Economics | Current Economic Trends

Ontario Economic Briefing

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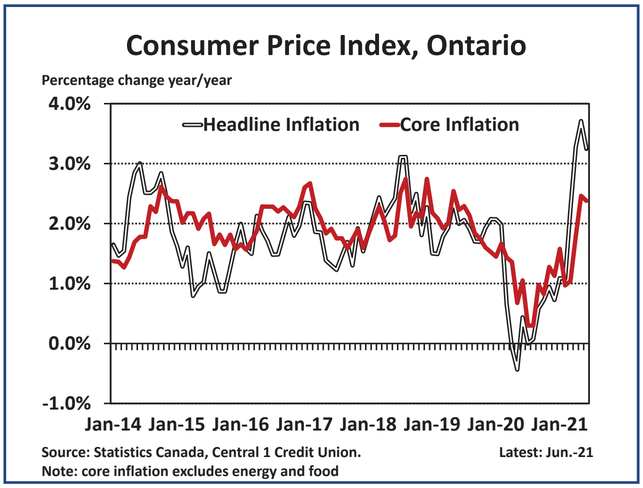
central 1 Economics

Highlights

- Headline inflation moved up 3.2 per cent in June with core inflation up 2.5 per cent.
- Goods prices lifted by durable and non-durable goods.
- Non-farm payroll employment shrank in May by 2.8 per cent
- Continued public health restrictions meant job losses were deepest in frequent contact services sector which accounted for nearly 80 per cent of job losses in services
- Small business confidence continued to climb in July
- Current long-term outlook much higher than pre-pandemic likely buoyed by massive vaccination campaign bearing fruit and lifting of public health restrictions
- Ongoing public health restrictions in many parts of the country caused real Canadian economic output to contract in May

Rate of inflation growth slowed down in June

New inflation estimates were released this week by Statistics Canada for June and headline inflation in Ontario increased 3.2 per cent, a slightly slower rate of growth compared to May (3.7 per cent). Core inflation, which excludes food and energy prices, moved up moved up 2.5 per cent in June relatively unchanged from May (2.4 per cent). The slowdown in the rate of inflation growth in June was largely broad-based with nearly all categories posting slower rates of growth in June. A few areas such as household operations (down 0.3 per cent), clothing (down 1.5 per cent), public transportation (down 5.2 per cent), recreation (down 0.2 per cent), alcoholic beverages (down 0.2 per cent) and fresh fruit and vegetables (down 0.9 per cent) posted decreased price growth.



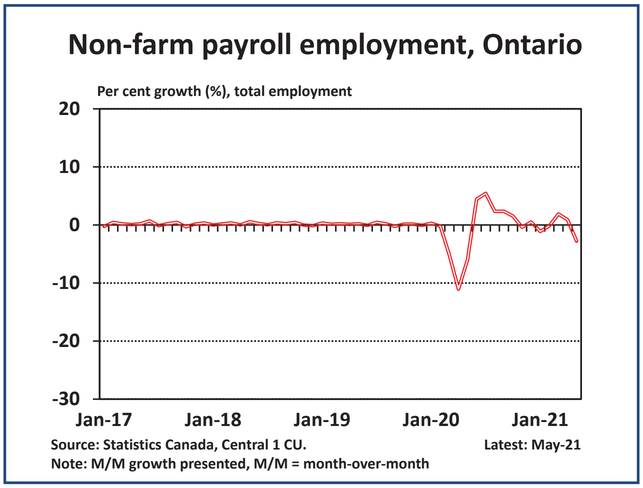
Prices for all goods posted slower rates of growth in June. In absolute terms, durable goods (up 3.5 per cent) and non-durable goods (up 5.9 per cent) posted the largest growth in June which helped overall goods prices move up 4.5 per cent. Services prices moved up 2.3 per cent in June up slightly from the 2.1 per cent growth posted in May.

Over the first half of 2021, headline inflation is up 2.4 per cent and core inflation is up 1.7 per cent. Goods prices are up 3.4 per cent, largely on higher prices for durable goods and non-durable goods. Prices for services are up 1.8 per cent.

Many major categories posted slower rates of price growth in June with areas such as clothing and footwear, transportation, and shelter posting the largest absolute rates of slowdown. Shelter costs slowed down largely from a significant moderation in price growth for water, fuel, and electricity (up 7.2 per cent in June, much slower than the 15.2 per cent posted in May). Clothing and footwear prices slowed down on much more muted growth for clothing, clothing accessories, watches, and jewellery (up 5.7 per cent in June much slower than the 7.1 per cent posted in May) and footwear (up 4.3 per cent in June much slower than the 5.4 per cent posted in May). Costs of transportation slowed down on a significant contraction of public transportation costs (down 5.2 per cent in June, down further from the 0.5 per cent contraction posted in May).

By June 2020, the economy in Ontario had started the first of its reopening and, with that, prices started to climb again thus base year effects contributing to the slowdown in prices year-over-year.

Continued public health restrictions in May meant deep job losses in some areas



The continuation of strict public health measures in May in Ontario meant the labour market suffered, particularly the frequent contact services sector. In May, non-farm payroll employment in Ontario declined 2.8 per cent month-over-month or just over 174,000 net jobs with just over 90 per cent of those jobs losses coming in the services sector. As noted previously, the services sector faced the brunt of the jobs losses (down 3.2 per cent month-over-month) but the goods sector was not immune either as payrolls in this sector contracted by 1.5 per cent or just over 16,400 net jobs.

In the goods sector job losses were deepest in construction (down nearly 10,800 net jobs) and in services job losses were deepest in trade (down nearly 48,000 net jobs), accommodation and food services (down just over 38,000 net jobs), education (down nearly 21,000 net jobs) and in arts, entertainment, and recreation (down just over 21,500 jobs). Together these areas accounted for nearly 80 per cent of the job losses in May in services.

Nearly all areas in services shed jobs in May with some exceptions such as public administration, information and cultural services, and professional and scientific services. Many of these jobs can be done remotely and thus continue to be relatively insulated from the pandemic's effects on the jobs market.

Average weekly earnings moved up in May by 1.4 per cent despite the job losses as most of the jobs losses occurred in lower paid industries. Average weekly earnings in goods and services moved up by 0.5 per cent and 1.6 per cent respectively. The fixed weighted index of average hourly earnings for all employees, moved up 2.3 per cent in May month-over-month (up from 0.6 per cent down in April) and 3.8 per cent year-over-year (up from 2.4 per cent growth in April).

Small-business confidence continued to climb in July

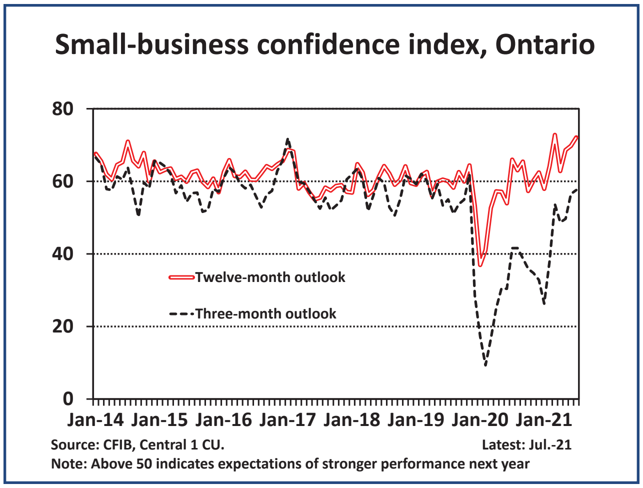
The Canadian Federation of Independent Business (CFIB) released its latest small business confidence index figures this week. Both short-term (three-month outlook) and long-term (twelve-month outlook) small business confidence continued to climb in July. Short-term confidence moved up to 57.6 points (up 1.1 points from June) while long-term confidence moved up to 72.1 points (up 2.3 points from June). Moreover, the long-term outlook in June is the highest it has been since March 2021 (72.8 points) and has been on a three-month upward trend.

Measured on a scale between 0 and 100 points, an index value above 50 points means owners expecting their business performance to be stronger in the next year outnumber those expecting weaker performance.

Compared to pre-pandemic confidence registered in February 2020, the short-term index remains 4.3 points down in July while current long-term confidence continues to outpace confidence from pre-pandemic activity. The long-term outlook remained 7.7 points higher in July 2021 compared to February 2020.

With the province's massive vaccination campaign continuing to bear fruit, public health restrictions are also continuing to lift removing the handcuffs for many small businesses and allowing them to start earning greater revenue.

In July, average capacity utilization moved up to 66 per cent from 63 per cent in June nearly equaling the 70 per cent rate reached twice last year in August and again in October. Twenty-one per cent of businesses are fully up and running in July slightly down from 23 per cent in June. Likely supply chain issues continue to hamper production and sales in many businesses, especially those in manufacturing.



Over the next three months, 17 per cent of businesses do not expect to increase full-time hiring (nearly unchanged from June which came in at 16 per cent) while 28 per cent of respondents feel that the general health of the economy is bad – down two per cent from June.

As expected, even with all the good news emerging from the economy as more Ontarians are fully vaccinated and economy activity gradually ramps up again, small businesses are still taking a cautious approach to hiring. Likely not until the slack in the economy is nearly all removed will hiring ramp up, particularly full-time hiring.

Real Canadian gross domestic product contracted in May for second consecutive month

Canada's real gross domestic product (GDP) contracted in May by an additional 0.3 per cent adding to the 0.5 per cent decline reported in April. The contraction in May was broad based affecting 12 of 20 industrial sectors in both the services (down 0.2 per cent) and goods sectors (down 0.4 per cent). With this new data, Canadian economic output remained about two per cent below pre-pandemic activity from February 2020.

May's contraction touched several large key industrial sectors such as:

- construction (down 2.3 per cent);
- manufacturing (down 0.8 per cent);
- wholesale trade (down 0.6 per cent);
- retail trade (down 2.7 per cent); and,
- real estate and rental and leasing (down 0.4 per cent).

Construction activity fell for both new home construction and renovation spending. Moreover, this was the first month activity in this sector recoiled after five consecutive months of growth. Likely higher input prices for things such as lumber affected output in the sector. Manufacturing fell due to weaker output of durable and non-durable goods. Some sectors such as machinery manufacturing continue to be affected by supply chain issues with inputs such as semiconductor chips. Real estate and rental and leasing eased for the second consecutive month, the first time since the onset of the pandemic in March 2020 due to an easing resale homes market. Of all the large sectors, retail trade was the most affected given continued public health measures in May in much of the country to stem another wave of infections.

Looking ahead with the easing of public health restrictions in many parts of the country in June and beyond, real economic output will likely start trending up again especially in hard-hit services sectors.

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