Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Job growth positive in August but Delta dulls growth
- Small-business confidence rebounds slightly in October after a deep dive in September
- Resumed non-essential travel from the U.S. lifted international travel in August
- Real GDP moves up 0.4 per cent in August

Ontario non-farm payroll counts edged up in August by 0.4 per cent (26,900 persons) to 6.428 million jobs in the provincial economy

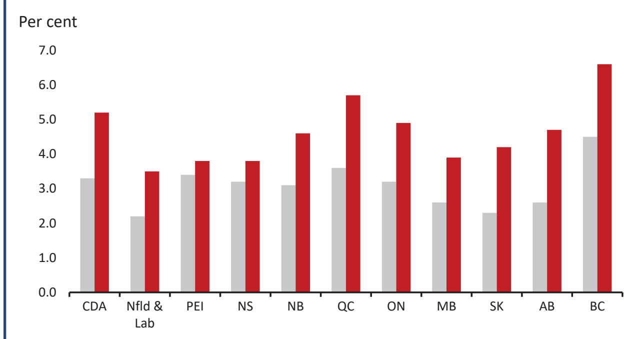
Bryan Yu, Chief Economist

According to the latest Statistics Canada's Survey of Employment, Payroll and Hours (SEPH), Ontario non-farm payroll counts popped higher in August by 0.4 per cent (26,900 persons) to 6.428 million jobs, decelerating from July's three per cent gain. This drove the national increase of 0.4 per cent, while year-over-year growth came in at 8.2 per cent compared to 7.9 per cent nationally.

Despite the solid increase, Ontario employment remained sharply below pre-pandemic levels by about 3.3 per cent. This compared to Labour Force Survey estimates that were about one per cent lower over the same corresponding time frame, with an even stronger rebound in non self-employed workers. Fewer multi-job holders may be tempering SEPH employment counts, although differences in methodology between the SEPH and LFS is also a factor.

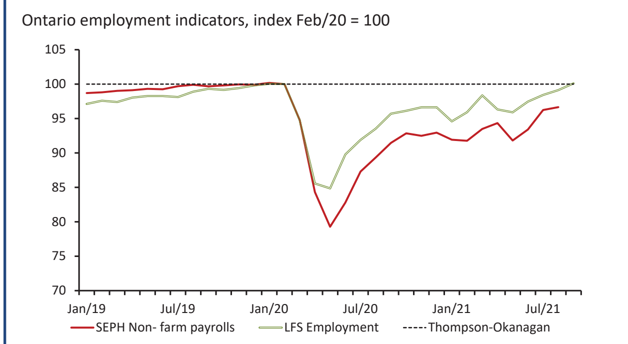
Not surprisingly, growth in hiring coincided with stage 3 of the re-opening that started in mid-July but dampened by emergence of the Delta variant and a delaying of further relaxation of measures. Growth was predominantly driven by restaurants and hotels which gained 6.9 per cent or nearly 26,000 jobs, while the arts/entertainment/recreation jumped 14.1 per cent or 11,036 jobs. Education jobs also rose 2.9 per cent to 14,890 positions, potentially as preparations built for in-class learning at post- secondary institutions. Partial offsets included transportation/warehousing (down 2.1 per cent or 6,000 positions), fewer retail trade positions and fewer government workers. Construction also fell 1.4 per cent or 5,287 roles.

Job vacancy rate by province



Source: Statistics Canada, Central 1

Employment improves but still lags pre-pandemic levels



Source: Statistics Canada, Central 1 latest: SEPH Aug/21; LFS Sep 2021

The employment recovery remains highly uneven with restriction sensitive sectors still reeling. Hospitality employment was down 19 per cent from February 2020, while arts/entertainment/recreation (down 27 per cent), and personal private services (down 10.7 per cent) were key drags. Employment is generally below pre-pandemic levels in most sectors, reflecting relatively strict measures in place in Ontario for much of the pandemic. Professional/scientific/technical services was a bright spot with employment up five per cent highlighting the strength in the digital sectors and ease of shifting to remote employment in many roles.

While overall employment is still on the soft side, there are signs that the labour market has tightened. Ontario's job vacancy rate rose slightly in August to 4.9 per cent from 4.7 in July. Levels are above pre-pandemic levels. Hospitality and events sectors are experiencing steep increases in vacancies as companies ramping up operations are facing staff shortages as some have changed sectors, or shy away from work due to health risks and other considerations. These challenges are likely to persist.

On the wage front, weekly earnings jumped one per cent to $1,175, but were up a modest two per cent from a year ago. Growth in the fixed weighted index of earnings was up a similar 1.3 per cent, but a modest gain of 2.4 per cent year-over- year.

Short-term outlook remains murky for Ontario small-medium enterprises

Edgard Navarrete, Regional Economist

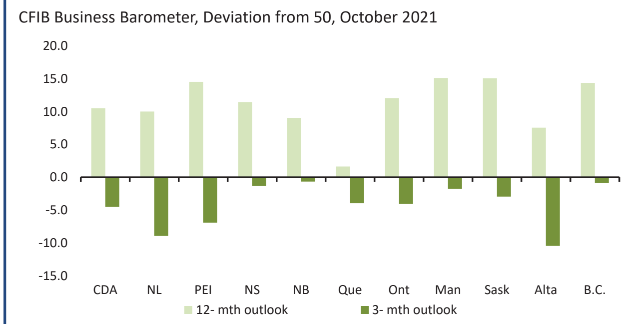
After posting deep dives to the short-term (three-month) and long-term (12-month) outlooks in September small business confidence in Ontario rebounded slightly in October. The short-term index moved up 2.7 points to 45.9 points in October while the long-term outlook moved up 2.2 points to 62 points over the same period. Measured on a scale between 0 and 100, an index above 50 means owners expecting their business's performance to be stronger in the next year outnumber those expecting weaker performance. Therefore, most businesses have internalized that a year from now the pandemic will likely be over and business activity will be at full output but understand that the short-term is stalled with many potential issues creating short- term hurdles.

For many sectors supply chain constraints and skilled labour shortages over the short-term and higher costs for goods and labour continue to dampen the rebound.

From a year-ago short-term small business confidence is up 10.1 points and long-term small business confidence is up 4.7 points.

According to the latest figures, among the small and medium enterprises (SMEs) surveyed 20 per cent are expecting to decrease full-time hiring over the next three months and 27 per cent of SMEs feel the general state of business health is bad. After peaking in September at 74 per cent, average capacity utilization has now dipped down again coming in at 70 per cent in October. Only 16 per cent of SMEs in Ontario surveyed for the index are back up to full capacity utilization.

SMEs across the country expecting a bumpy ride over the next three months



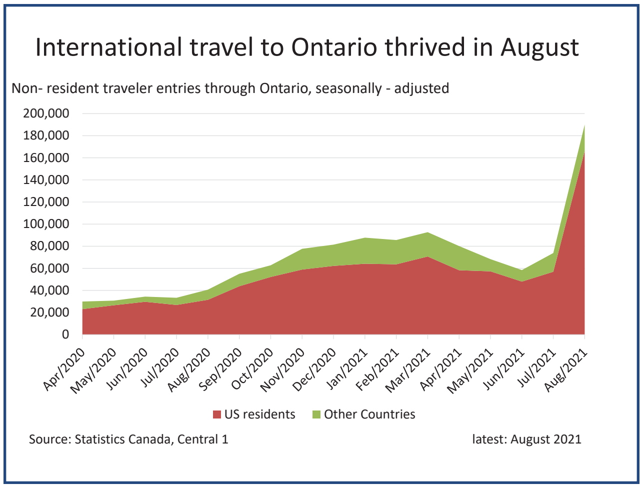
Source: CFIB, Central 1

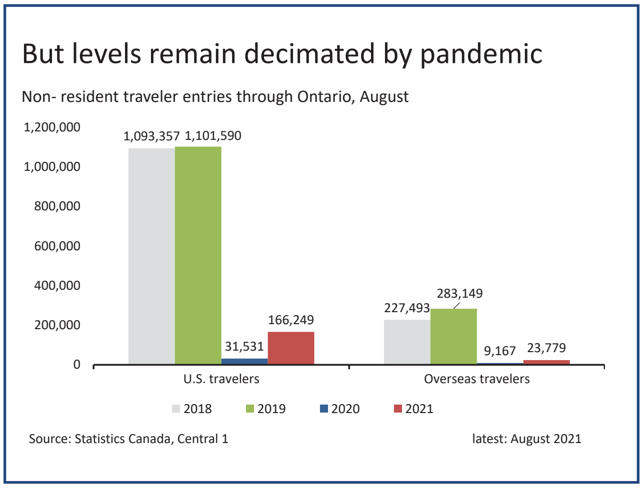
The lifting of public health restrictions, the implementation of vaccine passports, high population vaccination rates are all very supportive of an ongoing economic and social rebound in Ontario but those pesky supply chain issues around the world and skilled labour shortages at home will continue to keep activity range bound. Until most of the world is largely vaccinated against COVID-19 and those nations open as Canada is now doing input shortages will persists and costs for businesses will remain high. Some of these costs will be passed to the final consumer but not completely if businesses want to build revenue momentum after a year and change of being largely frozen.

International travel to Ontario flourished in August

Ivy Ruan, Economics Research Associate

The number of international arrivals to Canada continued to increase during August but remains a fraction of pre-pandemic levels. The number of non-resident travelers entering through Ontario reached 190,029 persons, almost five times greater than the same month last year, yet only 13.7 per cent of the number from August 2019. The travel surge was contributed mostly by the flow of U.S. travelers, who could enter Canada for non-essential travel if fully vaccinated, effective August 9. There were 166,249 American travelers entering Ontario in August, a fivefold increase from last year, but remains a small portion (15.1 per cent) of the August 2019 level. The number of U.S. vehicles entering Ontario was 178,601, reporting the highest level since April 2021, almost double the amount from July.





The number of travelers originating from Europe and Asia contributed the most to non-resident travelers from countries other than the United States. European travelers entering Ontario tripled, from 5,181 in August 2020 to 15,200 in August 2021, but were only 7.4 per cent of the number back in August 2019. Asian travelers numbered 18,829 persons in August, twice as much as last year. Similarly to the shortfall in European tourists from a year ago, the current number of Asian tourists to Ontario in August accounted for only 12.4 per cent of last year's total visitors from this region. With more countries getting access to vaccines for their population, more international travelers will travel to Ontario without restrictions.

With Toronto's Pearson International Airport being one of the primary hub airports where international travelers can enter Canada, Ontario will account for a significant uptick of tourists as pandemic-long border closures are relaxed with U.S. and non-U.S. visitors. Looking ahead, this should continue boost the provincial tourism recovery in addition to the intra and inter provincial travel under easing restrictions.

Real GDP increased in August as more public health restrictions are lifted

Edgard Navarrete, Regional Economist

After sliding 0.1 per cent in July the August reading of Canadian real gross domestic product (GDP) rose 0.4 per cent. With increased easing of restrictions across the country at the time this data was compiled the private sector contribution to real GDP increased by 0.5 per cent while public sector contribution remained relatively unchanged.

While the goods-sector contracted by 0.1 per cent the services sector jumped 0.6 per cent. In the goods sector agriculture and related industries slid 5.7 per cent. Hot and dry weather conditions and forest fires in parts of Canada such as the west coast significantly affected this sector.

Construction was essentially unchanged in August, as a 0.8 per cent contraction in residential building construction offset growth in other areas such as repair construction, engineering and other construction activities and non-residential building construction.

Manufacturing production increased 0.5 per cent supported largely by growth in non-durables which moved up 1.0 per cent while durable goods inched up 0.1 per cent. The transportation and equipment manufacturing sub-sector continues to face production issues given increased costs for inputs and scarcity of inputs due to global supply chain issues.

In the services sector growth was led by areas such as finance and insurance (up 0.5 per cent), real estate and rental and leasing (up 0.2 per cent), retail trade (up 1.8 per cent), accommodation and food services (up 7.0 per cent), and arts, entertainment, and recreation (up 6.4 per cent). A tight homeownership market and now an increasingly tight rental market as international flows of people rebound have supported growth in the finance and insurance and real estate and rental and leasing sectors. With increased shedding of public health restrictions and higher capacity constraints at non-essential businesses Canadians have taken advantaged to go out and enjoy increased social activities drawing down substantial pandemic era savings.

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