Economics | Current Economic Trends

Ontario Economic Briefing

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Highlights

- Ontario's manufacturing sector led the slowdown in national economy in February
- Gains in service-producing industries continued to drive the provincial payroll growth
- Long- and short-term Ontario business confidence unchanged in April

Auto sector dragged on Ontario economy in February

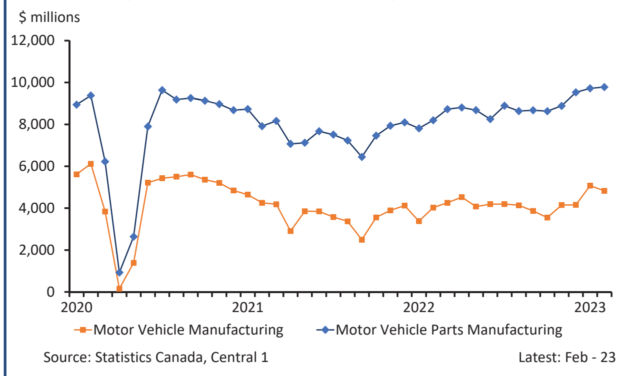
Bryan Yu, Chief Economist

Canada's economy eked out another month of growth in February but showed signs that an anticipated slowdown is underway. Growth in industry gross domestic product (GDP) fell from 0.6 per cent in January to 0.1 per cent (m/m) in February, which was below the consensus forecast of 0.2 per cent. Just over half of the subsectors recorded gains during the month. Data in early March points to a contraction of about 0.1 per cent, which would pare quarterly growth to a still strong 0.6 per cent (2.6 per cent annualized). February's slowdown was broad with both goods- and services-producing industries slowing to 0.1 per cent.

While Canadian GDP figures are not specific to Ontario, key sectors of the economy are concentrated in Ontario. Manufacturing in particular is a key driver of the provincial economy but contracted 0.1 per cent, nationally, after a 1.0 per cent expansion in January.

The transportation and equipment manufacturing sector, which is concentrated in the province, fell 1.0 per cent after a 2.4 per cent rebound in January. This is up 10 per cent from a year ago, but still 8.5 per cent below pre-pandemic levels. Improved supply chains have contributed to a rebound, although higher interest rates are a drag going forward. Motor vehicle manufacturing fell 4.9 per cent, which was only slightly offset by a 0.7 per cent increase in parts manufacturing. Vehicle manufacturing is still 21 per cent lower than pre-pandemic levels despite a 20 per cent y/y increase. Among other important sectors, computer and electronic production increased 1.0 per cent after a 7 per cent contraction in January. Machinery output added to January's 8.2 per cent gain with a 1.5 per cent increase in February.

Ontario motor vehicle production slips in February, parts production up



In the financial services space, banking and other credit intermediation authorities expanded 0.3 per cent in February.

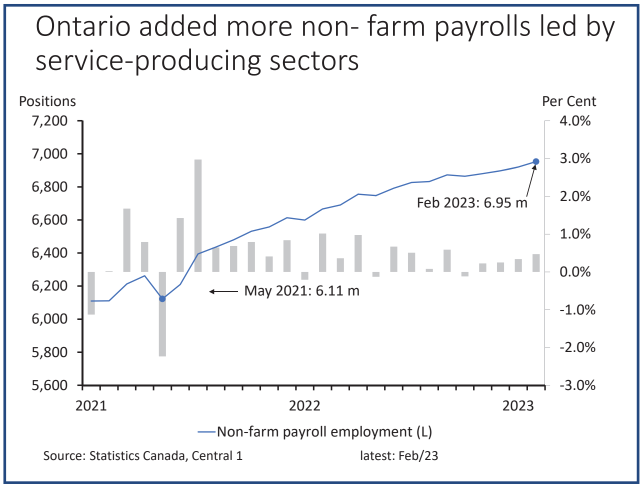
Ontario reported higher payroll in February

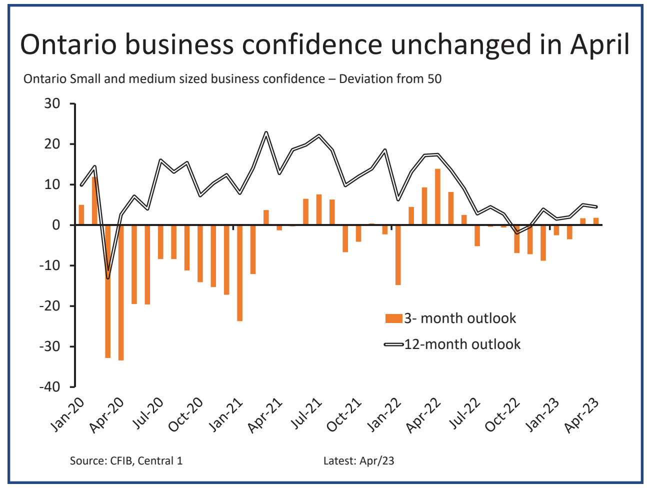
Alan Chow, Business Economist

Ontario employers added to payrolls in February, its fourth consecutive month of increases. From the latest Survey of Employers, Payroll and Hours (SEPH), February reported a seasonally adjusted 0.5 per cent (32,647 persons) monthly gain, pushing the total employment reading in Ontario to a new record level of 6.953 million persons. The estimates from the Labour Force Survey (LFS) reported a slightly lower gain in Ontario employment of 15,600 persons (0.2 per cent) during the same month. In Ontario, the seasonally adjusted job vacancy rate moved lower to 4.4 per cent, representing 302,250 unfilled positions and the lowest vacancy rate since May 2021.

February's job gain reported by SEPH was entirely concentrated in the service-producing industries. Trade sector (8,166 persons), educational services (8,001 persons), together with professional, scientific and technical services (6,665 persons), contributed the most to the monthly employment gain and offset the loss seen in administrative and support, waste management and remediation services (-1,624 persons). Employment in goods-producing industries was up slightly at 0.2 per cent (2,807 persons).

On the wage front, seasonally adjusted average weekly earnings jumped 1.9 per cent to $1,210.03 year over year, down from last month's year-over-year





increase of 2.4 per cent. However, month -over-month average weekly earnings declined 0.24 per cent.

Optimism amongst small businesses in Ontario stalls in April

Eloho Ennah, Economic Analyst

The results of the April small and medium enterprises (SME) Business Barometer survey released this week by the Canadian Federation of Independent Business showed unchanged optimism amongst Ontario small businesses as both the long- and short-term index reflected minor changes during the month. The long-term index had been on an upward trajectory since the beginning of 2023, however the index fell by 0.5 points to 54.5 points in April. Ontario's long-term index reading was the second lowest figure amongst the Canadian provinces. The short-term index also nudged up slightly by 0.1 points to reach 51.8 points during the month. Ontario small businesses optimism remains dampened by less than favorable financial circumstances due to higher borrowing costs and lower sales. The future may be bleak for some businesses as owners harbor worries about government loan repayment while current sales figures still rest below pre-pandemic numbers in the uncertain economic climate.

In April, fewer small businesses in Ontario cited plans to increase full-time staff and the number of business owners who regard their businesses to be in good health dropped from 39 per cent to 28 per cent. Survey respondents stated the lack of skilled labour as the most concerning limitation for the majority of small businesses in Ontario. Shortages of working capital, insufficient demand and time constraints were also additional factors hampering sales and production growth. Fuel and energy costs were the greatest input cost constraint amongst SMEs while wage, tax and insurance costs were also on the growing list of cost constraints.

On the national level, most survey respondents deemed their business' health to be "satisfactory", but the number of respondents who reported their general business situation as "bad" increased from 17.7 per cent to 20.5 per cent during the month. A greater proportion of small business owners expect their businesses to be performing at about the same level or stronger in twelve months compared to their current performance. Small businesses plan on increasing average prices charged over the next twelve months by 3.5 per cent, while average wage increase plans lagged at 3.3 per cent, reflecting wage stickiness. Price and wage increase plans in 2023 are trending lower than the peak figures seen in the first half of 2022.

Broadly, optimism amongst Canadian small businesses showed a slight improvement in April as the long-term index rose 0.4 points to 55.7 points and the short-term index increased from 52.2 points to 53.9 points. Canadian small business expectations are being tempered by greater borrowing costs and elevated expenses amidst a tight labour market.

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