



## Highlights

- Both long-term and short-term SME confidence on a two-month slide
- Average capacity utilization continues to inch up, but ongoing issues continue to impede growth
- Further tightening of consumers' belts as they lose wealth and purchasing power could make the short-run even bumpier for SMEs
- Permanent and non-permanent immigration continues to drive population growth in Ontario
- High cost of living is compelling many to migrate to other provinces
- Interprovincial migration could fuel ongoing labour shortages and impact economic recovery
- Gains were reported in both services-producing and goods-producing industries in April, with expansion in 12 of 20 industrial sectors.

## SME confidence continues to slide

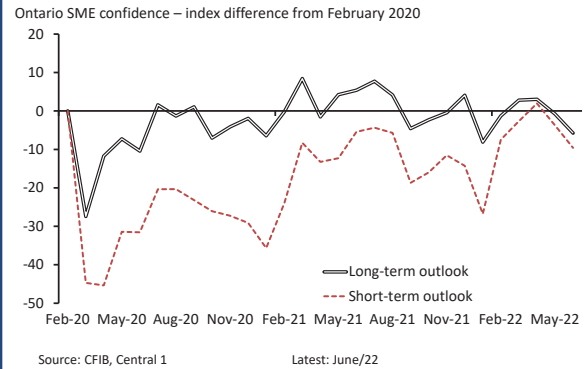
*Edgard Navarrete, Regional Economist*

The story remains the same in Ontario as ongoing inflationary pressures and supply chain costs continue to affect small and medium enterprises' (SME) short-term and long-term confidence. According to the latest reading on SME confidence from the Canadian Federation of Independent Business (CFIB), both the short-term and long-term outlook fell by significant margins.

Long-term confidence fell 5.0 points m/m and 11.2 points y/y to 58.6 points, the lowest it has been since January 2022 at the height of the fourth wave of COVID-19 amidst restrictions at the time creating issues for many SMEs, especially those of a client-facing nature. Meanwhile, short-term confidence also fell 5.8 points m/m and 4.1 points y/y to 52.4 points in the last reading.

While both the short-term and long-term confidence indices have been on a two month slide, it is worth noting that the situation is still not critical — an index above 50 points suggests that SMEs expect production and activity to expand in the coming year but increased uncertainty continues to murk the waters for planning. Nevertheless, the latest data points to slowing economic momentum. Uncertainty is truly the trope of this pandemic and the recovery.

## Ontario SME confidence continuing to slide



Despite all the uncertainty in the air, the average capacity utilization in Ontario continues to increase gradually and came in at 77 per cent in June, one of the highest readings since the start of the pandemic. Again, similar tropes continue to keep SMEs from getting close to 100 per cent due to skilled labour shortages, supply chain issues, and perhaps now some curtailing of sales as an increasing number of consumers tighten their belts.

Most SMEs surveyed (63 per cent) do not expect to increase full-time hiring plans.

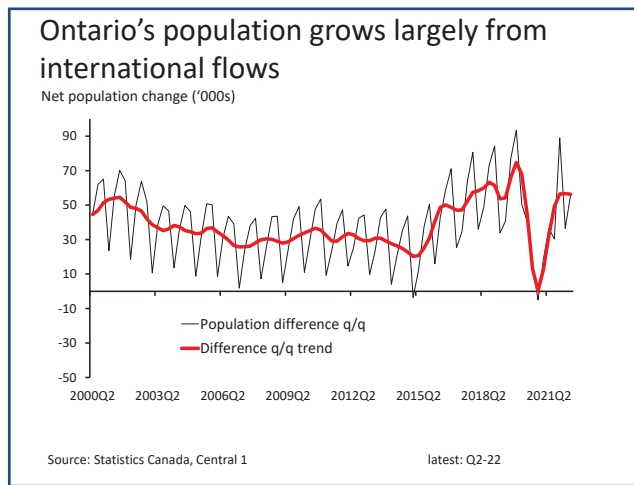
Inflationary pressures continue to trend higher even as the Bank of Canada continues to tighten monetary policy. The housing market has already started to correct downward, shaving some wealth from households. Ongoing inflationary pressures may add to possible belt tightening for consumers affecting SME revenues and any expansionary plans.

## Ontario's population surpasses 15 million residents for first time

*Edgard Navarrete, Regional Economist*

For the first time, Ontario's population surpassed 15M, reaching 15,007,816 to start the second quarter of 2022 moving up 0.4 per cent q/q and 1.4 per cent y/y. The population in Ontario grew steadily over the last half of 2021 as public health and international travel restrictions eased, allowing for freer flow of people into Ontario from within Canada and abroad.

On a net basis, Ontario recorded 55,991 new residents to start the second quarter with most of that growth coming from immigration (43,470 or 77.6 per cent share), non-permanent residents (22,985 or 41.1 per cent) with growth from natural increase adding an



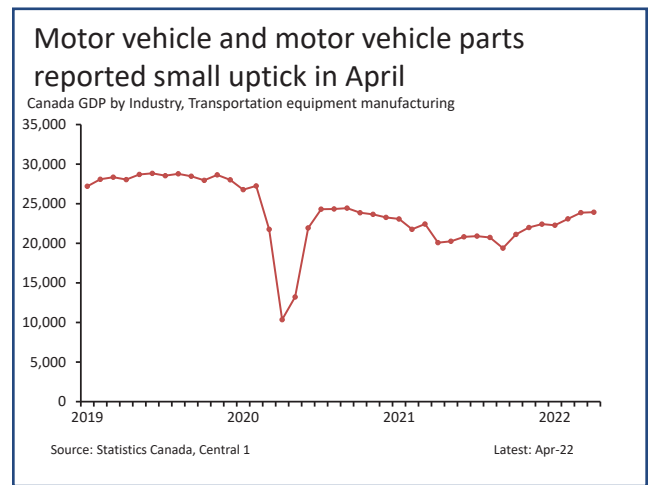
additional 1,102 new residents (2.0 per cent share). Ontario continues to lose residents to other parts of Canada though, as an additional 11,566 net people migrated out by the end of the first quarter of 2022. This adds to the net losses over the last nine quarters with intensified losses over the last four quarters averaging 11,857. Job and educational opportunities continue to be a draw for many foreigners, but the higher cost of living is compelling many to relocate to other provinces. Alberta and British Columbia are two areas that are appealing to Ontarians looking for a change and better opportunities.

The current pace of 0.4 per cent q/q population growth (about 1.6 per cent annualized) is in line with Central 1 economics' current outlook. Despite the losses from interprovincial migration, both permanent and non-permanent immigration will continue to offset those losses. This is especially the case as Canada ramps up immigration quotas and the majority of immigrants still opting for Ontario and its largest cities as a first point of entry into Canada.

## Canadian GDP growth slowed in April, finance and real estate sectors fall

*Alan Chow, Business Economist*

In April, Canadian real gross domestic product (GDP) at seasonally adjusted at annual rate (SAAR) was up slightly at 0.3 per cent from last month, slower than the 0.7 per cent seen in March. The slowdown was seen largely in the service sector, which only increased 0.1 per cent while the goods-producing sector saw growth of 0.9 per cent. This trend is likely to continue in May as further decline is expected, perhaps as much as 0.2 per cent, as inflation continues to surge to near 40-year highs.



The finance and insurance sectors were a major contributor to this month's slowdown, falling 0.7 per cent. As Toronto is considered the financial hub of Canada, the sector in Ontario was likely a major factor. Real estate also fell 0.8 per cent, its largest decline since the beginning of the pandemic. High interest rates are continuing to be a drag on transaction volumes in the sector and are slowing overall activity.

On the other side, automobiles continue to expand this month, up 0.2 per cent. However, supply chain issues continue to be a challenge to the industry, and it has still not reached pre-pandemic levels or even those from fall 2020. The accommodation and food service sector also continue to expand, where it has finally exceeded pre-pandemic levels for the first time. Not far behind is the arts and entertainment sector, which is at the highest level seen since the start of the pandemic and is only around 12 per cent below pre-pandemic levels.

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