Economics | Current Economic Trends

Ontario Economic Briefing

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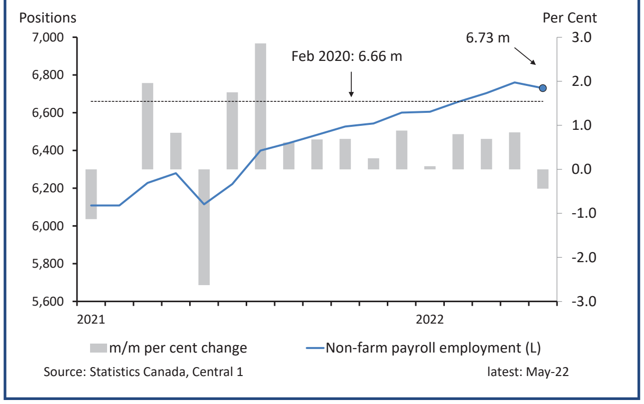
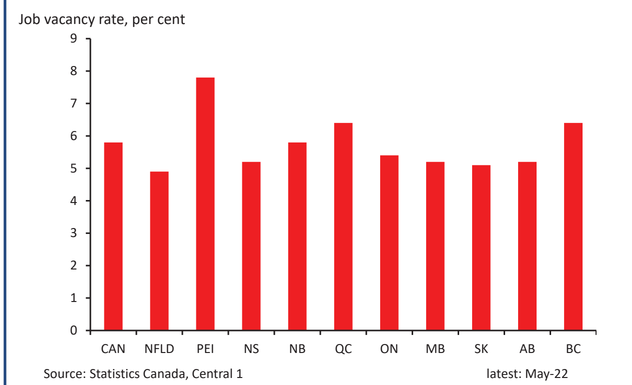
Highlights

- Hiring momentum slowing down
- Payroll counts fell 0.4 per cent m/m, first contraction since May 2021
- 65 per cent of SMEs surveyed do not plan to increase full-time hiring
- With increased uncertainty fewer firms willing to overextend themselves

Ontario non- farm payrolls decline for first time since May 2021



Job vacancy rate remains elevated



Employers dial back hiring in May

Bryan Yu, Chief Economist

Ontario non-farm payroll counts retreated in May aligning with a slowdown in employment growth in the Labour Force Survey (LFS) and signaling slowing momentum. According to the latest Survey of Employers, Payrolls and Hours (SEPH), payroll counts fell 0.4 per cent (30,000 positions) to a seasonally- adjusted 6.73 million positions during the month marking the first contraction since May 2021 and reflecting a reduction in staff counts by employers. That said, with LFS employment unchanged and full-time tenure employment up during the month, this may reflect fewer multiple job holders as well as rising self-employment.

Reduced payroll counts were observed across sectors but led by a sharp decline of nearly 12,000 positions (down 3.0 per cent) in the construction sector aligning with temporary permit volume weakness in April. Retail trade positions also pulled back sharply with a drop of 9,400 positions or 1.3 per cent. Reductions were observed broadly across sectors. On the upside, accommodations and foodservices hiring remained positive (up 3,880 persons or 0.9 per cent) as reopening and increased tourism lifted hiring.

Non- farm payroll counts have fully rebounded from the pandemic downturn and sat one per cent above February 2020 levels. That said there remains significant divergence among sectors. Positive contributors to higher payroll counts included professional/scientific/technical services which rose 15 per cent (67,700 positions) and nearly equivalent to net growth for all sectors during the period, healthcare and social assistance (up 4.7 per cent and 35,200 positions), and finance/insurance (up 6.0 per cent or 21,100 positions). A combination of strong technology sector demand, housing and COVID-19 needs have lifted these figures. In contrast, sharp offsets included an ongoing drag from accommodations and foodservices (down 10 per cent or 50,800 positions), while arts/entertainment/recreation remained 14 per cent lower or 17,400 positions. These sectors are rapidly improving but increasingly face major hurdles in finding workers who have since moved on after pandemic layoffs.

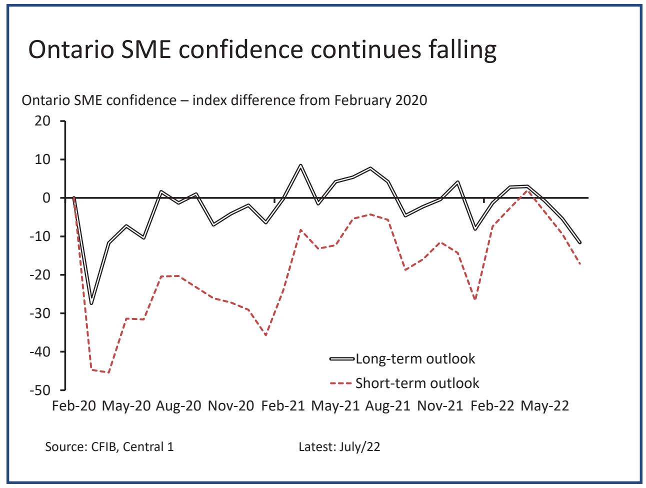
Broadly, Ontario's labour market remains tight. The unemployment rate sat at 5.5 per cent in May and slipped further to 5.1 per cent in June. The job vacancy rate eased modestly to 5.4 per cent from 5.7 per cent in April, as the total number of vacant jobs slipped. Nevertheless, the job vacancy remained sharply above pre-pandemic levels. Ontario average weekly earnings fell for a second straight month to $1,197 (-0.1 per cent) with a year-over-year increase of 2.1 per cent. Similarly, the fixed index of hourly earnings decelerated with a monthly dip of 0.3 per cent, while year-over-year growth slowed to a still substantial 4.1 per cent.

Slowing economic growth due to higher interest rates will likely temper the pace of employment gains going forward, while wage growth will remain positive but similarly decelerate. Weakness will likely emerge in housing-related sectors, while the high-flying tech sector is grounded temporarily.

Ontario's long-term and short-term SME confidence slid for the third consecutive month in July

Edgard Navarrete, Regional Economist

July small-medium-enterprise (SME) confidence continues to slide in Ontario. According to the latest estimates from the Canadian Federation of Independent Business both the short-term and long-term SME confidence dipped further in July to 52.8 points (down 6.2 points m/m and 19.3 points y/y) and 44.8 points (down 7.7 points m/m and 12.8 points y/y). Moreover, the slide in July marked three consecutive months that SME confidence has fallen. The values registered in July were the lowest since April 2020 (long-term outlook) and January 2022 (short-term outlook) and showcase a rapid deterioration in confidence given increasing uncertainty about supply chains and consumer spending.



To hammer the point further of the deteriorating conditions in Ontario both the short-term and long-term outlooks are the lowest of all other regions in Canada.

Despite stronger headwinds, average capacity utilization has remained stable at 76 per cent. But a sizeable share of SMEs surveyed are holding steady on hiring more people. In July 65 per cent of those surveyed responded that they would not change full-time hiring plans. Inflationary pressures and labour shortages are lifting the wages firms have to pay for talent and with increased uncertainty fewer firms will be looking to overextend their finances.

The traffic light to a recession continues to blink yellow. It is not a full-fledged recession being called at the moment but with consumers and firms facing increased cost pressures economic activity will continue to moderate as people and firms cut down on unnecessary costs.

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