Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Inflation reaches a new peak in May
- Highest year-over-year inflation since 1983
- Non-farm payroll employment continued to climb in April, up 0.7 per cent m/m
- Client-facing services contributed heavily to growth in non-farm payroll growth
- Ontario total retail spending grew 1.2 per cent in April, while core retail sales were up 0.8 per cent
- Tourist visits climbed 19.8 per cent m/m in April
- One-day visits increased substantially, up 58 per cent m/m

Inflation continues to trend higher despite tighter monetary policy

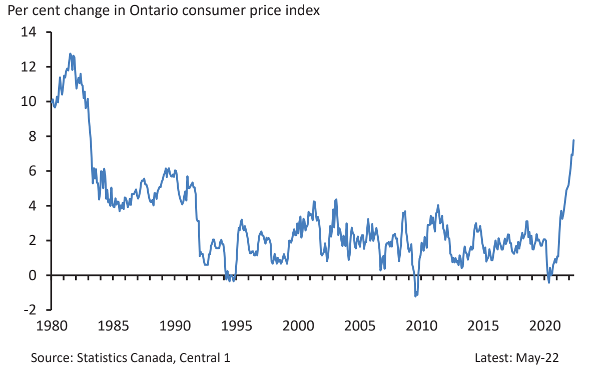
Bryan Yu, Chief Economist

Ontario consumer price inflation accelerated to a 12-month pace of 7.8 per cent in May, up from 6.9 per cent in April marking the strongest pace since 1983. Not surprisingly given Ontario's size, inflation was consistent with the national pace of 7.7 per cent.

Household finances are being hammered by punishing price increases across a wide swath of good and services which is eroding broad purchasing power. Specifically, motorists absorbed a 13 per cent increase in gasoline prices from April marking a 51 per cent increase from a year ago. More broadly, energy prices were up 29 per cent from a year ago with natural gas prices up 16 per cent and other fuel oils up 85 per cent. Meanwhile, grocery store prices jumped 1.3 per cent from April and 10.4 per cent y/y, with growth of 10 per cent across meat, produce and bakery products. The war in Ukraine and broader supply chain challenges for energy and foods prices is filtering through to end consumers. Excluding food and energy the national consumer price (CPI) index rose 1 per cent from April and 6.8 per cent year-over-year.

Adding to energy and food, shelter did not add to inflation, but remained elevated at 7.4 per cent y/y. While rents accelerated to 5.8 per cent, softening home prices led to easing patterns for homeowner depreciation. That said, mixed patterns are likely as mortgage interest costs rise and rent increases with population growth and constraints to homeownership affordability.

Ontario inflation continues to soar through May



In other goods and services, prices remained sharply higher than a year ago for furniture (18 per cent) on supply chains as well as travel accommodations as normalization of the pandemic has triggered revenge spending on holidays and services.

That said, with services-oriented prices up 5.1 per cent and goods up 11.1 per cent, inflationary challenges for consumers are substantial, particularly for lower-income households or those on fixed incomes and pensions that can save less of their incomes. Rising oil prices through much of June and higher interest rates indicate that these pressures are unlikely to abate immediately, although easing inflation is anticipated partway through the second half of the year as monetary policy works to cool the economy and improved supply chains dampen prices.

Non-farm payrolls continue to track higher in April

Bryan Yu, Chief Economist

Growth in Ontario non-farm payroll counts remained at a solid pace through April, rising 0.7 per cent (49,900 persons) to match the gain observed in March. This marked an eleventh consecutive increase in payrolls and pushed levels above pre-pandemic 2020 by 1.4 per cent.

The latest gains were owed largely to the upswing in service demand, particularly hospitality which continues to rebound from the pandemic. Accommodations/food services and arts/entertainment/recreation increased 2.7 and 4.4 per cent. Combined these sectors contributed more than a third of the net increase. Other notable increases included healthcare and social assistance (up 1.5 per cent), admin/support/waste management services (up 2.0 per cent), real estate and leasing (up 1.4 per cent) and finance/insurance (up 1 per cent). Pandemic recovery paths are contributing to the upswing, but some downside in housing markets will likely weigh on related sectors going forward. Only a few sectors shed jobs, notable retail sales which was down 0.4 per cent or 3,263 positions.

While the job market remains strong and employment has fully recovered, divergences persist. Driving growth has been sectors like professional/scientific/technical services (up 14 per cent), management services (up 22 per cent), and health care/social assistance (up 5 per cent). Hospitality sectors and arts/recreation/entertainment remain sharply lower by 13 and 11 but this likely owes to labour shortages. Many individuals laid off during the pandemic in these sectors left the industry creating challenges in the recovery.

Indeed, labour shortages is currently a dominant theme for the labour market. Job vacancies in Ontario reached 378,200 positions in April, with an elevated job vacancy rate of 5.7 per cent consistent with the national average. Ontario wage pressures remain relatively modest at 0.3 per cent m/m and 3.4 per cent y/y but will likely pick up.

Ontario retail spending increased 1.2 per cent in April following last month's minor change

Ivy Ruan, Economics Research Associate

Retail sales reposted growth in eight provinces and Ontario led sales growth in April, up 1.2 per cent, to a seasonally adjusted $22.8 billion, following the 1.1 per cent growth in March. On a year-over-year basis, total retail sales surged 20.8 per cent in April, significantly higher than the 2.8 per cent yearly growth seen last month. Having a fully open economy, Ontario retail sectors saw a booming market compared to last year despite inflationary pressures. That said, the base year effect also added to the elevated yearly change given the relatively weak performance during the pandemic. Higher sales at motor vehicle and parts dealers and general merchandise stores led the yearly growth in retail spending.

On a constant dollar basis, national retail sales rose 0.9 per cent following last month's decline. The range-bound pattern was likely similar in Ontario given consumer behaviours under broadening inflationary pressures. In April, the national CPI inflation was up 6.8 per cent year-over-year and Ontario inflation jumped 6.9 per cent.

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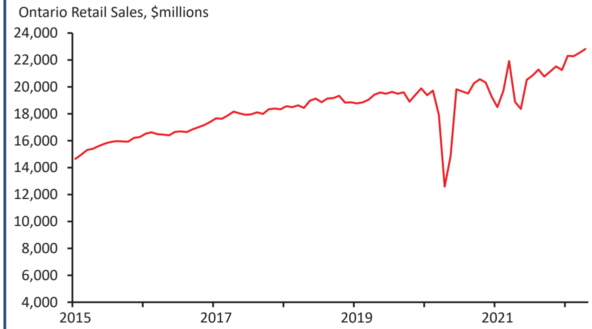


Source: Statistics Canada, Central 1, seasonally- adjusted Latest: Apr/22

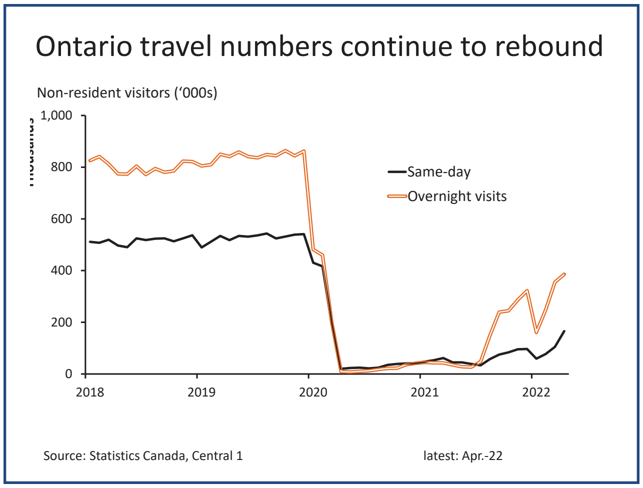
Among all retail sectors, Ontario sales were up in 10 out of 11 sectors, but consumers spent less on electronics and appliances (0.1 per cent) compared to last year. Improvement on supply chain disruptions allowed more sales from backorders on motor vehicles and parts (3.9 per cent) than a year ago, yet sales were 0.4 per cent lower than the previous month. Spending at gas stations surged again, with 8.0 per cent monthly growth in April and 70.9 per cent higher compared to a year ago. Core retail sales (excluding gasoline stations and motor vehicle and parts dealers) was up 0.8 per cent from last month and was 23.0 per cent higher compared to a year ago.

Dollar-volume sales are expected to continue this growing trend in 2022 as persistent inflation and surging energy prices add extra costs for consumers. With real wages failing to catch up with the rising costs, many Canadians may start to cut costs on food and non-essential spending. Ontario residents may still be partaking in "pandemic revenge spending" compared to last year, however, monthly declines in some retail sectors (e.g., motor vehicle and parts, electronics, and appliances) could reflect the changes in their spending patterns.

Ontario has regained 63 per cent of pre-pandemic tourism numbers

Edgard Navarrete, Regional Economist

Tourism numbers in Ontario rose an additional 19.8 per cent m/m in April to 551,403 visitors. Overnight visits accounted for nearly 70 per cent of the tourism in the province. While overnight visits accounted for the largest share of tourists, one-day visits increased substantially moving up 58 per cent m/m compared to the 8.5 per cent increase for overnight stays. American tourists accounted for 77.3 per cent of the visitors to Ontario. The increase in one-day visits is likely U.S. citizens travelling over via car or train for a short visit with many Americans that live close to the Ontario border taking advantage of lessened border restrictions.



In April 2022, when compared to pre-pandemic tourism numbers from February 2020, Ontario had recovered 63 per cent of the tourism lost during the pandemic.

Over the first four months of 2022 tourist visits are up 315 per cent compared to the same period last year. This is due to two things, base year effects and the pick-up in travel now that restrictions are largely lifted.

There is likely a strong desire by many to come to Ontario to visit family, for business purposes and for general holiday making. This is especially true now that many festivals and activities have returned to regions across Ontario after a nearly two-and-a-half-year absence due to the pandemic. What could begin to weigh on tourism numbers is the high cost of fuel and the general higher cost of living due to inflation. Both factors may take a larger bite out of the wallets of potential tourists.

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