



Highlights

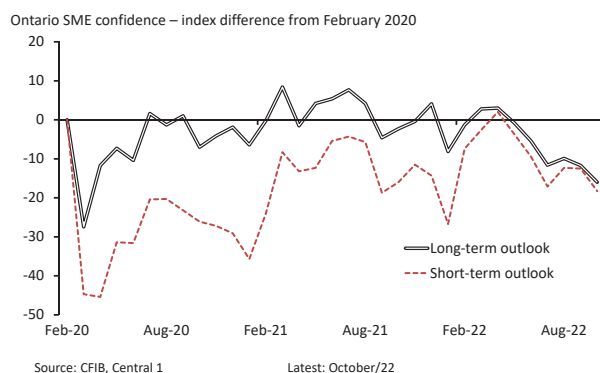
- Both short-term and long-term small business confidence indices deteriorated in October
- Employers shed positions
- Ontario GDP climbs at a 3.9 per cent annualized rate during second quarter

Ontario SME confidence reported largest fall among provinces in October

Ivy Ruan, Economic Analyst

The Ontario October small and medium enterprise (SME) index estimates released this week by the Canadian Federation of Independent Business showed further erosion in sentiment following September's modest decreases. Both the short-term (3 month) and long-term confidence (12 month) plunged to 43.6 points (down 5.8 points m/m) and 48.4 points (down 4.3 points m/m) respectively. With October's large change, Ontario's business confidence over both time periods remained well below 50 points, indicating that business expect to experience weaker net performance in the coming months. That said, business sentiment is negative for most provinces in coming quarters. Weaker business sentiment in Ontario likely reflects a combination of factors including some of the deepest housing market retrenchments in the country with further weakness likely to come, impacting not only the direct housing market, but also related finance sectors. Adding to this is an expected downturn in the domestic economy and exposure a U.S. economy that is likely to fall into recession.

SME confidence indices dived in October



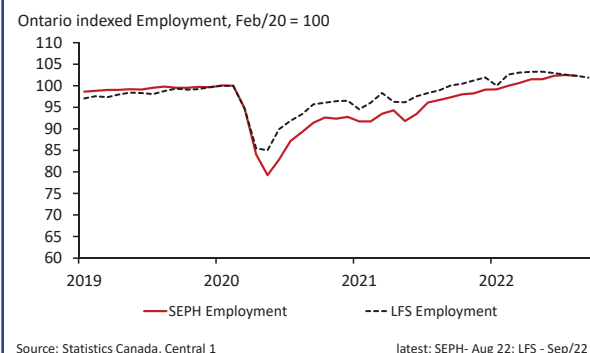
Average capacity utilization regained momentum to 77 per cent in October. An additional 66 per cent of SMEs surveyed reported intentions to not change staffing plans, and the number of business owners considering themselves in a good state of business health dropped to 33 per cent.

Ontario employers shed jobs in August

Bryan Yu, Chief Economist

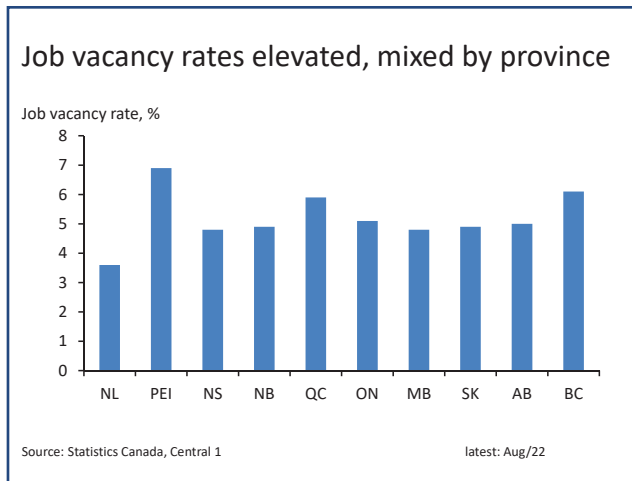
Ontario payroll counts fell in August according to the latest data from Statistics Canada's Survey of Employment, Payroll and Hours (SEPH) signaling a slowdown in activity. Following a gain in July of 0.2 per cent or more than 14,385 net new positions, payroll counts retraced by a similar magnitude of 0.2 per cent or 13,787 positions in August. This was the first decline since May 2021 and is more aligned with patterns observed in the Labour Force Survey where employment has declined since June and unemployment rates have moved higher. Payroll counts remained modestly higher than pre-pandemic February 2020 by 2.3 per cent.

Ontario payroll employment eases into August, tracks LFS trend



While already showing signs of retreat, payroll counts have yet to incorporate shifting economic conditions outside of quick deterioration in the housing market. These figures were in advance of a much more aggressive monetary policy tightening stance from the U.S. Fed and the Bank of Canada which is expected to trigger a sharp slowdown in the economy and potential recession in both countries, alongside weaker global growth expectations. Firms are likely to rein in hiring plans as these headwinds are realized, although an elevated job vacancy rate will likely mean businesses will try to hold onto their workers with adjustments of hours worked and other options.

While conditions are set to deteriorate, August data still provides some indication of hiring patterns heading towards the slowdown. Payroll declines were relatively broad-based. The goods sector shed 0.6 per cent or 7,225 positions driven mostly by construction (down 2.1 per cent or 8,456 positions). The service sector was flat, but larger declines in transportation/warehousing (down 0.6 per cent or 1,678 positions), retail trade (down 0.7 per cent or nearly 5,000 positions) and a pullback in education jobs (down 1.0 per cent or 5,587 positions) were offset by other industries.



Wage growth remained solid during the month with average weekly earnings up 0.4 per cent to \$1,198, a modest 2.6 per cent higher than a year ago, owing partly to job composition. Fixed weighted average hourly earnings were considerably stronger with a 0.6 per cent increase from July and 4.4 per cent year-over-year.

Ontario Economic Accounts Update for Q2 2022

Ivy Ruan, Economic Analyst

Ontario Economic Accounts released the update for the second quarter of 2022. The provincial real gross domestic product (GDP) rose 0.9 per cent during Q2 (3.9 per cent annualized), following the 1.1 per cent growth in Q1. This compares to a national expansion of 0.8 per cent (3.3 per cent annualized) as estimated by Statistics Canada. Despite the deceleration, Q2 marked the fourth consecutive quarterly increase in Ontario's real GDP and lifted GDP 2.2 per cent above pre-pandemic expenditures during Q4 2019.

The key driver for the provincial economic growth was the spendings on household consumption, which jumped 3.6 per cent during the second quarter, with broad increase in all subsectors, including durable goods (1.8 per cent), semi-durables (7.6 per cent), non-durables (2.9 per cent) and services (3.8 per cent). The large volume increase suggests the continuous recovery in consumption following weaker conditions earlier in the pandemic. Spending momentum was not only seen in domestic goods, international imports to Ontario also had a robust performance (up 6.1 per cent) in Q2, reflecting strong consumer demand. International exports advanced 4.1 per cent during the same period, and total exports (both international and interprovincial) registered the highest quarterly growth (2.9 per cent) since the pandemic started.

Total business investment spending reported the first decline (4.1 per cent) following two quarters of growth, with sharp decline in residential investment (-9.5 per cent) offsetting the growth seen in machinery and equipment (4.3 per cent) and non-residential structures (2.5 per cent). The large decline in the residential construction sector reflects a housing market that has been pummeled by higher interest rates and a retreat in overall activity after a pandemic spike.

Nominal GDP rose 3.7 per cent during the quarter and far outpaced the real increase of 0.9 per cent, reflecting strong inflationary pressure. Prices for Ontario household consumption expenditures increased 2.0 per cent in Q2 2022, led by prices for gasoline and food. Both exports and imports saw further growth in prices, with export prices from Ontario rising 3.6 per cent and import prices up 3.4 per cent. Business investment prices reported slowdown in price growth, reporting 1.1 per cent gain.

Service-producing industries in Ontario advanced 1.1 per cent in Q2 2022, with large growth seen in accommodation and food services (15.0 per cent). While goods-producing industry edged down 0.3 per cent in quarterly growth, primary industry, such as agriculture and forestry (5.5 per cent) and mining (4.5 per cent) performed well.

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