Economics | Current Economic Trends

Ontario Economic Briefing

Volume 27 • Issue 39 • Week of September 27 - October 1 2021 | ISSN: 1981-355

central 1 Economics

Highlights

- Ontario posted the strongest hiring growth in the country in July; the highest monthly growth rate since August 2020. Average weekly earnings up 1.3 per cent in July
- Ontario population growth sees weakest Q2 increase since 1983
- Economic growth down 0.1 per cent in July due to manufacturing and a few other large sectors, despite growth in majority of sectors

Non-farm payroll continued to recover in July

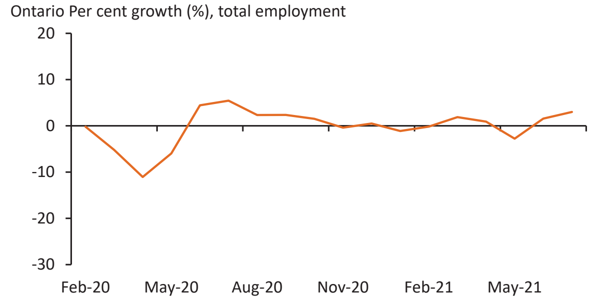
Ivy Ruan, Economics Research Associate

Ontario experienced the largest increase in non-farm payroll counts among all provinces in July (3.0 per cent; 183,800 positions) due to phase three of its re-opening plan, according to Statistics Canada's Survey of Employment, Payroll and Hours (SEPH). This followed a 1.6 per cent increase in June. These findings are also in line with Ontario's continuous employment recovery (1.0 per cent) reported in the Labour Force Survey (LFS) in July which tallies workers' responses. Despite the strong gain in July, payroll counts in Ontario remained 3.8 per cent below the pre-pandemic February 2020 level.

Looking ahead, with permission for more face-to-face economic activities and rising business confidence as a large portion of the eligible population get fully vaccinated, hiring growth is anticipated to carry on during the rest of the summer.

On an industry basis, payroll employment in the accommodation/foodservices sector increased by 43,422 positions (13.0 per cent) from June, the rebound in this hard-hit area was so robust that it accounted for half of the national growth in this sector. Elsewhere, the arts/entertainment/recreation sector reported 20.2 per cent gain (12,941 persons), continuing the strong momentum from June coinciding with fewer restrictions and

Non-farm payrolls surged in July, reported highest monthly growth since August 2020



Source: Statistics Canada, Central 1 CU. Latest: Jul-21
Note: M/M growth presented, M/M = month-over-month

consumers' desire to spend on non-essentials. With gyms, restaurants and theatres reopened, one can expect demand for services to continue climbing, not only from Ontarians, but also from American and other tourists as they are welcomed back to Canada in August.

Hiring in the professional/scientific/technical services sector remained steady and reported 1.9 per cent or 8,350 positions increase in July. Total payroll counts reached 456,359 positions in professional/scientific/technical services sector now after three consecutive months of hiring growth. The educational services sector saw a strong gain in hirings at 4.2 per cent or 20,211 persons, as schools were getting ready for a new school year, bringing the payroll employment one step closer to the pre-pandemic level (-2.5 per cent). Both manufacturing (0.9 per cent) and construction sectors (1.0 per cent) had seen consistently increased hirings since May in Ontario. Strong residential investment and recovering supply markets supports hiring growth in these two sectors.

Despite most of the employment growth being concentrated in the service sectors, which can be associated with lower-wage jobs, average weekly earnings in Ontario rose 1.3 per cent in July to $1,167. The Ontario government has extended the temporary wage enhancement plan for personal support workers and direct support workers to October 31, 2021. Higher wages, and higher average hours worked (as employers increased average capacity utilization rates for both hourly paid employees and salaried employees) is lifting the average wage level above February 2020 pre-pandemic level (9.7 per cent).

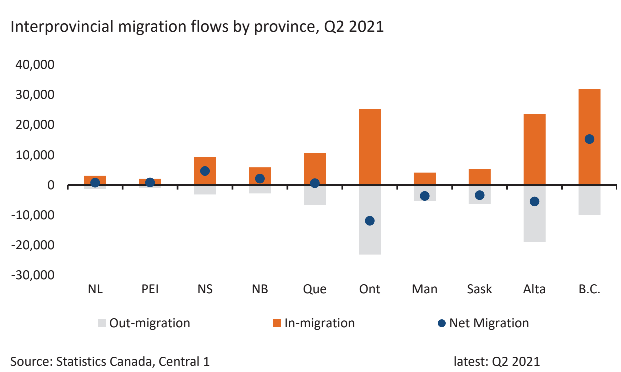
Population growth subdued in Q2

Bryan Yu, Chief Economist

Ontario population growth remained weak through the second quarter amidst a dearth of non-permanent residents and outflow of residents to other provinces. According to the latest Statistics Canada estimate, Ontario's population reached 14.826 million persons as of July 1, an increase of 30,393 residents from April 1. Notwithstanding last year's pandemic collapse, this was the weakest Q2 increase since 1983 as the pandemic continued to drag on international inflows. Year-over-year population growth came in at 0.55 per cent (80,564 persons), which was not far off the pace in the previous quarter and among the lowest on record.

Sluggish population gains largely reflects the ongoing drag of international inflows. Excluding non-permanent residents, net international flows rose 40 per cent from Q2 2020 to 32,941 but remained well shy of 2019 (down 20 per cent) and 2018 (down seven per cent). That said, some of this lift reflected transition of temporary residents already in the country to permanent status. The number of net non-permanent residents rose during the quarter but levels were 85 per cent below the same- quarter average from 2017 to 2019. An influx of international students, professionals and other workers were a key driver of growth in the years prior to the pandemic and will likely rebound with time.

Net interprovincial migration sinks in Ontario as outflow accelerates



Ontario also lost more of its residents to other provinces, with out-migration exceeding in-migrants by 11,850 persons which was a record decline. Strong outflows drove the pullback as COVID-19 restrictions and remote work opportunities may have contributed to relocation outside the province by more households with regions like B.C. and the Atlantic on the receiving end.

Population growth is expected to increase over the next two years as border restriction ease, the pandemic fades and federal immigration targets are boosted to make up for pandemic weakness.

Real Canadian GDP fell 0.1 per cent in July

Edgard Navarrete, Regional Economist

There was some positive news to close out the week as we learned that Canada's real gross domestic product (GDP) nudged down by just 0.1 per cent in July. This was stronger than expected as Statistics Canada's preliminary estimate had shown a 0.4 per cent projection, while market consensus was for a 0.2 per cent contraction. Current real GDPremains 2 per cent down from pre-pandemic activity in February 2020.

July's dip in total real GDP reflected a mixed pattern as 13 of the 20 sectors surveyed posted month-over-month gains, only to be offset by a few sectors. With greater easing of restrictions in many parts of the country the services sector increased 0.4 per cent led by accommodation and food services which grew 12.5 per cent. People responded to fewer restrictions and took advantage of holiday travel within the country and visiting establishments such as bars and restaurants more often. Hand-in-hand with accommodation and food services, the arts, entertainment, and recreation sector also increased 8.1 per cent as theme parks, museums, cinemas all opened their doors to more guests. Other areas that posted strong growth included:

- Transportation and warehousing (up 1.1 per cent)
- Professional, scientific, and technical services (up 0.5 per cent)
- Education (up 0.5 per cent)
- Health care and social assistance (up 0.6 per cent)

In contrast, the economy was dragged down by agriculture, forestry, and fishing (-5.5 per cent) amidst droughts and B.C. wildfires. Manufacturing contracted 1.1 per cent on fabricated metals and non-metallic minerals productions and retail (down 1.1 per cent) and wholesale trade (down 1.9 per cent) also contributed to dampening overall GDP. Supply chain disruptions continue to hammer broader manufacturing activity especially new auto production in Ontario and sectors like trade.

Looking ahead to August, Statistics Canada's flash estimate of 0.7 per cent growth is quite robust and if this holds it will continue to bring current economic activity gradually closer to pre-pandemic levels. Some sectors will rebound much quicker than others while hard-hit services sectors like trade, accommodation and food services and tourism will take longer to rebound even as measures like vaccine passports and high vaccination rates allow for greater commerce. The gradual recovery in several large sectors will keep monetary policy on auto pilot until late 2022 to allow the economy to soak up the slack. Now, barring any significant unforeseen shocks, Central 1 Economics pegs Canada real GDP growth at about 3.5 per cent in the third quarter and 6 per cent in the fourth quarter.

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