Economics | Current Economic Trends

Ontario Economic Briefing

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Economics

Highlights

- Ontario business sentiment scales up in March
- Gains in service-producing industries continued to drive the provincial payroll growth
- Average weekly earnings surged, but industry-controlled earning index slipped
- Real GDP increases in January

Transportation equipment manufacturing sector continues to recover

Alan Chow, Business Economist

National real gross domestic product (GDP) rebounded in January after a slight decline in December. Overall, it was up 0.5 per cent in January month-over-month. Goods-producing sectors output rose 0.4 per cent and service sectors rose 0.6 per cent. Preliminary estimates have February GDP increasing 0.3 per cent, which may slightly alleviate some recessionary fears and improve the near-term outlook. That said, a slowdown is still likely but may be milder than anticipated.

Through an Ontario lens, the gains in national goods-producing sector output coincided with gains in the manufacturing sector, which was up 0.5 per cent for January. Transportation equipment manufacturing saw an increase of 1.3 per cent with motor vehicle manufacturing up 6.5 per cent and motor vehicle parts manufacturing up 1.9 per cent. The levels reached are around those seen in late 2020 but have still not reached those before the pandemic hit. That said, these are positive signs that supply chain issues and shortages within the industry are beginning to ease further and will be supportive of Ontario's economy . Chemical manufacturing saw a decrease of 6.2 per cent in January. However, the long-term trend is still positive, with average month GDP in the industry over the past 12 months up 1.0 per cent.

On the service sector side, the finance and insurance sector GDP is up 0.3 per cent in January over December. Credit intermediation and depository credit intermediation were both up 0.2 per cent while investment services saw an increase of 1.0 per cent. Local credit unions, on the other hand, saw a slight decline of 0.4 per cent while insurance related activities saw virtually no change.

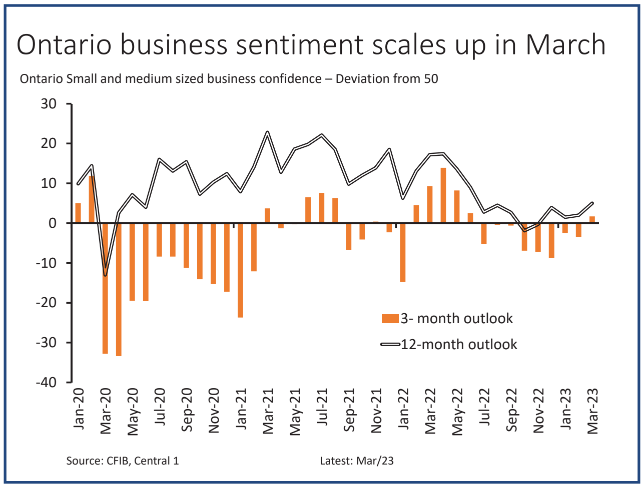
Optimism reigns on all horizons as Ontario SME Business confidence grows stronger

Eloho Ennah, Economic Analyst

The results of the March small and medium enterprises (SME) Business Barometer survey showed greater optimism amongst Ontario small businesses as both the long- and short-term index nudged higher. The long-term index, which has been on an upward trajectory since the beginning of the year, increased to 55 points from 52 points and was also higher than long-term index values observed for Ontario during the second half of 2022. Ontario's long-term outlook was consistent with the national index in March. The short-term index also increased by 5.2 points to reach 51.7 points and was the fourth highest amongst Canada's provinces. The latest results are evidence of improving expectations from small business owners. However, many Ontario business owners are still distressed by high debt loads and reduced access to credit, while many have also reported unpredictable and inconsistent monthly revenue.

Although an increased number of Ontario firms stated plans to increase full-time staff, the percentage of business owners who regard their businesses to be in good health was 39 per cent, down from 42 per cent in February.

Ontario small business owners sited shortages in skilled and unskilled labor, time constraints and insufficient domestic demand as well as several other factors as limitations to rising sales and productions. Fuel/energy, insurance and wage costs remain among the major expenses limiting business performance.



The pandemic as well as other global factors such as the Russia's war in Ukraine had led to higher energy and gasoline prices, which remain elevated.

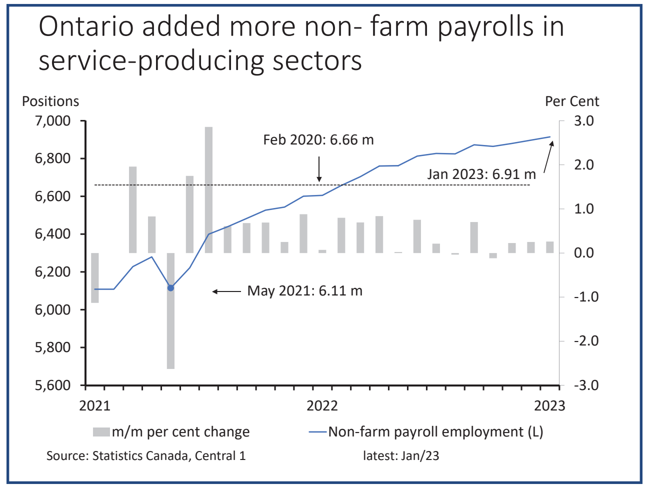
In Canada as a whole, the majority of small business owners expect their firms' performance to be the same or slightly stronger in twelve months compared to now. Some businesses that weathered unprecedented storms from the onset of the pandemic are now struggling to remain resilient in face of growing economic challenges. Unsold inventories are also on the rise since a greater percentage of firms reported "worse than normal" inventory levels in March. As the full impact of higher interest rates settles in, declining consumer spending, elevated input costs and sustained supply chain limitations may continue to burden many businesses.

Ontario reported largest gains in January payroll

Ivy Ruan, Economic Analyst

Ontario employers added to payrolls in January following a robust increase in the previous month. From the latest Survey of Employers, Payroll and Hours (SEPH), January reported a seasonally-adjusted 0.3 per cent (17,685 persons) monthly gain, the largest increases among provinces and pushing the total employment reading in Ontario to a new record level of 6.914 million persons. The estimates from the Labour Force Survey (LFS) also reported a large gain in Ontario employment of 62,800 persons (0.8 per cent) during the same month. Ontario's unadjusted job vacancy rate remained at 4.1 per cent, flat from last month and representing 282,865 unfilled positions.

With the latest gain, seasonally-adjusted payroll counts were 3.8 per cent higher than February 2020, while the employment growth reported by LFS was 4.8 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.



January's job gain reported by SEPH was entirely concentrated in the service-producing industries. Trade sector (6,348 persons), transportation and warehousing sector (4,876 persons), together with administrative and support sector (2,626 persons), contributed the most to the monthly employment gain and offset the loss seen in information and cultural industries (-8,197 persons). Employment in goods-producing industries was mostly flat from last month.

On the wage front, average weekly earnings jumped 2.5 per cent to $1,217.02, and year-over-year growth adjusted to be 2.7 per cent. That said, the fixed hourly earnings index, which is controlled for industry, edged down to 171.0, down 0.5 per cent from the previous month when a record high level was marked. In comparison, LFS average hourly wage rose 3.6 per cent year-over-year in January but slowed from a 5.6 per cent growth in the previous month.

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