Economics | Current Economic Trends

Ontario Economic Briefing

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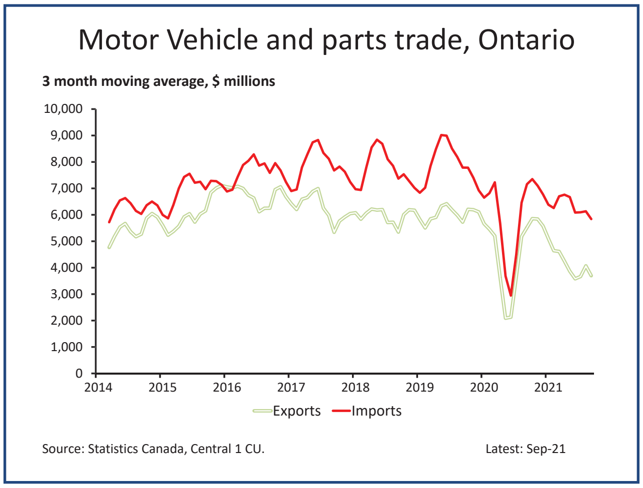
central 1 Economics

Highlights

- Trade levels down largely due to lower automotive sector trade
- Ontario GDP fell 5.1 per cent in 2020
- Pandemic resulted in consumption decline but residential investment rose 6.8 per cent



Ontario exports at lowest level in five months

Alan Chow, Business Economist

Ontario exports fell sharply in August - down 7.2 per cent over the previous month - which took export volumes to the lowest level in five months. Leading the decline was metal ores and non-metallic minerals: down 20.6 per cent, followed by motor vehicle and parts: down 19.8 per cent. Both categories have reached a 12-month low due to the auto sector experiencing continued supply issues, with shortages in semiconductors.

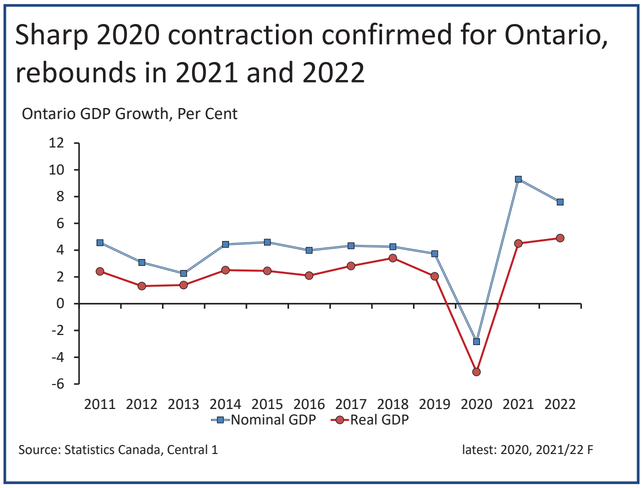
September import statistics showed an increase of 0.2 per cent over August. Farm, fish, and intermediate food products saw a gain of 5.6 per cent over the previous month, which represents its highest level over the last 12 months. Metal ores and non-metallic minerals also saw a 5.5 per cent increase and is coming off a 12-month low. Metallic and non-metallic mineral products saw a nearly 6.0 per cent increase, which brought it is close to the year-to-date monthly average. These were balanced by lower motor vehicle and parts imports (down 11.0 per cent) and lower energy imports (down 6.3 per cent).

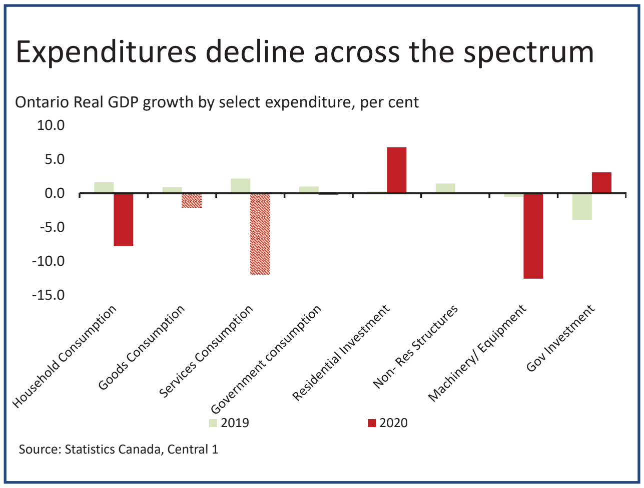
Overall, Ontario's deficit grew 9.4 per cent in September over August. While the increase is the largest increase in the last 12 months, the levels are now only modestly above the 12-month average.

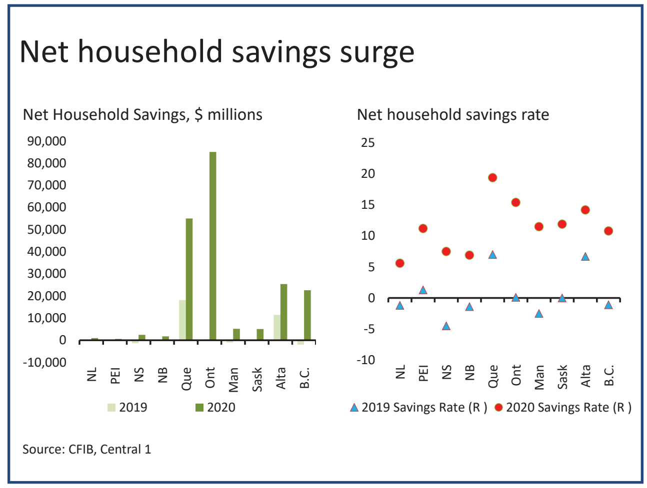
Pandemic quite disruptive to Ontario's economy, contracts 5.1 per cent in 2020

Bryan Yu, Chief Economist

In what can now be considered dated, annual provincial and territorial economic accounts were released this week which provided the official economic growth (contraction) estimates and income estimates for the unforgettable year that was 2020. Consistent with the Ontario government's estimates, Statistics Canada reported a 5.1 per cent contraction in Ontario's economy during 2020 reflecting the massive pandemic induced disruption. For context on how disruptive the pandemic has been in 2019, Ontario's economy grew 2.0 per cent.







Given its size, the provincial performance influenced the national tally, which contracted 5.2 per cent in 2020. Among provinces, Alberta, (-7.9 per cent), Quebec (-5.4 per cent) and Newfoundland and Labrador (-5.4 per cent) fared worse. Varying severity of the COVID-19 waves and stringency of public health restrictions factored into the divergence, alongside effects of commodity sectors performance and major project investment by the private sector.

Among the key expenditure highlights, real household consumption fell sharply by 7.8 per cent, reflecting severe public health measures that restricted operations of discretionary retailers and service providers. Services consumption plunged 12 per cent, while goods spending declined 2.1 per cent on lower durable and semi- durable goods consumption. Non- durable goods spending rose 3.2 per cent as households ate more at home given restaurant closures and remote work.

While consumption eased, spending was re-allocated to ownership housing amidst strong housing starts, renovations and resale activity. Residential investment rose 6.8 per cent.

On the investment front, private investment in non-residential structures was unchanged, machinery and equipment investment fell 12 per cent. Business investment retrenched as businesses operated at limited capacity, creating greater uncertainty and contributing to higher debt loads for small businesses. Government capital spending increased three per cent, while related consumption was flat.

Trade had negligible impacts on headline growth, despite volume declining sharply. Exports of goods and services fell 7.3 per cent on driven largely by international flows. Meanwhile, imports fell 8.9 per cent providing an offsetting cushion. A significant inventory drawdown also contributed to output growth.

Nominal GDP declined by a more modest 2.8 per cent as prices rose during the year. Employee compensation declined by a mild 0.3 per cent, likely reflecting support from wage subsidy programs that flowed to businesses and employees. This compared to 4.4 per cent growth in 2019. Transfers from government through programs such as CERB and EI added to disposable incomes, and with the decline in consumption spending during the pandemic, net savings ballooned to $85 billion, compared to $418 million in 2019. Savings was 15 per cent of household disposable income. Corporate profits rose 10 per cent.

Central 1's forecast is for real GDP growth to reach 4.5 per cent in 2021, which will be below the national average due in part to supply chain disruptions in the economy and relatively more restrictive health orders. Easing of these challenges and ongoing re-opening leads to a 4.9 per cent expansion in 2022.

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