Economics | Current Economic Trends

Ontario Economic Briefing

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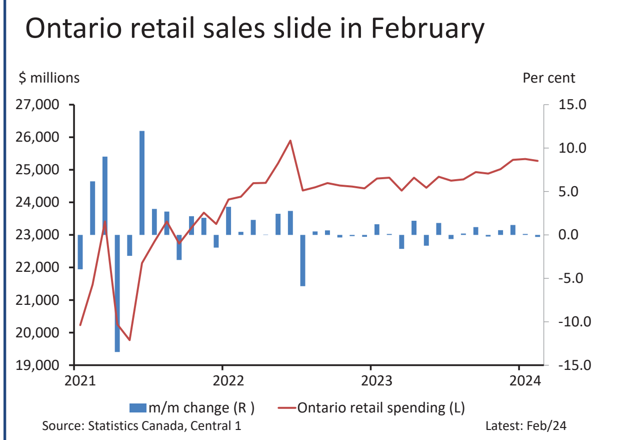
Highlights

- Retail spending in Ontario and Canada were down in February
- Number of travelers entering Ontario increases in February
- Ontario non-farm payroll declined in February
- Long- and short-term business outlook slumped in Ontario in April



Ontario retail sales slow

Alan Chow, Business Economist

Consumer weakness looks to have extended through the first quarter, as retail spending in Canada declined for a second month in a row in February. Seasonally adjusted sales fell by 0.1 per cent with real spending down 0.3 per cent. Five out of the nine subsectors saw lower sales with spending on discretionary items showing more signs of retrenchment. The largest decline was seen in gasoline stations and fuel vendors, which was down 2.2 per cent. This is followed by lower sales at furniture, home furnishings, electronics and appliances retailers, which were down 1.5 per cent. Lower retail sales were also reported from clothing stores, which fell 0.9 per cent. This is the third consecutive month of lower sales in this category. On the other hand, higher retail sales were reported at general merchandise retailers, up 1.0 per cent. This is the third consecutive month of increasing sales in this category. Motor vehicle and parts dealers also saw a 0.5 per cent increase in sales in February. Year to date, unadjusted retail sales were up 3.3 per cent to $112.5 billion but given the population rose more than three per cent, real spending contracted.

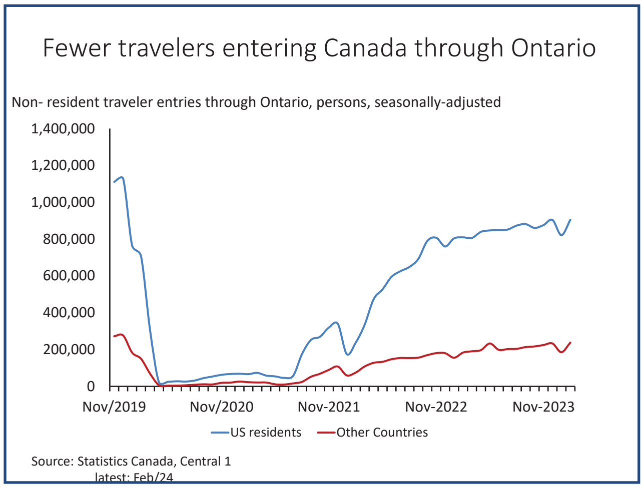
In Ontario, seasonally adjusted retail sales were down 0.2 per cent in February compared to January 2024. This is the first decline in three months. Year over year, unadjusted February retail sales are up 5.9 per cent. All subsectors except for two saw year-over-year increases in monthly sales. Higher year over year monthly sales were led by general merchandise retailers, which were up 13.8 per cent, followed by food and beverage retailers, which were up 6.9 per cent, and by motor vehicle and parts dealers, which reported 5.6 per cent higher sales. The two subsectors that saw lower year-over-year monthly sales were building material and garden equipment dealers, down 1.5 per cent, and clothing, accessories, jewelry luggage, and leather goods retailers, which saw 1.1 per cent lower sales. Year to date, Ontario has 5.0 per cent higher sales with $42.5 billion.

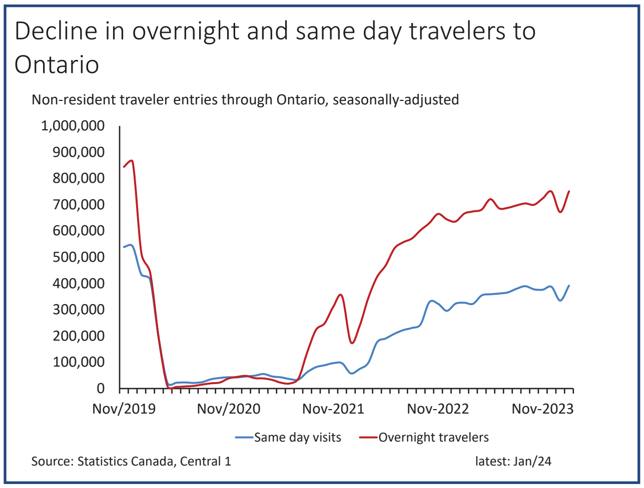
Regionally, the Toronto metro area saw seasonally adjusted retail sales decrease 2.3 per cent on a month-over-month basis in February but experienced a year-over-year unadjusted monthly sales increase of 2.8 per cent. Year to date unadjusted sales were also up 3.5 per cent at $19.2 billion. Ottawa also experienced an unadjusted monthly sales increase year-over-year, up 13.9 per cent with year-to-date sales up 10.5 per cent to $3.6 billion.

Both same day excursions and overnight tourist numbers increase

Alan Chow, Business Economist

The number of non-resident visitors entering Canada through Ontario increased in February. On a seasonally adjusted basis, there were 13.5 per cent more non-resident visitors in February than in January, increasing from 1.0 to 1.14 million people. This was the highest number of visitors since the beginning of the pandemic. The number of same day excursions increased by 17.0 per cent while the number of overnight tourists increased by 11.8 per cent.





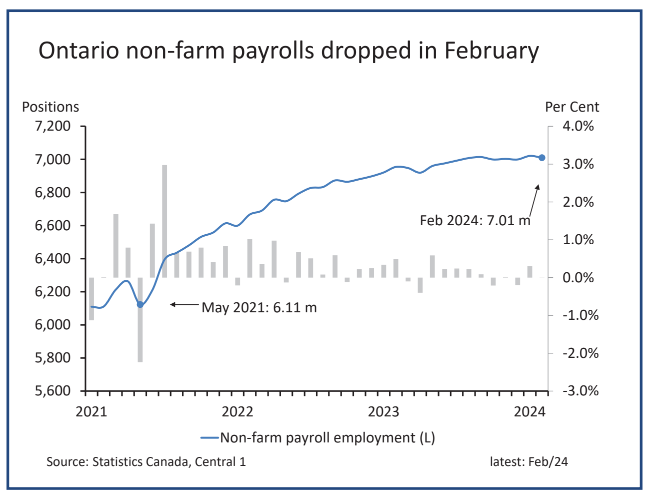
The number of U.S residents visiting Canada through Ontario was up 10.2 per cent from January to February and represents an increase to 904,781 people. Over the same period, the number of residents from countries other than the U.S. increased by around 28.2 per cent to approximately 237,812 people. Among U.S. residents, there was an increase in overnight tourist of around 5.6 per cent and an even larger increase of 17.3 per cent in U.S. residents going on same day excursions. Air travel from U.S. residents to Ontario increased 2.9 per cent, while automobile travel and other modes increased 12.7 per cent and 7.5 per cent, respectively. Residents from countries other than the U.S. saw a 7.6 per cent increase with same day excursions and a 29.6 per cent increase in overnight tourist. There was an increase of 34.9 per cent in the number of non-residents from countries other than the U.S. who arrived by air during the month. Over the same period, there was a 10.8 per cent increase in those who arrived by land and sea.

Both goods and services producing sectors saw declines in non-farm payroll

Ivy Ruan, Economic Analyst

Ontario employers reported a dip in non-farm payrolls in February following an increase in January. From the latest Survey of Employers, Payroll and Hours (SEPH), job counts fell by 10,906 positions or 0.2 per cent, bringing the total number of payrolls to 7.0 million positions in Ontario. Both goods producing industries and service producing industries reported fewer positions, with goods producing industries reporting a 0.6 per cent contraction while service producing industries reported 0.05 per cent fewer positions. The seasonally adjusted job vacancy rate in Ontario rose to 3.4 per cent from 3.2 per cent in January, representing 234,905 unfilled positions. The job vacancy rate has returned to a normalized level and remained steady since mid-2023.

Most of the payroll decline in goods producing industries was concentrated in manufacturing industries, which reported 0.9 per cent or 6,149 more positions. Among the service producing industries, declines in the number of payrolls were concentrated in a few sectors. Larger service producing sectors such as accommodation and food services, administrative support and trade all reported over 3,000 payroll positions in February. Slightly offsetting this was an increase in positions reported in educational services, which rose by 0.9 per cent or 5,079 positions.



On the wage front, seasonally adjusted average weekly earnings in Ontario rose by 0.3 per cent to $1,256.5 compared to January, following a significant jump in average weekly earnings. On a year-over-year basis, February's average earnings in Ontario were 3.9 per cent higher than last February.

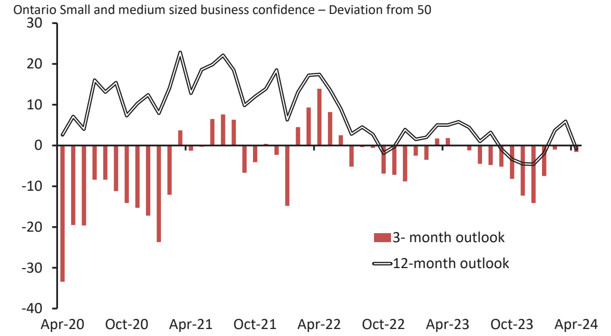
Ontario small business expectations worsened in April

Eloho Ennah, Economic Analyst

According to the most recent Canadian Federation of Independent Business' Barometer survey, Ontario small and medium scale enterprises (SMEs) signaled a more pessimistic outlook in April. The long-term index in the province fell for the first time in four months, down by 6.7 points to 49.2 points. This was the second largest drop among all the provinces. The short-term three-month index also declined, falling 1.6 points to reach 48.4 points in April. Ontario was one out of three provinces to record declines in the short-term index during the month. The values of both indexes are now below 50 points, signifying worsening outlooks from Ontario business owners. Unfavorable business conditions, along with a range of new developments including persistently high interest rates, the April 1 carbon tax hike, and minimum wage increases, have cast a shadow on business optimism in the province.

According to the survey, full-time staffing plans for small businesses in April remained consistent with March, as only 13 per cent are aiming to reduce staff. Thirty per cent of Ontario SMEs considered themselves to be in a good state of business health, down marginally from the preceding month. A smaller number of business owners also deem their businesses to be in a bad state. Insufficient demand, shortages of skilled and unskilled labour and limited working capital remain the greatest limitation to expanding production and sales growth. Limited physical space and product distribution constraints were also factors hindering sales and production growth. Insurance, fuel, wage, and tax/regulatory costs were the major input cost constraints reported by SMEs while fuel, borrowing and electricity costs were also on the list of cost constraints.

Small business optimism in Ontario diminishes in April



Source: CFIB, Central 1 Latest: Apr/24

Country-wide, business optimism across SMEs fell sharply, with both the short- and long- term index down 5.4 points in April, moving further away from historical averages. This decline came after four monthly upticks, with the sharp declines in the two largest provinces, Ontario and Quebec, impacting the overall picture the most. An increasing number of businesses reported low domestic and foreign demand as major limitation on production and sales growth. In addition, average price increase plans, which had been on a downtrend since May 2022, gained 0.6 points to reach 3.2 per cent in April. This exceeds the upper limit of the inflation target range of 3.0 per cent. Average wage plans also increased from 2.5 to 2.9 per cent.

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