Economics | Current Economic Trends

# Ontario Economic Briefing

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central 1 Economics

## Highlights

- Ontario SME topped in both short-term and long-term business confidence among all provinces in March
- Non-farm payroll hiring down 0.1 per cent m/m
- Increased public health restrictions affect client facing services sector more heavily again
- Real GDP increases by 0.2 per cent
- Client-facing services production declines due to increased public health restrictions
- Nine out of 20 areas surveyed report m/m growth

## Average capacity utilization rate trending up in Ontario

*Ivy Ruan, Economics Research Associate*

Consistent with the national trend, small business confidence in Ontario continued to recover in March, reporting the highest short-term expectations[1] among all provinces up to 59.3 from 54.5 points in February. The long-term outlook (12 months) was up to 67.2 points from 63.1 points in February, posting the strongest level of business optimism in a year. The index is measured on a zero to 100 scale and any reading over 50 points means most SMEs are expecting their business' performance to be stronger in the coming year.

The recoveries for both short-term and long-term outlooks suggested a quick turnaround from a business perspective in Ontario now that the Omicron wave is more controlled and Ontario public health restrictions are largely removed[2] allowing for greater social and economic activity.

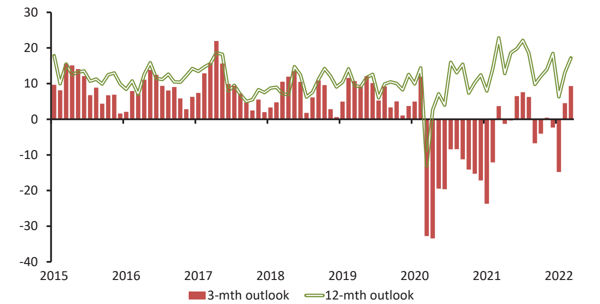
That said, business owners are also expecting higher costs, especially on fuel, energy and wages, which might impact their business optimism.

1 Three-month outlook.

2 The last of Ontario's public health restrictions will be removed in April 2022 barring another wave of COVID-19 straining the health care sector once again.

Ontario small business confidence topped among all provinces

Ontario CFIB Business Barometer, Deviation from 50




Source: CFIB, Central 1 Latest: Mar.-22

Ontario's removal of strict public health restrictions continues to allow SMEs to ramp up activity as evidenced by a higher average capacity utilization rate. In March, this rate came in at 73 per cent, bringing the utilization rate back to levels predating the retightening health measures against Omicron.

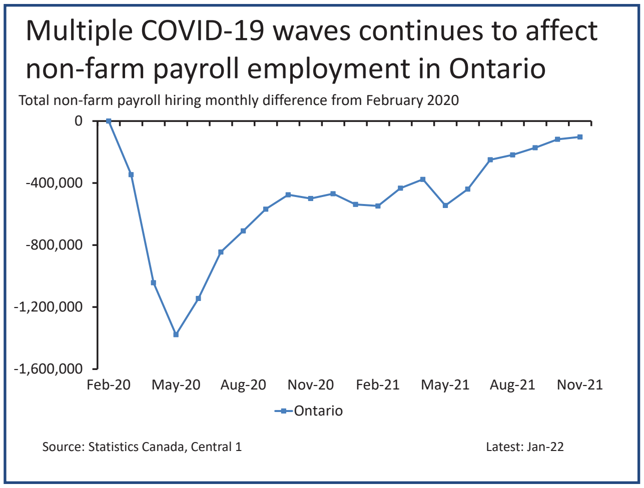
## Renewed public health restrictions reduced payroll counts

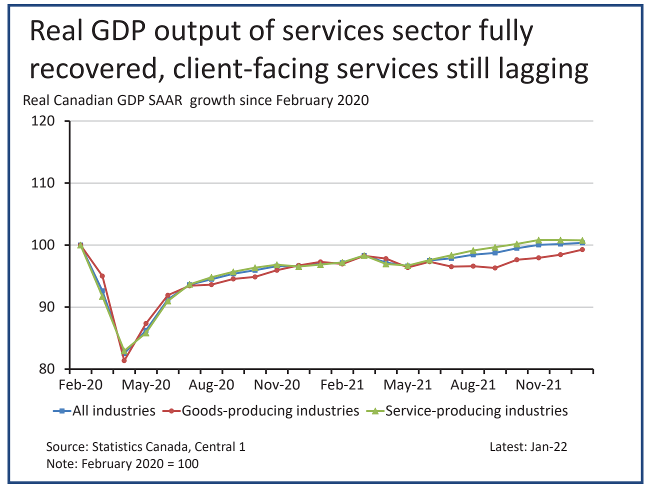
*Edgard Navarrete, Regional Economist*

Ontario non-farm payroll employment fell in January 2022 by 0.1 per cent m/m or 5,519 net jobs putting an end to seven consecutive monthly gains. This was an expected pause in the ongoing labour force rebound in Ontario as December's increased public health restrictions showed up in the data.

Hiring in the goods-sector continued to rebound for the second consecutive month moving up an additional 0.5 per cent in January. Job gains in that area, though, were insufficient to offset job losses in the services sector that fell 0.2 per cent m/m in January. As with previous waves of COVID-19, the client-facing services sector experienced the brunt of increased public health restrictions.

All areas surveyed in the goods sector posted increased hiring. Strong hiring occurred in construction (up 1.2 per cent m/m) and in mining, quarrying, and oil and gas extraction (up 1.8 per cent). Strong non-residential investment activity continues to drive construction hiring even as residential investment is




starting to show signs of slipping. Increased demand for commodities is also driving hiring need in mining and related sectors. Looking ahead, increased interest rates and inflation may decrease business investments, halting construction hiring as businesses potentially shelve expansion plans.

Of the 14 services sector areas surveyed each month, hiring fell in over half of them in January. Unsurprisingly again, another round of increased public health restrictions affected client-facing areas such as accommodation and food services (down 5.9 per cent m/m), arts, entertainment and recreation (down 5.1 per cent m/m), and information and cultural industries (down 2.5 per cent m/m) more heavily. Looking ahead, by March the province decided to do away with most public health restrictions. This will help the services sector rebound to a certain extent once again. Inflationary pressures keeping consumers away as they tighten belts as higher prices and increased interest rates begin to eat away more at discretionary spending is a downside risk to increased services-sector hiring

Year-over-year, overall non-farm hiring is up 8.0 per cent while services- and goods-sector hiring are up 8.7 per cent and 4.1 per cent respectively. Some of the growth y/y is due to base year effects.

Since the start of the pandemic, Ontario's job market has still not fully recovered, especially the services sector. Overall, one per cent of jobs in Ontario have not been refilled with services positions down 1.4 per cent from prior to the pandemic. Hiring in the goods sector is up 0.5 per cent from February 2020.

Average weekly earnings increased 2.6 per cent m/m in January with services-sector average weekly earnings (up 2.8 per cent m/m) moving up at a faster clip than goods-sector earnings (up 1.1 per cent m/m). While client-facing services sector has faced some headwinds, shortages in highly-technical services is driving wages up in that area.

Fixed-weight index average weekly earnings increased 1.0 per cent m/m in January and 2.8 per cent y/y. The rate of earnings growth is slowing down m/m and y/y from December.

## Real Canadian GDP up 0.2 per cent in January

*Edgard Navarrete, Regional Economist*

As noted in Central 1's recent note, real Canadian gross domestic product (GDP) grew 0.2% in January, up for the eighth month in a row. Preliminary figures for February pointed to a robust expansion as Omicron-related contractions in restriction-sensitive sectors rebounded.

Key to Ontario, given the significant industrial base, was a decline in manufacturing of 0.5 per cent m/m largely from declines in sub-areas such as chemicals manufacturing (down 4.5 per cent m/m), food manufacturing (down 1.4 per cent m/m) and plastics and rubber products manufacturing (down 1.3 per cent m/m). Supply chain issues and decreased demand from food and drinking establishments due to tougher public health restrictions in areas like Ontario affected production in these areas.

Motor vehicle and parts manufacturing also fell in January by a 6.3 per cent loss but partially offset by gains to aerospace product and parts manufacturing (up 1.8 per cent m/m) and miscellaneous transportation equipment manufacturing (up 16.4 per cent m/m). With airline travel demand continuing to rebound, many airlines are putting in orders for newer fleets and equipment for repairs.

While restrictions intensified across the country, Ontario faced relatively more stringent conditions. National output for accommodation and food services fell 11.5 per cent m/m as did arts, recreation and entertainment (down 10.8 per cent m/m), losses in these areas are likely concentrated in Central Canada.

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