Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Non-farm payroll employment continues to firm up
- Ontario was the only province surveyed to post a short-term outlook dip in May
- Both short and long-term business confidence now lagging pre-pandemic level again
- Increased uncertainty and the real prospect of a recession on the horizon is top of mind for many businesses
- Ontario total retail spending grew 0.3 per cent in March, while core retail sales were down 1.9 per cent
- Tourism numbers increased 44.3 per cent m/m in March
- Most of the visits are from U.S. residents and for stays longer than a day trip

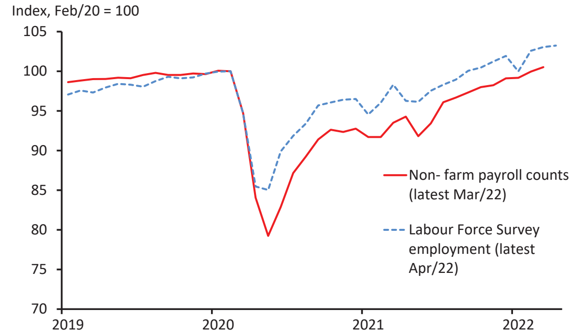
Non-farm payroll counts up for the tenth straight month

Bryan Yu, Chief Economist

Ontario payroll employment counts rose for a tenth straight month as the economy continued to recover from the Omicron wave, social events ramped up and economic growth firmed. Total payroll counts rose by 37,180 positions during the month, or a robust 0.6 per cent but came in a touch slower than March's 0.8 per cent increase. The Labour Force Survey (LFS) which covers households rather than establishments showed employment growth of 0.2 per cent in April, pointing to ongoing but slower expansion. Labour supply challenges are likely contributing to slower hiring momentum.

With the latest increase, Ontario payroll counts have nudged ahead of pre-pandemic levels by 0.5 per cent but lag same period growth in the LFS where employment rose three per cent over the same period. This divergence reflects, in part, a lag from when individuals are hired and captured in payroll, alongside factors such as fewer multi-job holders and coverage of farm work and self-employment captured in LFS but not the payroll survey.

Ontario payroll counts gains 0.6% on services-sector, lags recovery in LFS employment



Source: Statistics Canada, Central 1, seasonally- adjusted

On an industry basis, key drivers of the March gain were pandemic-sensitive services sectors. Employment in services-producing sectors on the whole exceeded headline gain, driven by a surge in accommodation/foodservices (+3.8 per cent or 15,750 positions), while arts/entertainment/recreation increased 2.7 per cent (or 2,698 positions). Led by the retail sector, trade gained 0.6 per cent. Other sectors with stronger growth included the knowledge sector with professional/scientific/technical (PST, +0.8 percent) and finance and insurance (+1.1 per cent); both significant contributors. In contrast, educational services fell 1.3 per cent was one of the few drags.

While pandemic sensitive sectors are recovering, they are far from a full recovery. Accommodations/foodservices employment is still 13 per cent lower than February 2020, with arts/entertainment/recreation down 17 per cent. Attracting employees has become more difficult following early pandemic layoffs as staff have pivoted to other sectors. The professional/scientific/technical sector has been a key growth driver with positions up 14 per cent.

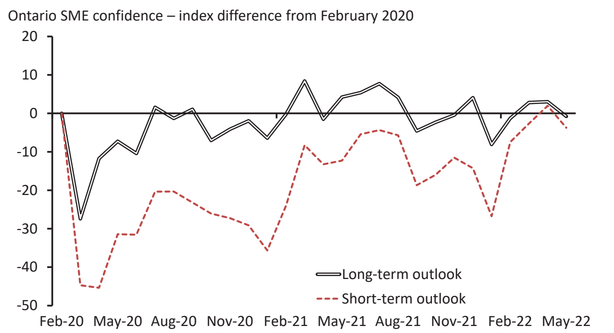
On the earnings front, Ontario average weekly earnings gained 0.9 per cent m/m and rose 3.1 per cent from a year ago to reach $1,201. The index of fixed hourly earnings rose 5.1 per cent y/y suggesting stronger wage growth, although the rate of growth was significantly lower in February at 2.5 per cent.

Both long-term and short-term small-business confidence dips on increased uncertainty

Edgard Navarrete, Regional Economist

The latest small-business confidence index numbers released this week by the Canadian Federation of Independent Business (CFIB) pointed to erosion in both short-term (three month) and long-term (twelve month) sentiment. The short-term outlook lost 5.7 points m/m to 58.2 points, the only province to report a short-term outlook dip, while the long-term outlook fell 3.8 points m/m to 63.6 points. The fall in long-term outlook for Ontario in May was the largest of all provinces and regions surveyed.

Ontario SME confidence turns down in May on increased uncertainty ahead



Source: CFIB, Central 1 Latest: May/22

Nevertheless, both metrics held above 50 points pointing to mild optimism over the next three to twelve months. Increased uncertainty around consumer demand, borrowing costs, and supply chain issues are continuing to weigh on businesses despite an open economy and a tight labour market. To a lesser degree, adding some noise to the outlook is skilled labour shortages. In several sectors, employees are leaving for higher wages and businesses are having to compete more aggressively to keep or attract talent.

Both long-term and short-term small business confidence was quite strong prior to the onset of the pandemic. Since February 2020, long-term business confidence has wavered up and down, likely due to uncertainty from on-off-again public health restrictions. Short-term business confidence has been harder to rebound. Prior to the latest data point, both looked like they could break that cycle and surpass pre-pandemic confidence consistently but now things have once again turned down on several of the factors discussed previously putting downward force on production capabilities and sales.

Year-over-year long-term confidence is down five points while short-term confidence has held up better and is up 8.5 points but falling from April's survey.

Despite ongoing difficulties, the average capacity utilization rate in Ontario moved up to 75 per cent in May placing Ontario in the middle of the pack compared to other regions of Canada. Moreover, according to the latest survey, 37 per cent of small and medium enterprises feel that the economic outlook is good, significantly lower than the long-term trend. That said, general inflation, high input costs and risks of a slowing growth will likely weigh on SME sentiment.

Ontario retail spending saw minor change in March

Ivy Ruan, Economics Research Associate

Ontario retail spending edged up 0.3 per cent in March, to a seasonally adjusted $22.1 billion, following the revised 0.5 per cent decline in February. On a year-over-year basis, total retail sales reported a 0.9 per cent gain in March, significantly lower than the 12.0 per cent yearly growth seen last month. Even with the economy now fully open and public health restrictions largely aimed at a few areas (i.e., public transportation, hospitals, long-term care homes), inflationary pressures bit into consumer wallets and their willingness to spend on non-necessary goods and services. Moreover, downward turns to the stock market and the housing market dampened consumer wealth leading to a tightening of belts by many.

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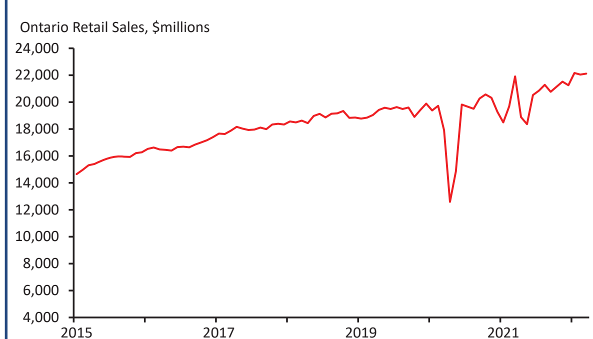


Source: Statistics Canada, Central 1, seasonally- adjusted Latest: Mar/22

Constant dollar Canadian national retail sales were down 1.0 per cent, suggesting that higher prices were passed on to consumers. In March, national CPI inflation was up 6.7 per cent year-over-year and Ontario provincial inflation gained 7.0 per cent. Considering the impact of inflationary prices, retail spendings would see a larger decline in real volumes.

Among all retail sectors, Ontario sales were up in 10 out of 11 sectors, but consumers spent less on electronics and appliances (0.8 per cent) compared to last month. Motor vehicle and parts saw less monthly gain (2.0 per cent) than last month (10.3 per cent). Spending at gas stations surged again, seen 9.9 per cent monthly growth in March, following last month's 8.7 per cent growth. Core retail sales (excluding gasoline stations and motor vehicle and parts dealers) was down 1.9 per cent from last month and was 3.6 per cent lower compared to a year ago.

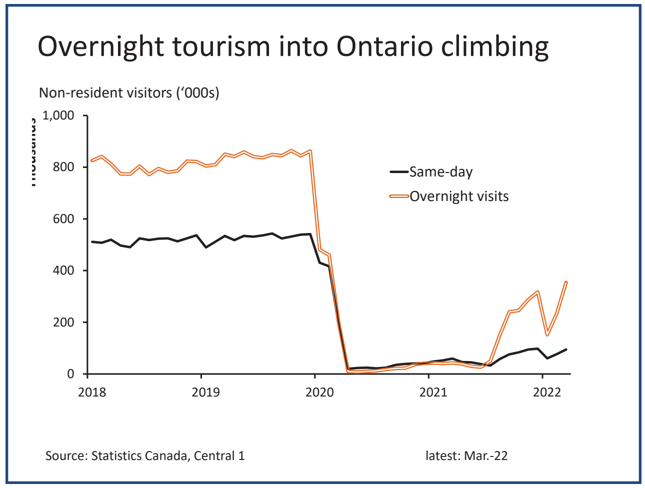
Nationally, retail sales were up 3.0 per cent in Q1 2022, the largest quarterly gain since Q3 2020, however only 0.2 per cent higher in constant dollar volume terms. Given the impacts of continuous inflation and changing economic situation, real retail spending is anticipated to fall further as consumers continue looking for ways to cut costs, focusing only on the necessities of life.

Tourism numbers continued to climb in March

Edgard Navarrete, Regional Economist

According to the latest Statistics Canada tourism data, nearly half a million non-resident visitors visited Ontario in March 2022 with nearly 80 per cent of those visitors coming in for more than a same-day visit. Not surprisingly, nearly half a million of those tourists coming into Ontario in March were U.S. residents (75.9 per cent) with the remainder coming from non-U.S. locations.

Since COVID-19 restrictions have been eased and borders have reopened, tourism has continued to rebound but it is still not where it was prior to the pandemic. While tourism figures increased substantially in February (up 46.2 per cent m/m) and March (up 44.3 per cent m/m), tourism numbers are only 51 per cent of the way back to February 2020 levels.



One interesting tidbit of information to emerge from March data is the m/m growth in visitors coming from other parts of the world excluding the U.S. In March, visits from this group climbed 75.1 per cent; m/m much stronger than visits from U.S. residents (up 36.7 per cent m/m). Like mentioned above, with borders open and restrictions considerably looser, more people are likely visiting Ontario from other parts of the world for business purposes as the economy opens, but even more so for non-business purposes such as holidays and visiting family after being unable to do so for over two years.

Despite the ongoing rebound to tourism, the rate of growth is slowing down; likely a symptom of the current state of the economy.

For more information, contact economics@central1.com.