Economics | Current Economic Trends

Ontario Economic Briefing

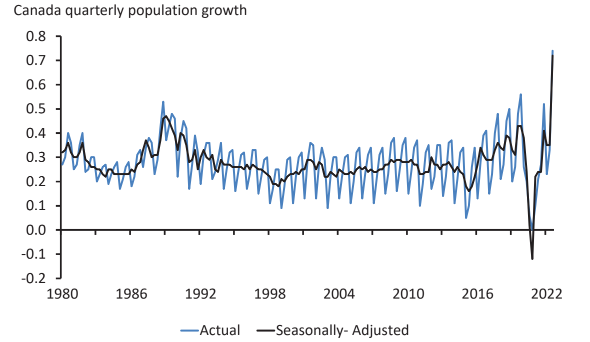
Volume 28 • Issue 39 • Week of September 26 - September 29 2022 | ISSN: 1981-355

central 1 Economics

Highlights

- International immigration boosted Canadian population growth in the second quarter
- Both short-term and long-term small business confidence indices dropped in September following last month's increases
- Hiring momentum continued in July

Canada population growth surges to multi-decade high



Source: Statistics Canada, Central 1 Latest: July 1, 2022

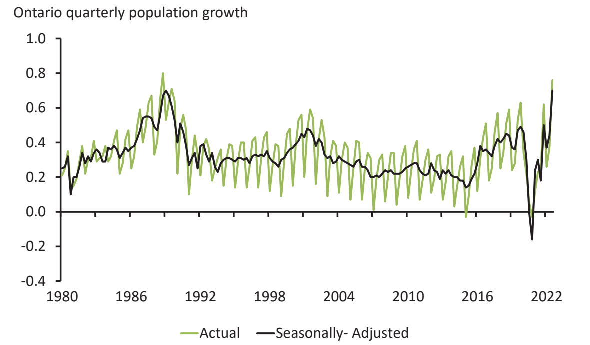
Canadian immigration hits modern-day record high during second quarter

Bryan Yu, Chief Economist

Canada's population soared during the second quarter as a record pace of newcomers led to the highest quarterly gain since 1949 when Newfoundland entered confederation. Total population rose 0.7 per cent or 285,000 persons over the latest quarter. On a July-over-July basis, the population rose 1.8 per cent compared to 1.3 per cent in April. This modern record high is owed to international immigration, particularly inflows of those classified as non-permanent residents. This included individuals fleeing the war in Ukraine and an increase in foreign workers and students as borders fully re-opened. Moreover, immigration gains reflect some catch-up following lower pandemic-period and elevated federal intake targets.

Aligning closely with the national gain, Ontario's population swelled by 113,400 persons or 0.8 per cent during the second quarter. Year-over-year growth came in at 2.0 per cent to lift the population above 1.51 million persons for the first time. This was the strongest quarterly increase since 1988 and led by a 78,550 surge in net non-permanent residents. As many of these individuals likely arrived due to the war in Ukraine, they can expect to transition to permanent residency over time. Excluding non-permanent residents, net international inflows reached 48,195 persons to maintain a robust trend.

Ontario matches national pattern

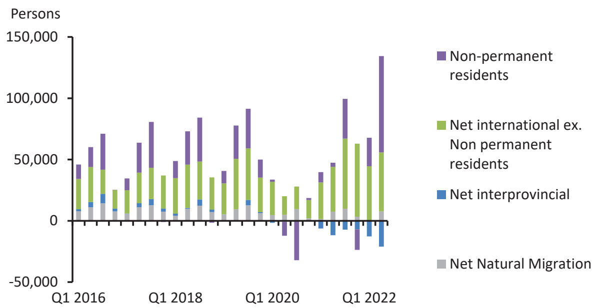


Source: Statistics Canada, Central 1 Latest: July 1, 2022

In contrast to booming international inflows which drove the net increase alongside a rise in births, net interprovincial growth weakened. Ontario managed to attract more bodies from other Canadians provinces, but also lost more people over the quarter. In fact, this was the largest net outflow since the early 1980s. Affordable housing, remote work, and job opportunities may have contributed to the net outflow of 21,000 persons which was the highest on record.

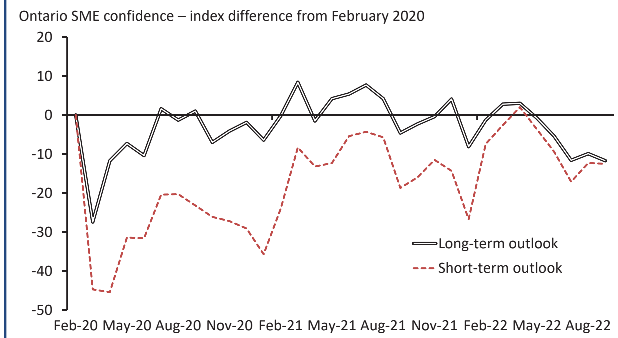
Residents fanned across the country. Ontario lost more residents than it gained from all provinces other than Saskatchewan and Manitoba. The largest net outflows were to Alberta (6,280), B.C. (4,200), Nova Scotia (4,800), and New Brunswick (3,590). In the Atlantic where the population base is smaller, these gains have a more substantial impact on housing affordability and consumer demand.

Non-permanent residents surge, net interprovincial migration negative



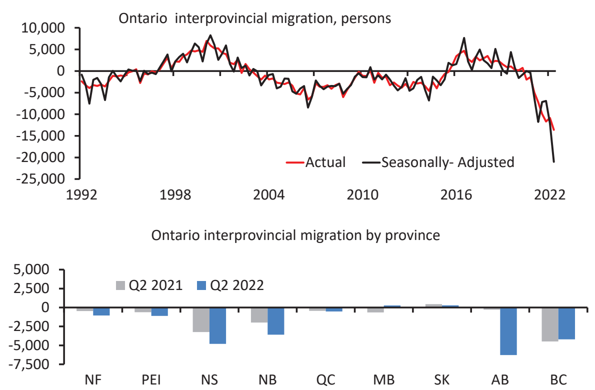
Source: Statistics Canada, Central 1

SME confidence reported modest declines in September



Source: CFIB, Central 1 Latest: September/22

Striking decline in net interprovincial migration



The population spike in the latest quarter will retreat in coming quarters. That said, we can expect population growth to remain robust and support longer term labour force expansion and economic capacity. However, it takes time for newcomers to settle and adapt. Population growth is currently lifting consumer demand and inflation while adding to pressures on rental markets. While high interest rates are not conducive to homeownership demand and construction at the current time, policy makers will need to address the need to house the growing population or risk another spike in home values and rents in the future.

SME confidence reported modest declines in September

Ivy Ruan, Economic Analyst

The Ontario September small and medium enterprise (SME) index estimates released this week by the Canadian Federation of Independent Business showed an erosion in sentiment following August's increase. Both the short-term (3 months) and long-term confidence (12 months) dropped to 49.4 points (down 0.2 points m/m) and 52.7 points (down 1.8 points m/m) respectively. With September's modest change, Ontario retained moderate levels of business confidence over both time spans.

Most provinces have very tempered outlooks over the short-term with readings below 50 points. Having one of the largest real estate markets and elevated household debt loads, Ontario may experience stronger headwind under the real estate market correction compared to the rest of the provinces. As the housing market grinds lower, business owners may expect further weak performance in the sectors of finance, real estate and insurance. Adding to this is greater reliance on the U.S. economy as an export market where the Fed looks to engineer a recession which will likely curb demand.

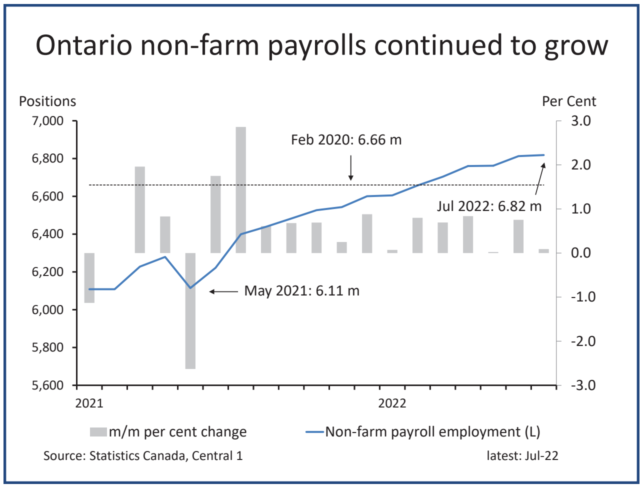
Average capacity utilization slipped to 74 per cent in September. More SMEs surveyed (20 per cent) reported plans to cut down full-time staff, and the number of business owners who considered themselves in a bad state of business health increased further (19 per cent). With inflationary pressures and rising wages, business growth will be constrained in part by labour shortages in the foreseeable future. Meanwhile, gas prices in southern Ontario are set to rise this weekend, with supply uncertainties due to the Hurricane Ian, adding pressure to local business owners.

Non-farm payroll counts edge higher in July

Ivy Ruan, Economic Analyst

Ontario employers posted a negligible change in payroll counts in July following a strong June gain according to the latest Survey of Employers, Payrolls and Hours (SEPH) data. Total payroll counts rose by 0.1 per cent or 6,040 positions to reach a seasonally-adjusted 6.818 million positions. Ontario's job vacancy rate dropped to 5.2 per cent, the third consecutive monthly decline and the lowest level since February 2022, reflecting some relief in the tight labour market.

Payroll employment rose most in areas like finance and insurance (0.7 per cent), education (2.3 per cent), and information and culture (0.6 per cent). In



contrast, counts declined in forestry and logging (-7.9 per cent), albeit representing a small portion of jobs. The tourism-related sectors, including accommodations and food services and arts, entertainment and recreation rose 0.5 per cent. Manufacturing pulled back 0.4 per cent, while construction rose 0.1 per cent, suggesting the downturn in housing has yet to fully hit building construction.

Overall, Ontario continued to see positive momentum in non-farm payroll although the trend is slowing. This should move in line with Labour Force Survey employment which declined for three months through August. Nevertheless, the labour market remains tight and attracting workers in this area will likely continue to be difficult as the pressures from higher wage expectations. That said, the return of non-permanent workers to the province will bring some relief to the tight labour market.

Average weekly wages grew slightly in July, up 0.3 per cent, and 2.4 per cent higher than a year ago. Modest increase was reported in more than half of the industries, with 11 out of the 19 sectors seeing growth in average weekly wages.

For more information, contact economics@central1.com.