



Highlights

- Short-term business sentiment slips in Ontario
- Increasing food and gas prices prevalent in Ontario
- Non-resident visits to Ontario yet to reach pre-pandemic numbers
- Retail spending increases in December
- Gains in service-producing industries led the provincial payroll growth
- Average weekly earnings slipped, but industry-controlled earning index rose

Ontario business sentiment stalls as national confidence edges higher

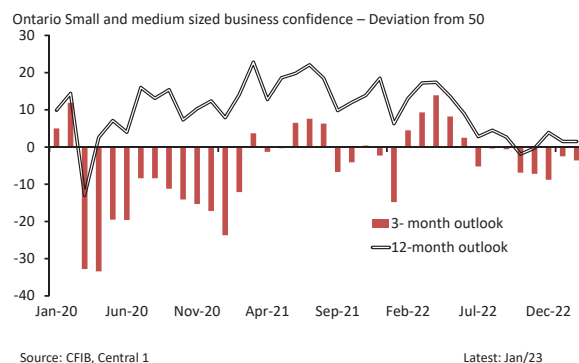
Bryan Yu, Chief Economist

Small business confidence nudged higher in February as Canada's surprising economic resilience lifted sentiment, albeit slightly. The latest Business Barometer readings from the Canadian Federation of Independent Business showed a rise in index values for both short-term and longer-term expectation but firms generally remained downbeat or neutral on prospects amidst high interest rates and fears of an economic downturn.

The three-month outlook rose to 48.9 points from 46.7 points in January and an annual low of 40 points in December. The 12-month index rose to 51.7 points from 51.2 points in January and has nudged higher since November. A value above 50 points means that the number of respondents with a positive outlook outnumber those with a negative outlook. Current levels are a mild improvement but suggest businesses expect some stability in coming quarters. On an industry-basis, expectations were weaker in the retail segment and agriculture, with greater optimism around hospitality, arts/recreation and finance and insurance.

In other data covered by the survey, firms are expecting more modest pricing conditions than in previous quarters. Average prices charged are expected to rise 3.7 per cent over the next year, compared to average expectations that exceeded 4 per cent through 2022. Wage expectations held below pricing growth with an average expectation of 3.3 per cent which accelerated from the prior 2 months. Firms are still citing cost pressures around energy prices and wages, and increasing interest rates.

Ontario business confidence slips in February, long-term outlook steady



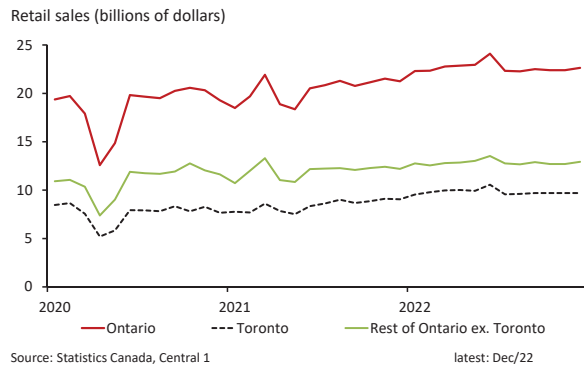
Given size and share of the national economy, Ontario business sentiment is a key driver of national index values. That said, the latest Barometer values pointed to a slip in short-term sentiment and flat long-term sentiment in February. The former fell from 47.5 points to 46.4 points, while long-term sentiment held at 51.5 points which does not bode well for growth this year. Ontario's index value is mid-pack among provinces. Higher interest rates, significant declines in home prices and relatively higher household debt may be factoring into weaker sentiment. Ontario businesses face similar constraints to its peer provinces. A whopping 74 per cent of survey respondents noted fuel/energy cost were major input cost constraints, and 61 per cent cited wages, while 52 per cent noted that shortage of skilled workers was impeding sales or production growth.

Ontario retail sales finish off the year strong with overall 2022 sales up

Alan Chow, Business Economist

Canadian retail spending grew again in December after having muted growth in November. On a seasonally-adjusted basis, sales increased 0.5 per cent in December compared to the less than 0.1 per cent decline in November. Seven of the 11 sectors saw higher sales, led by the continued increase in auto dealer sales, up 4.8 per cent over the previous month. Supply issues in this sector continue to improve and as such, sales could be climbing because previously ordered vehicles are finished and sold. Gasoline stations, on the other hand, saw monthly sales decline 5.8 per cent. Core retail sales, which excludes gasoline and motor vehicle and parts sales, increased 0.4 per cent. General merchandise stores saw a monthly gain of 1.7 per cent and food and beverage stores saw

Ontario retail sales up slightly in December



a 0.5 per cent increase. Overall, 2022 compared to 2021 had an 8.1 per cent increase in retail sales with core retail sales increasing 7.2 per cent.

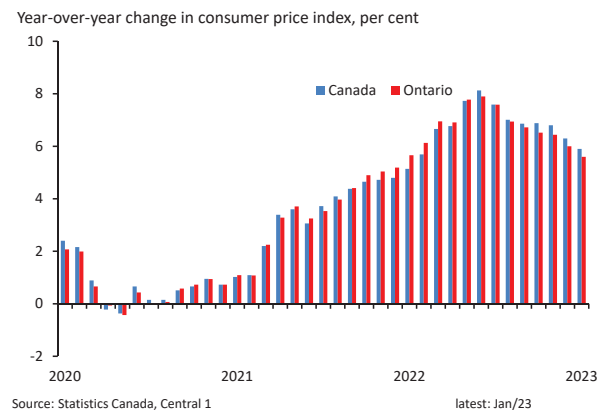
Ontario retail performance in December compared to the National retail sales as well compared to Ontario's previous month was stronger. On a seasonally-adjusted basis, total retail sales increased in December compared to November by 0.9 per cent. Core retail sales grew even more, increasing 1.9 per cent and slightly reversing the revised 3.3 per cent decrease seen in November. Eight out of the 11 subsectors saw increases in sales. Sporting goods and recreation store sales saw the largest increase at 13.2 per cent followed by clothing store sales, which saw an increase of 11.4 per cent. Food and beverage sales also climbed 2.7 per cent and moto vehicle and parts sales rose by 1.5 per cent. In contrast, gasoline station sales fell by 6.8 per cent while building material store sales decreased by 3.3 per cent. For the entirety of 2022, retail sales in Ontario increased 10.8 per cent with core retail sales increasing 8.6 per cent. Toronto saw retail sales increase even more at 15.9 per cent with core retail sales increasing 12.0 per cent for the year while Ottawa saw only a 2.9 per cent increase in total retail but a 6.7 per cent increase in core retail.

Ontario headline inflation eases to 5.6 per cent in January 2023

Eloho Ennah, Economic Analyst

Ontario's headline inflation rate fell to 5.6 per cent year-over-year in January 2023 following the 6.0 per cent figure in December 2022. Nonetheless, base-year effects contributed to the deceleration as tensions around Russia's war on Ukraine and supply chains drove robust price growth in January 2022 alongside higher home prices. Monthly, the consumer price index was up 0.6 per cent, owing to growing food and gasoline prices and more than reversing December's 0.4 per cent drop. Gasoline prices grew by 5.4 per cent and contributed to the rise of 3.1 per cent in energy prices. Gasoline prices shrunk almost 13 per cent in December but are now back on the rise due

Consumer price inflation in Ontario slows to 5.6%



to refinery closures in the U.S. exacerbating supply constraints.

Food prices reported the highest year-over-year increase amongst all components of the index, growing by 10.1 per cent and accelerating further from the 9.9 per cent year-over-year increase in December. The price of shelter also increased by 6.8 per cent above the 6.5 per cent year-over-year change from the previous month, despite weaker prices reported in Ontario's housing market due to higher mortgage interest costs and rents. Household operations, furnishings and equipment was one of only two major components of the index that declined during the month, falling by 0.6 per cent. Clothing and footwear also reported a decline of 0.7 per cent. Goods prices increased by 1.2 per cent during the month, following December's 1.4 per cent drop while services prices remained unchanged.

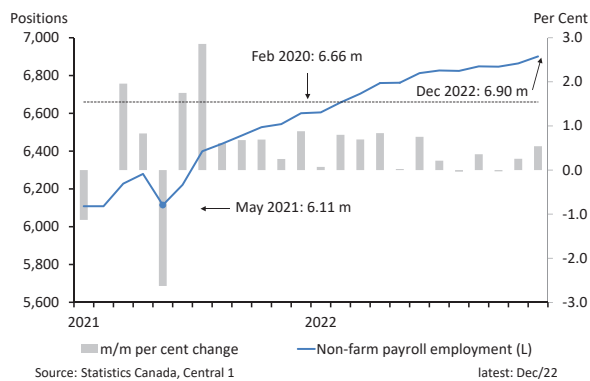
Health and personal care items prices rose 0.1 per cent, and items related to recreation, education and reading showed a 0.9 per cent increase in prices. Prices of alcoholic beverages, tobacco and recreational cannabis products reported a 1.8 per cent rise.

Ontario reported one of the largest gains in December payroll

Ivy Ruan, Economic Analyst

Ontario employers added to payrolls in December following a modest increase in the previous month. From the latest Survey of Employers, Payroll and Hours (SEPH), December reported a seasonally-adjusted 0.5 per cent (36,900 persons) monthly growth, one of the largest increases among provinces and pushing the total employment reading in Ontario to a new record level of 6,901,379 persons. The estimates from the Labour Force Survey (LFS) also reported a gain in Ontario employment of 42,100 persons (0.5 per cent) driven by full-time job growth during the same month. LFS readings showed consistently low level of part-time employment in Ontario, reflecting the motivations of both employees and employers in long-term

Ontario added more non- farm payrolls in service-producing sectors



employment plans in such a tight labour market with inflationary pressure. In Ontario, the unadjusted job vacancy rate came in at 4.1 per cent, a drop from last month and representing 284,710 unfilled positions.

With the latest gain, seasonally-adjusted payroll counts were 3.6 per cent higher than February 2020, while the employment growth reported by LFS was 3.3 per cent over the same period. Various factors can create divergence between the surveys including timing of job losses as SEPH reflects payouts of salaries and/or benefits in a month in contrast to whether an individual worked, and excludes farm work and self-employed workers.

December's job gain reported by SEPH was largely concentrated in the service-producing industries. Finance and insurance sector (+6,676 persons), professional, scientific and technical services sector (+6,050 persons), together with health care and social assistance sector (+5,632 persons), contributed the most to the monthly employment gain. Construction employment gain offset the losses reported in the rest of goods-producing industries.

On the wage front, average weekly earnings dropped 0.2 per cent to \$1,197.94, and year-over-year growth adjusted to be 3.0 per cent. That said, the fixed hourly earnings index which is controlled for industry rose to 172.8, up 2.1 per cent from the previous month and again recorded the highest level in 2022. In comparison, LFS average hourly wage rose 5.5 per cent year-over-year in December but slowed from 6.4 per cent growth in the previous month.

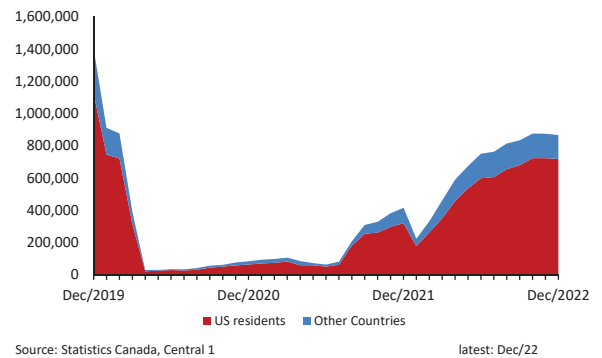
International travel from non-residents to Ontario falls by 1 per cent in December

Eloho Ennah, Economic Analyst

The seasonally-adjusted number of non-resident travelers entering Ontario in December 2022 dipped to 866,701, a 1 per cent reduction from the previous month. In 2022, total non-resident trips to the province peaked in October but growth in the numbers has since been relatively flat. Overnight tourists accounted

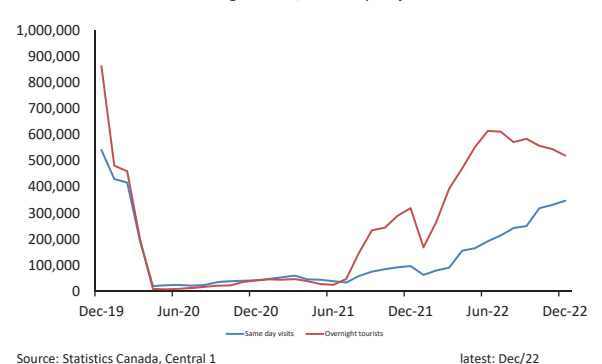
Figures for international travel to Ontario continued to rest below pre-pandemic levels

Non- resident traveler entries through Ontario, persons, seasonally - adjusted



Overnight tourists account for 60 per cent of total non-resident visits in Ontario

Non-resident traveler entries through Ontario, seasonally - adjusted



for 60 per cent of the total visitors arriving in Ontario while same-day excursionists made up 40 per cent of the total. Overnight tourist travel to Ontario decreased by 4.6 per cent, larger than the 2.2 per cent monthly drop in November. Same-day excursionist visits increased by 4.9 per cent, greater than the 3.9 per cent increase recorded in the previous month.

The warmer summer months brought in the highest numbers of overnight tourists in the year. In December, the number of tourists entering Ontario was 63.2 per cent higher than the number in December 2021. November recorded a year-over-year increase of 88 per cent. Tourist visits figures still rest below pre-pandemic values, with December 2022's figure only 60 per cent of same month in 2019.

American residents made up 73 per cent of non-resident overnight tourists arriving in Canada through Ontario during December, with the majority of these travelers arriving via automobile. Tourists entering Ontario via the U.S. reduced in the last month of the year by 5.2 per cent, most likely owing to Environment and Climate Change Canada's special weather warnings as December storms raged throughout the country, causing delays and flight cancellations, and likely deterring many from travel.

For more information, contact economics@central1.com.