



Highlights

- Ontario population grew 0.7 per cent in the first quarter to a record 15.5 million persons
- Ontario energy prices declined on monthly basis for the first time in three months
- Core inflation dropped to 3.9 per cent in May
- Declines in positions seen across service-producing industries
- Business confidence in Ontario declines in both short- and long-term horizons in June

Ontario population growth soars with immigration but sees outflow to other provinces

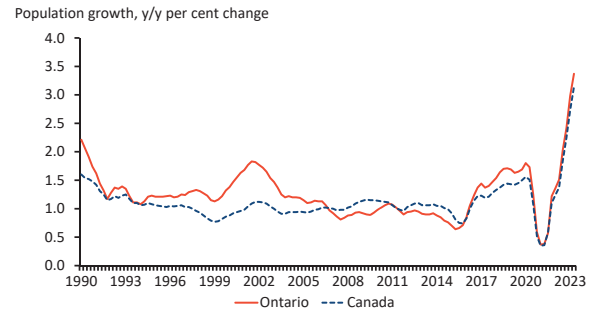
Bryan Yu, Chief Economist

If it isn't already apparent, Canada is welcoming thousands of newcomers on the daily driving historic levels of population growth. As noted in our [recent commentary](#), Canada saw a record gain in the first quarter as the population ballooned by 292,232 persons from January 1 to April 1, and 1.21 million persons (3.1 per cent) over the course of the year. While adding to economic activity and labour supply, the swelling number of newcomers will continue to add pressure to an undersupplied housing market, particularly the rental market sector.

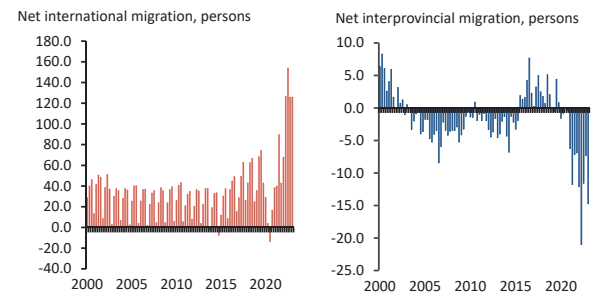
Ontario's population aligned with national gains during the quarter but has outpaced it over the previous four quarters. During the first quarter, the province saw its population swell by 114,225 persons (0.7 per cent), with a four-quarter increase of 504,600 (3.4 per cent) to lift estimated population to a record 15.5 million persons. The former compared to quarterly growth of 55,000 persons in Q1 2022, which was already considered a robust performance. Over a one-year period, the province has added a population the equivalent of a city the size of Kitchener. This was by far the strongest pace of first quarter growth on record going back to at least the 1970's, both in terms of number of people and per cent change.

Assessing the drivers of growth, the entirety of the net increase reflected newcomers from outside the country. Net international migration reached 125,970 persons during the first quarter, which was 85 per cent higher than the number recorded in the first quarter of 2023. This compared to a net increase of 35,500

Ontario population growth outpaces national performance



International inflows drive growth as Ontario residents move out



persons in Q1 2019 prior to the pandemic. A stronger inflow of permanent residents, which reached 60,830 persons in the quarter (20 per cent above year ago levels) was a key driver. However, most of the increase was owed to net non-permanent residents which reached 71,243 persons during the quarter. Levels are down from the prior two quarters but nearly triple the number from same-quarter 2022 and multiples of the same-quarter norms prior to the pandemic. Individuals with work and study permits are flocking to Ontario and have been a primary driver of population growth in recent quarters. While unlikely to maintain this pace, levels remain high and add to rising permanent resident flows.

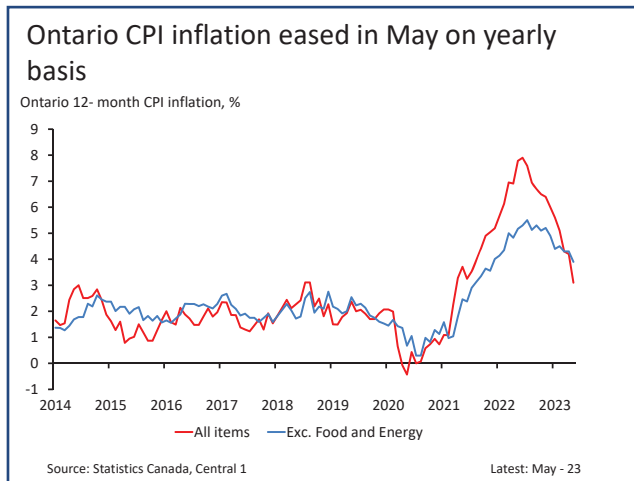
While gaining from international flows, Ontario recorded net outflow of domestic residents to other provinces for a 13th consecutive quarter. Ontario lost a net 14,730 persons to other provinces during the quarter. A year ago, the province lost 12,120 persons during the same quarter. While not abnormal given the trend in recent years, net losses owe in part to deterio-

ration in housing affordability that was amplified during the pandemic. Households are searching for more affordable living arrangements and markets, pushing residents to other areas of the country, particularly Alberta.

Ontario CPI readings eased on yearly basis but monthly growth continued

Ivy Ruan, Economic Analyst

May reading for the Consumer Price Index (CPI) in Ontario eased to 3.1 per cent year-over-year compared to 4.2 per cent during the previous month. On a monthly basis, the provincial CPI rose 0.6 per cent as consumers still faced higher prices. Core CPI (excluding energy and food) in Ontario was up from last month by 0.3 per cent. Year-over-year core CPI was lowered to 3.9 per cent in May. Both goods (0.1 per cent) and services prices (0.6 per cent) increased from last month.



Gasoline prices in Ontario stayed low on a year-over-year basis (-21.2 per cent). The yearly percentage change was mainly driven by the base year effect from surge in energy prices since March last year. Overall, energy prices were also down 13.6 per cent from last May. Meanwhile, on a monthly basis, Ontario gasoline prices dropped 0.6 per cent and energy prices declined 0.4 per cent in May, the first monthly decrease in three months for both categories. A pause from price growth at the pump may relieve some pressures on consumers, however the relief may be brief as geopolitical factors impacting energy supply remained. Meanwhile, the provincial transportation cost edged down by 0.2 per cent for the month following the 1.8 per cent increase in April.

Food prices in Ontario remained elevated on a year-over-year basis, up 7.8 per cent from May last year, yet slightly eased from last month's 8.0 per cent yearly growth. The monthly figure was 0.9 per cent above April. Ontario shelter costs' yearly growth also slowed,

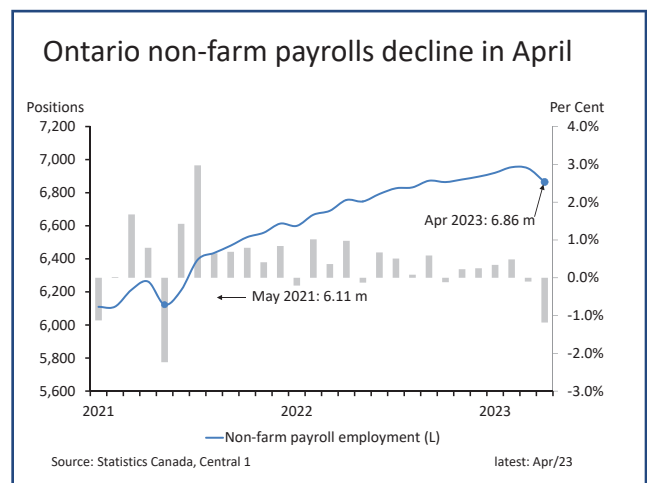
down from 4.6 per cent to 4.4 per cent in May. That said, shelter price inched up 0.3 per cent month-over-month.

May's CPI deceleration suggests inflationary pressures are indeed easing. However, service prices, which are of key concern for the inflation and monetary policy outlook, remain uncomfortably high and keep growing. Given the rate decision in June, the Bank is likely to announce another hike in July.

Ontario reported lower payroll in April

Alan Chow, Business Economist

Ontario employers lowered their payrolls again in April, the second straight month of fewer positions. From the latest Survey of Employers, Payroll and Hours (SEPH), April reported a seasonally-adjusted 1.2 per cent (82,264 positions) monthly decrease, bringing the total employment reading in Ontario down to 6.86 million persons. In contrast, the estimates from the Labour Force Survey (LFS) reported a gain in Ontario employment of 32,700 persons (0.4 per cent) during the same month. In Ontario, the seasonally adjusted job vacancy rate moved lower to 3.9 per cent in April, representing 266,925 unfilled positions and the lowest vacancy rate since May 2021.



April's job declines reported by SEPH were mainly in service producing sectors and were broad-based. Public administration saw the biggest decline, with a 9.3 per cent (44,023 positions) decrease. Trade saw a 0.8 per cent (9,138 positions) decrease while accommodation and food services saw a 1.1 per cent (5,128 positions) decrease. Within the goods producing sector, the 0.5 per cent (2,070 positions) decline in the construction industry was offset by the 0.3 per cent (1,785 positions) increase in the manufacturing industry.

On the wage front, seasonally adjusted average weekly earnings jumped 1.9 per cent to \$1,229.06 on

a year-over-year basis, up from last month's revised year-over-year increase of 1.3 per cent. Month-over-month average weekly earnings were up 0.7 per cent.

Ontario small business confidence falters in June

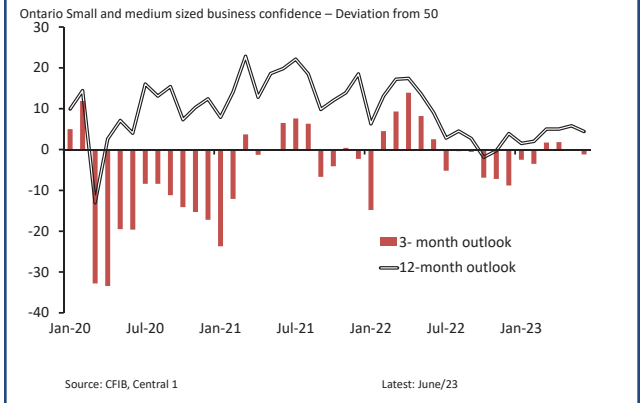
Eloho Ennah, Economic Analyst

The results of the June small and medium enterprises (SME) Business Barometer survey showed diminishing optimism amongst Ontario small businesses. The long-term index — which had been edging upwards in prior months — fell 1.4 points to 54.4 points while the short-term index declined by 1.2 points to 48.8 points during the month. Ontario's short-term optimism reading, which is now below the index's neutral benchmark of 50 points, was the second lowest amongst all provinces. As high interest rates and inflation persists, Ontario small businesses are being continuously overwhelmed by unfavorable economic conditions.

Ontario small business owners cited wage costs, fuel/energy costs and insurance costs as the major cost constraints impacting their businesses. Amongst limitations on sales or production growth were a shortage of skilled and unskilled labour as well as insufficient domestic demand. Fewer firms reported plans to expand full time staff while only 34 per cent of firm owners reported a good state of business health, down 4 per cent from May.

On the national scale, optimism stalled in both the short- and long-term horizons, with both indices falling by 5 points and 2.1 points respectively. This drop followed seven months of consecutive increases in the small business optimism index. Fewer small businesses reported themselves to be in good and

Business confidence in Ontario declines in both short- and long-term horizons in June



satisfactory business situation, while optimism fell as only 4 per cent of businesses expect their firms to be much stronger in 12-months compared to 5.9 per cent of respondents in May. Likewise, small businesses have reduced their expectations of better performance in the short term (next three months), with 30.5 per cent expecting worsened performance compared to 26.2 per cent in May. Within business sectors, retail showed the largest drop in long-term confidence index of 10.8 points to 44.3 points, while finance/insurance/realty recorded the largest rise on the optimism scale of 10.2 points, and now up to 55.9 points.

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