quarter of 2020. Year-over-year, GDP growth remains below pre-pandemic activity (1.8 per cent down) but the gap is shrinking. In the final quarter of 2020, the gap was much wider (3.7 per cent down). At a seasonally adjusted annualize rate, real GDP increased 5.0 per cent in the first quarter a much slower rate of growth compared to the 8.4 per cent recorded in the fourth quarter of 2020.

Growth in the first quarter was propped up by increased investments in business investments (up 8.1 per cent), current government expenditures (up 1.5 per cent) and to a lesser degree household consumption (up 0.5 per cent). Net exports moderated largely on weaker exports (down 0.8 per cent) relative to the drop in imports (down 0.4 per cent).



Household consumption in the first quarter was modest. Expenditures to support the non-profit sector fell 1.4 per cent after averaging nearly 6.0 per cent over the last six months of 2020. Expenditures on durables (down 0.2 per cent) or semi-durables (up 0.1 per cent) remained relatively unchanged as did expenditures on services (up 0.4 per cent). Growth in household expenditures came almost exclusively from non-durable consumption (up 1.2 per cent).

In the first quarter much of economic and social life was still largely frozen given public health measures, this kept households homebound. E-commerce and increased cooking at home lifted expenditures on non-durable goods and some services (e.g., paid subscriptions for tv services, e-books, etc.).

Business investment expanded considerably in the first quarter, much faster than even the 4.7 per cent growth posted in the first quarter, largely on very strong investment in residential investments (up 14.1 per cent) and investments in intellectual property products (up 3.4 per cent) and non-residential structures (up 1.0 per cent). Much lower investments in machinery and equipment (down 2.8 per cent) put downward pressure on overall business investment growth but not enough to offset gains made in previously mentioned areas.

Pandemic era expenditures on health and social services and government transfers kept current government expenditures elevated in the second quarter. As the economy opens further in the second half of the year and supports are removed current government expenditures should decline.

Housing demand continued to drive home construction and renovation spending and businesses looking to looking to expand during the pandemic either due to need for greater space to maintain physical distancing or to expand due to a boom in sales are pushing growth in non-residential higher. Moreover, with a larger virtual remote workforce many firms are compelled to invest in security technology and other such investments to protect information as more people work remotely.

The large drop in exports in the first quarter was due to both international exports (down 0.6 per cent) and interprovincial exports (down 1.1 per cent). Supply chain issues and public health restrictions in some regions kept production in many areas such as manufacturing range bound and exports down.

Looking forward, as of July 16th, 2021, Ontario entered the final stage of its pandemic era reopening plan. This has allowed for greater social and economic activity and areas suppressed during the pandemic, such as services expenditures, are expected to turn around quickly as people draw down savings and take advantage of greater services. Economic account estimates for the second quarter should remain range bound in the second quarter as the economy was opening but ramp up in the third quarter and beyond.

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