



Highlights

- Ontario retail sales slump in March on fewer auto sales
- Declines seen in both service-producing industries and good-producing industries
- Ontario business confidence increased in the long-term, dropped in the short-term, and remained lower than the rest of provinces
- Number of visitors declined slightly in March

Ontario retail spending declines in March

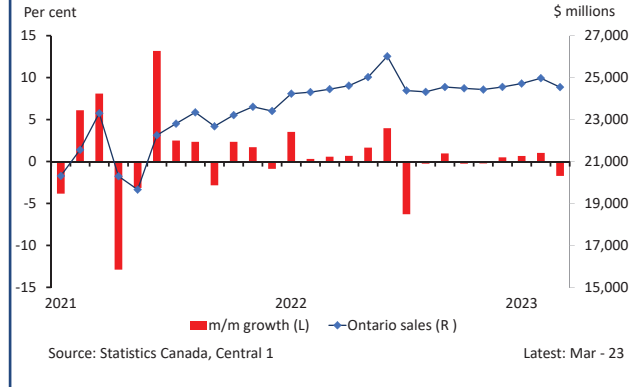
Bryan Yu, Chief Economist

Ontario retailers saw sales ratchet lower in March to lead the national decline in a sign that consumers are curbing their spending on non-essentials as they continue to adjust to higher interest rates and fears of an economic downturn. Seasonally-adjusted dollar-volume retail sales reached \$24.5 billion, marking a 1.7 per cent decline from February which drove the national decline of 1.4 per cent. Most of this decline reflected a drop in physical purchases rather than prices. On a trend-basis, sales are stalling. Toronto Census Metropolitan Area sales declined 1.2 per cent, pointing to even deeper declines elsewhere in the province (-2.2 per cent)

At the store-segment level, seasonally-adjusted data is not published, but year-over-year patterns are consistent with the national picture. Growth in sales at motor vehicle and parts dealers fell from nearly 14 per cent year-over-year in February to 7.1 per cent in March. Nationally, sales fell 4.4 per cent month-to-month. Meanwhile, housing related expenditures decelerated with building and gardening materials (-17.8 per cent), alongside furniture/appliance decelerating to a 10 per cent shortfall. Weaker housing activity has contributed to the downturn. In contrast, electronic stores posted an acceleration in sales.

Quarter-to-quarter retail spending came in at a modest 1.0 per cent in Q1, which accelerated from the 0.3 per cent pace in Q4. In comparison, national sales rose 0.7 per cent during the quarter. Solid employment and robust population growth has likely supported some of this spending. That said, a slowdown is likely. Ontario's debt-to-income ratio is only slight behind B.C. which is highest in the country, meaning relatively high interest rate sensitivity. The spike in interest rates over the past year is shifting more income to service interest pay-

Ontario retail sales slump in March on fewer auto sales



ments and away from general spending. This will only be amplified as more fixed rate mortgages renew in the coming year. Moreover, as rents remain elevated, rent and services inflation is likely to curb spending on goods despite firm wage growth.

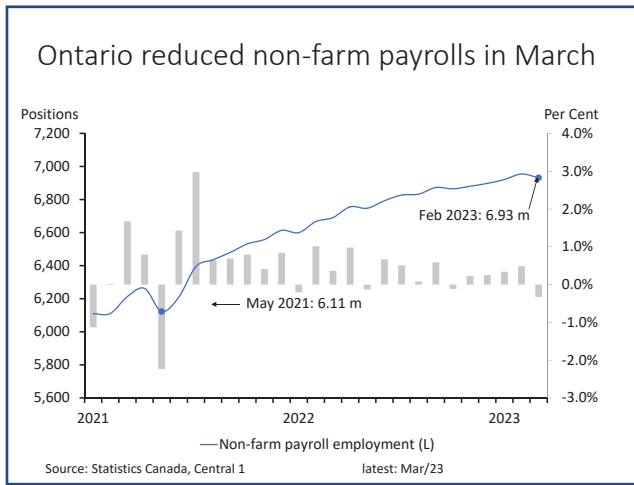
Ontario reported lower payroll in March

Alan Chow, Business Economist

Ontario employers reduced headcount in March, pausing four consecutive months of increases. From the latest Survey of Employers, Payroll and Hours (SEPH), March reported a seasonally-adjusted 0.3 per cent (22,749 positions) monthly decrease, bringing the total payroll count in Ontario to 6.93 million positions. In contrast, the estimates from the Labour Force Survey (LFS) reported a gain in Ontario employment of 21,400 persons (0.3 per cent) during the same month. In Ontario, the seasonally adjusted job vacancy rate moved lower to 4.2 per cent in March, representing 289,240 unfilled positions and the lowest vacancy rate since May 2021, pointing to additional slack in the labour market.

February's job declines reported by SEPH were in both good-producing sectors and service producing sectors. The trade sector (4,578 positions), accommodation and food services (2,862 positions), and finance and insurance (3,255 positions) fields contributed the most to the monthly employment decline, but they were offset by gains in real estate and rental and leasing (1,158 positions) and Health care and social assistance (1,114 positions). Employment in goods-producing industries was in construction (7,323 positions), and manufacturing (3,713 positions).

On the wage front, seasonally adjusted average weekly earnings jumped 1.0 per cent to \$1,216.79



year over year, down from last month's year over year increase of 1.9 per cent. Month-over-month average weekly earnings were up a modest 0.6 per cent.

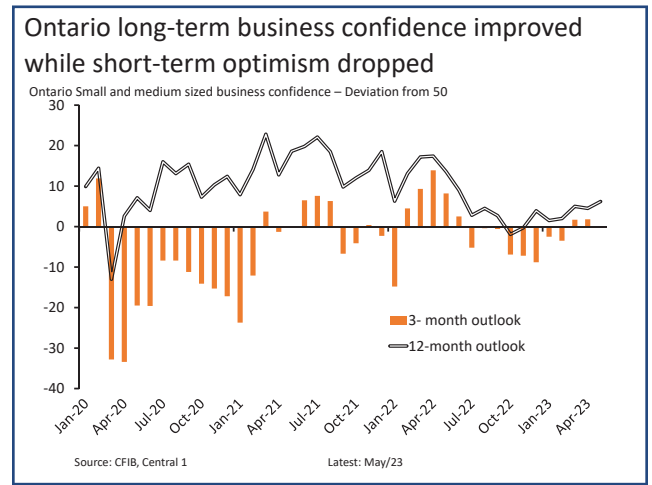
Ontario business long-term confidence improves while short-term business optimism falls

Ivy Ruan, Economic Analyst

The results of the May small and medium enterprises (SME) Business Barometer survey showed growing optimism amongst Ontario small businesses in the 12-month term, but falling confidence in the three-month term. The long-term index has been on an upward trajectory since the beginning of 2023: the index grew by 1.2 points to 56.2 points in May, following the slight fallback in April. On the other side, the short-term index fell 1.8 points to reach 50.0 points during the month. Ontario's short-term index reading ranks the second lowest figure amongst the Canadian provinces. Ontario small businesses are still showing dampened optimism due to economic uncertainties related to the high interest rate and wage environment, in addition to insufficient demand.

In May, the same number of small businesses in Ontario cited plans to increase full time staff. The number of business owners who regard their businesses to be in good health returned to 38 per cent from 28 per cent. A lack of skilled labour was the major issue that stood out among other limitations on sales or production growth. Wage cost rose to the greatest input cost constraint for SMEs while fuel and energy costs ranked the second, yet remained significant.

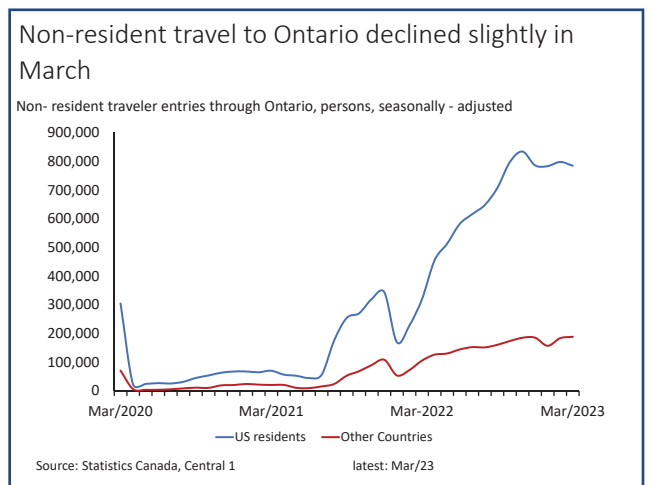
On the national level, Canadian small business optimism index reports a seventh consecutive monthly growth in May and reached the highest level in almost a year. The 12-month index rose to 56.4 and the 3-month index was unchanged at 53.5. Despite the growing momentum, both indices are still below their historical average levels. The long-term optimism improved in most sectors in May, with almost all indus-



tries' confidence levels above 50 points. Exceptions are in transportation; finance, insurance, real estate, and leasing; and agriculture. Canadian agricultural SMEs have remained tentative towards long-term business performance during the past year. That said, their short-term optimism lifts by 1.2 to 52.9 in May, suggesting some cautious confidence this coming summer.

Fewer number of visitors led by fewer US residents

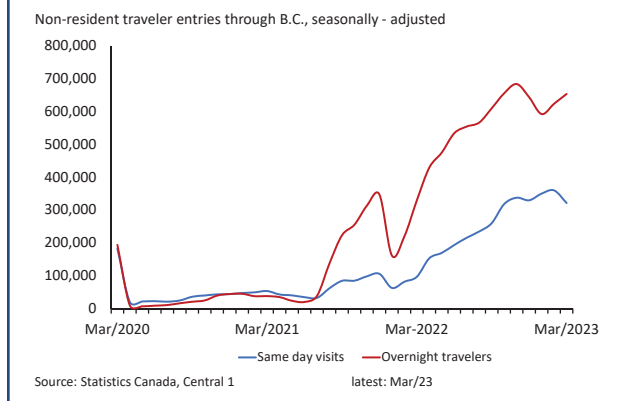
Alan Chow, Business Economist



Overall, the number of non-resident visitors entering Canada through Ontario decreased slightly in the month of March. On a seasonally adjusted basis, the number has decreased by 0.9 per cent to around 973,000. Same day excursions declined by 10.7 per cent to 321,000 but it was offset by the 4.7 per cent increase in overnight tourist to 653,000.

Specifically, the number of U.S. residents visiting Canada through Ontario decreased by 1.7 per cent to around 785,000. Same day excursions declined by 10.5 per cent but overnight tourist saw higher numbers, increasing by 5.2 per cent. Various modes of travel saw increasing numbers. Air travel increased

More Overnight tourists visits Ontario.



by 9.4 per cent and automobile travel decreased by 3.0 per cent. Other modes of travel saw a decrease of 25.2 per cent although this is by far the lowest proportion of overall travelers. On the other hand, travelers from other countries besides the U.S. entering Ontario increased in March, up slightly at 2.6 per cent. Those who traveled by air increased 9.4 per cent while those who came via land or other modes declined 16.3 per cent.

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