



Highlights

- Uncertainty over new variant dampens short-term small business confidence
- Retail sales jumped 1.9 per cent in October
- Non-farm payroll jobs continue to increase in October
- International travel to Ontario continued to increase during October but remains well below pre-pandemic levels.

Small business confidence erodes ahead of Omicron restrictions but Ontario relatively upbeat

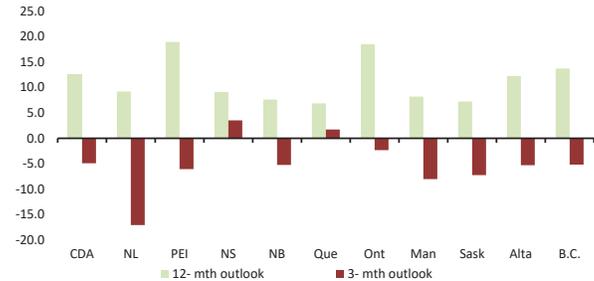
Bryan Yu, Chief Economist

Short-term business confidence tumbled in December as the spread of the Omicron variant intensified globally while wage pressures remained elevated. According to the latest CFIB Business Barometer reading, the 3-month outlook for Canadian small business retreated 4.5 points to 45.1 points. A value below 50 points suggests that on net, businesses are downbeat about the coming months. As the survey was taken from December 1 to 15, tighter COVID restrictions had yet to be implemented in many regions but some businesses may have already been on heightened awareness given trends elsewhere. The steepest declines in confidence were observed in the retail sector, while hospitality confidence remained low. Both were below 40 points. Confidence fell in most provinces led by Quebec (from 55.7 to 51.7 points) and Ontario (from 50.4 to 47.7 points). The index value was lowest in Newfoundland and Labrador (33 points).

The long-term (12-month outlook) index was little changed at 62.6 points suggesting at the time of the survey, businesses remained upbeat about the year ahead.

Short-term outlook negative heading into Omicron restrictions

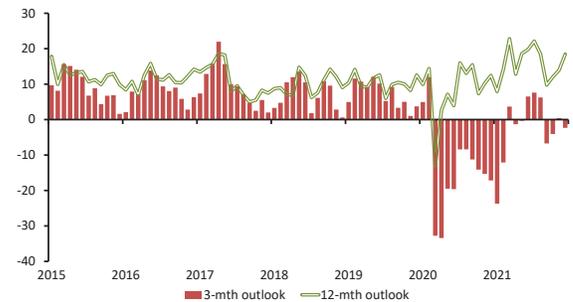
CFIB Business Barometer, Deviation from 50, Dec 2021



Source: CFIB, Central 1

Ontario business short-term confidence edges lower, long-term outlook stronger

Ontario CFIB Business Barometer, Deviation from 50, Dec 2021



Source: CFIB, Central 1

Latest: Dec-21

With Omicron leading to significant tightening of restrictions, and essentially shuttering of holiday events and gatherings, there is little doubt that confidence has been sapped in the second half of December. Measures vary across the country but have included capacity limits at restaurants, mandatory cancellation of holiday events and gatherings, limited business hours, and other measures that will extend through mid- to- late January. Tourism flows to Canada have further pulled back. For some businesses this could lead to permanent closures given the burden of additional debt, unsaleable inventory, and reliance on seasonal holiday sales. These headwinds could constrain full-time hiring which remained on net positive in December with 22 per cent looking to hire, and 16 per cent looking to cut.

Adding to business concerns into 2022 include increased costs associated with rising input costs including wages. Average wage plans suggested average growth of about 3.0 per cent over the next year compared to around one per cent a year ago, although prices are projected to rise at an even faster pace. Product input costs were also cited as a key source of business difficulty (nearly 50 per cent of businesses), reflecting broad global inflation and supply chain challenges.

Ontario businesses remained relatively upbeat in advance of Omicron restrictions announced December 17 that limited capacity to 50 per cent at restaurants, retail stores, gyms, event venues and other establishments. After peaking above the 50-point expansion threshold in November, the index fell 2.3 points in December to 47.7 points but remained higher than October's level and third highest among provinces. The long-term outlook came in at 68.5 points which was second only to Prince Edward Island and the highest since August. Undoubtedly, the latest restrictions dampened optimism in the second half of the month. Hiring sentiment improved with 21 per cent looking to hire full-time workers and 14 per cent looking to cut. However, the latest restrictions have likely eroded these plans given the impact on holiday purchasing and dining.

Ontario retail sales bounce back in October

Edgard Navarrete, Regional Economist

Retail sales increased in various provinces in October led by Ontario where sales moved up 1.9 per cent month-over-month to \$20.8 billion and accounted for a healthy chunk of national sales volumes (36.1 per cent). The strong lift in retail sales nearly erases the losses posted in September where sales slid back 2.4 per cent. Core retail sales moved up 2.0 per cent in October to \$13.9 billion.

Year-over-year retail sales are up 4.5 per cent and over the first ten months of 2021 retail sales are ahead of last year's pace by 9.4 per cent.

All sectors but electronics and appliances, down 1.2 per cent, posted healthy gains in October. The strongest performers among large sectors included:

- Motor vehicle and parts sales (up 1.1 per cent)
- Gasoline station sales (up 3.3 per cent)
- General merchandise stores (up 2.5 per cent)

Motor vehicle and parts sales were lifted by strong sales of new autos as auto manufacturers felt less the semiconductor crunch in October compared to September.

Sales receipts are expected to continue to bounce back in November as consumers get ready for the holiday season. The emergence of the new omicron COVID-19 variants and the new public health restrictions enacted to protect the public will dampen retail sales volumes in December the busiest time of the year for many businesses.

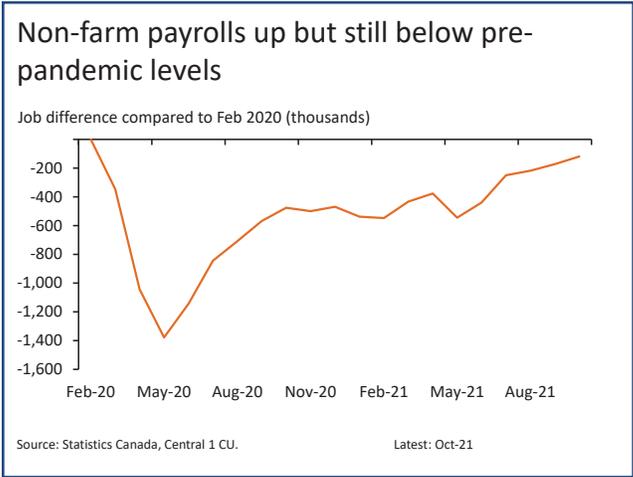
Economic uncertainty remains significant going into the new year.

Non-farm payroll jobs continue to increase in October

Alan Chow, Business Economist

The survey for employment, payroll, and hours was released this week and Ontario again saw an increase of 0.8 per cent or 53,000 jobs in the month of October, continuing a streak of 5 consecutive months of job growth and bringing in the total to 6.532 million.

As expected, accommodation and food services continue led the growth with 10,300 jobs for the month, giving it a 2.5 per cent increase. This is followed by the professional, scientific and technical services, which increased 8,600 or 1.6 per cent over the previous month. Arts and entertainment also saw large per cent gains, up 4.6 per cent as it begins to open with the economy adjusting to living with COVID-19. Real estate also saw an increase of 4.7 per cent as the hot real estate market continues to grow and attract personnel.



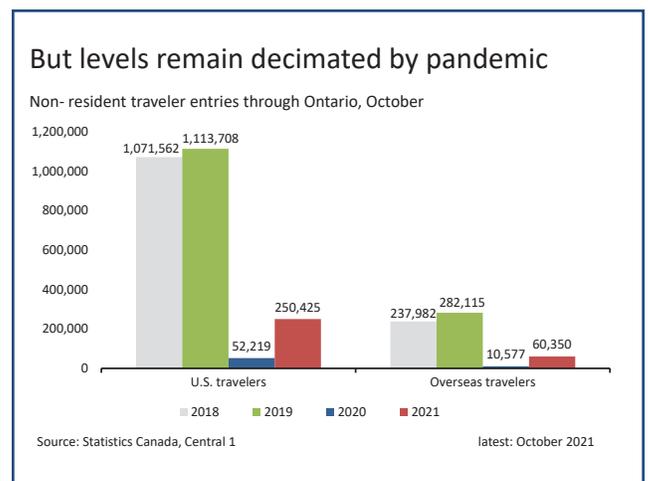
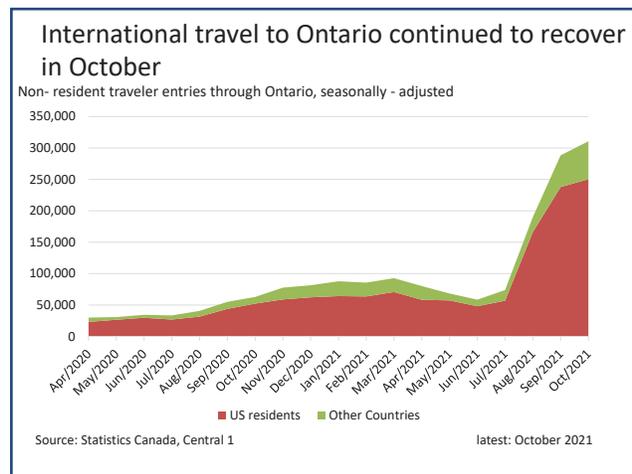
All other sectors saw growth as well, except for the educational services sector, which experienced its second month of decline, down 2.2 per cent or 11,200 jobs over the previous month. With that said, given the speed with which the omicron variant has been spreading and the reintroduction of restrictions occurring it's expected that these numbers should fall come December as closures take over.

Average weekly wages moved up this month to \$1,170. Utilities sector saw the largest increase, up 9.4 per cent followed by the finance and insurance sector, up 4.3 per cent and then retail trade, which is up 4.1 per cent and is above pre-pandemic levels. This sector is one of the sectors that has been having troubles re-attracting employees to return as the sector opens. Job vacancy also continue to climb this month, up 0.1 per cent to 5.6 per cent, which is the highest we've seen in the past year.

International travel to Ontario continued to rebound in October

Ivy Ruan, Economics Research Associate

The number of international arrivals to Canada continued to rebound through October but remained well below pre-pandemic levels. The number of non-resident travelers entering through Ontario reached 310,775 persons, almost five times greater than the same month last year, but still only 22.3 per cent of visitors received in October 2019. An increase in U.S. travelers, since the reopening of Canadian border to fully vaccinated U.S. residents, led the increase. There were 250,425 American travelers entering Ontario in October, almost fivefold increase from last year and, less than one quarter (22.5 per cent) of the October 2019 level. The flow of U.S. vehicles entering through Ontario almost doubled the October 2020 level and was 35.4 per cent of the pre-pandemic October 2019.



With testing and quarantine no longer required for fully vaccinated international travelers since September 7, 2021, the number of total travelers from countries other than the U.S. entering Ontario in October numbered 60,350 persons. This was almost six times higher than October 2020, and the highest number since the pandemic began in April 2020. However, it was still well below the pre-pandemic level in October 2019, counted only 21.4 per cent of the travelers back then.

That said, the Omicron variant has temporarily paused progress during the usually very busy holiday season. Global travel restrictions have tightened amidst spread, on-arrival testing has been re-implemented for visitors entering Canada, and broad declines in consumer confidence and local health orders has likely led to tourist cancelling trips. Future data will reflect these restrictions.

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