Economics | Current Economic Trends

Ontario Economic Briefing

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Highlights

- Exports up 3.7 per cent y/y
- Manufacturing sales volumes bounce back up in February
- Ontario GDP up 1.5 per cent q/q
- Household consumption grew at a slower rate of growth in the fourth quarter as consumers focused on services and rotated away from goods
- Business investment up on residential and non-residential investment and greater purchases of machinery and equipment

Exports gain traction in February, imports rise faster

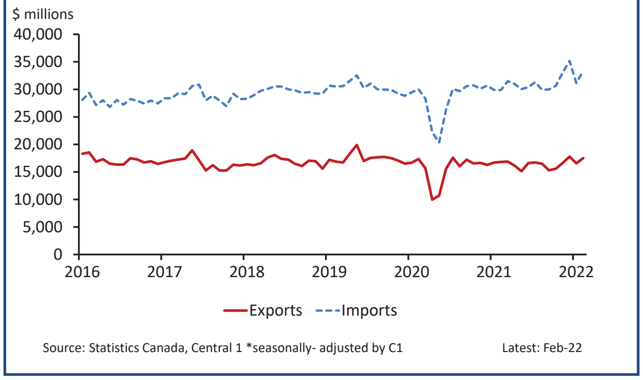
Bryan Yu, Chief Economist

Ontario trade volume rose in February amidst higher commodity prices and firming foreign demand, but tempered in part by protests at the Ambassador Bridge.

Dollar-volume Ontario goods exports to international markets reached $15.87 billion. This was a modest gain of 3.7 per cent from same-month 2021 but marked a recovery in trend following a January dip. Similar to the broad picture, growth was lifted by key commodity-related sectors markets. Metal and mineral product exports rose six per cent both year-over-year and relative to January after adjusting for seasonal factors. Forestry shipments increased 14 per cent year-over-year. Adding to these gains were increased shipments of machinery and equipment (+13 per cent), electronics and parts (+15 per cent), reflecting firm economic growth in the U.S.

In contrast, the motor vehicle and parts sector continued to struggle, with sales down 11 per cent from a year ago despite a modest rebound from January and offset much of the gain from other sectors. Broad supply chain challenges constrained production as border protests impeded flow of parts and goods and triggered a temporary halt to production in Windsor and Oakville plants.

Ontario international trade modestly higher in February



Imports rose at a more rapid pace. At $30.4 billion, imports rose 11 per cent year-over-year and by our calculations, by seven per cent from January on a seasonally adjusted basis. Relatively strong gains in sectors like forestry (15 per cent), industrial machinery and parts (10 per cent), and chemicals/plastics/rubber products (31.5 per cent), reflecting demand for production inputs. Consumer goods imports rose nearly 17 per cent.

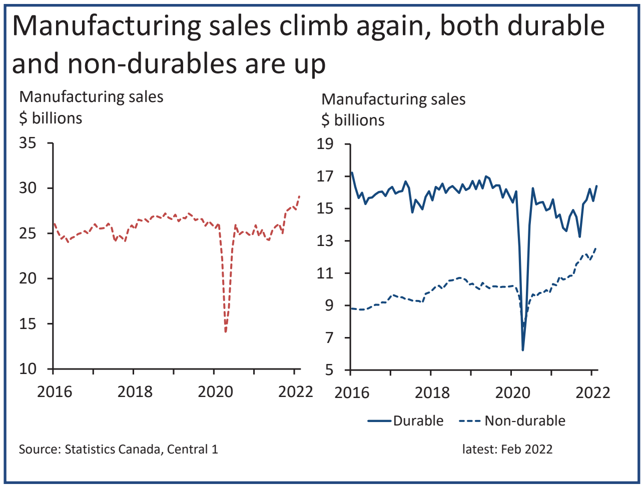
For both exports and imports, higher prices are factoring into headline volumes. The national industrial product price index was up 16 per cent year-over-year. Energy is up 44 per cent, led by oil prices in February, lumber is 21 per cent higher, and ferrous metal products rose 38 per cent. Machinery and equipment prices rose 4.1 per cent and electrical/electronic/telecommunication parts costs rose 20 per cent.

Through the first two months, exports rose about 1.2 per cent while imports increased 7.9 per cent.

Both durable and non-durable goods are up

Alan Chow, Business Economist

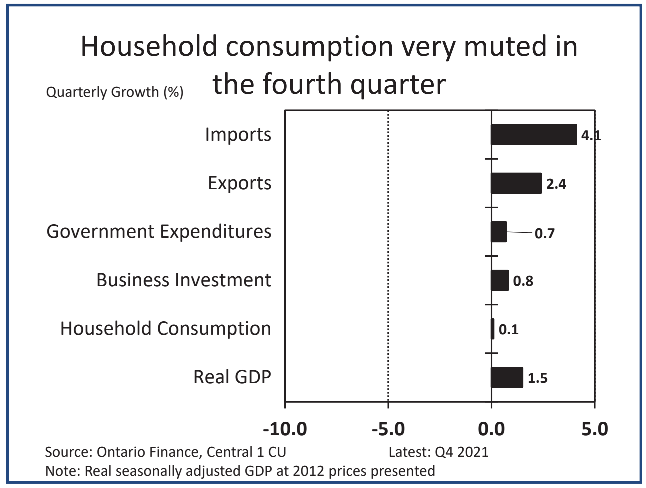
Manufacturing sales volumes increased 5.1 per cent in the month of February to 29.0 billion after having fallen in January. Both durable and non-durable goods industries saw increases, with durable goods leading the way, up 5.9 per cent. Non-durable goods on the other hand, increased 4.1 per cent. Year to date, sales are up 13.1 per cent over the same period last year.



The increase in durable goods sales was led by an increase in automobile sales, which was up 14.6 per cent over the previous month. This represents its highest volumes since January 2021. This is despite the protest and border blockades that occurred in February, which negatively contributed to the export of parts and vehicles to the United States. The semi-conductor shortage is also still ongoing and is not expected to be cleared out until later this year. Electrical equipment also saw an increase of 10.3 per cent followed by wood products, which was up 8.1 per cent. Negatively affecting sales was computer and electronic products, which was down 17.6 per cent. Overall, 8 out of the 10 industries saw gains for the month of February.

Non-durable goods sales were led by food manufacturing, which was up 5.7 per cent. Petroleum and coal products manufacturing was also up 6.2 per cent and chemical manufacturing was up 4.6 per cent. Paper manufacturing, on the other hand saw a decrease of 3.3 per cent. Five out of the seven industries that have available data saw increases

The three CMAs that had available data all saw increases in manufacturing sales for February. The Ottawa-Gatineau area saw the biggest increase, up 5.7 per cent followed by Toronto, which was up 3.7 per cent. Trailing was Hamilton, which was up 3.2 per cent. On a year-to-date basis, Hamilton led the way with a 19.4 per cent increase over the same period last year. This is followed by Toronto at 15.9 per cent, and trailing was Ottawa-Gatineau at a 4.5 per cent increase.



Real Ontario GDP growth up 6.1 per cent in the fourth quarter of 2021

Edgard Navarrete, Regional Economist

Ontario's economy continued to expand in the final quarter of 2021. Seasonally adjusted real annualized GDP growth in the final quarter of 2021 came in at 6.1 per cent (q/q 1.5 per cent) up from 5.8 per cent in the third quarter (q/q 1.4 per cent).

The ongoing growth though, was not broad-based. Household consumption remained quite muted in the fourth quarter moving up 0.1 per cent q/q. Much of the growth in the final quarter of 2021 came from business investment (up 0.8 per cent q/q), exports (up 2.4 per cent q/q) and accumulation of inventory. Businesses accumulated $8.2 billion worth of inventories in the fourth quarter, after a $4.0 billion drop in the third quarter of 2021.

Household consumption continued to increase for services, although at a slower rate of growth than the third quarter (up 0.7 per cent q/q in the fourth quarter). Consumption of durables (down 1.4 per cent q/q), semi-durables (down 1.1 per cent q/q), and non-durables (down 0.3 per cent q/q) all fell, offsetting gains in consumption of services. Fewer restrictions, up until December when they went up again, allowed people to adopt a semblance of pre-pandemic life, enjoying more services. Inflationary pressures for goods also rotated more expenditures to services for consumers.

Business investment increased in the fourth quarter on greater residential (up 0.4 per cent q/q), non-residential investments (up 2.7 per cent q/q) and expenditures on machinery and equipment (up 1.2 per cent q/q).

Businesses are starting to internalize the notion that the pandemic will end at some point and become a manageable health concern, leading to a climb in business confidence and investments in their businesses in anticipation of the return of normal consumer demand and foot traffic at their business establishments. Moreover, attractively low borrowing costs also drove more investments by businesses. Investments in intellectual property products declined 1.6 per cent q/q.

Exports climbed both on greater international exports (up 2.9 per cent q/q) and interprovincial exports (up 1.5 per cent q/q).

Looking ahead, the hand-off from 2021 into 2022 will be weaker as public health restrictions will affect consumption and business decisions in the first quarter of 2022. The war in Europe will also further stoke inflationary pressures, through commodities channels, and further dampen consumer and business expenditures.

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