



Highlights

- Ontario led the national GDP growth in January
- Ontario non-farm payroll increased in January
- Average weekly earnings declined in January
- Short- and long-term optimism indexes dropped in Ontario and Canada on tariffs

Key Ontario- related sectors expanded in January

Bryan Yu, Chief Economist

Canada's economy posted a strong start to the year amidst the backdrop of rising U.S. tariff threats and deterioration in business sentiment (see [here](#) for our national note). Ontario was likely a significant driver of January's national gain of 0.4 per cent based on a sector scan. Manufacturing growth rose rebounded by 0.8 per cent during, including a pronounced 4.5 per cent increase in motor vehicle manufacturing, which reversed the prior month's 2.2 per cent drop, while parts manufacturing rose 1.4 per cent. Broadly transportation

and equipment manufacturing rose 2.2 per cent but was 3.7 per cent below year ago levels. Canada's auto sector is concentrated in the province and will be heavily hit if tariffs are implemented and for an extended period. Ontario was a driver of national construction growth (0.7 per cent) but cannot be broken out.

In key service sectors, concentrated in the province, the banking sector expanded at a strong pace with output growth of 0.3 per cent (credit intermediation and monetary authorities) and rose 4.1 per cent year-over-year. Meanwhile, among services, federal government output was flat during the month and slipped mildly on a year-over-year basis.

Ontario faces severe headwinds relative to provincial peers due to tariffs. The province is highly exposed due to the high share of its international exports that make it to the U.S., while most of its goods face the maximum tariff rates (unlike provinces geared to energy). That said, vehicles have thus far been exempt, and there will likely be ongoing carveouts related to rules-of-origin for products under USMCA, and we anticipate further movement on autos going forward. Nevertheless, weak business and consumer sentiment will weigh on investment and spending.

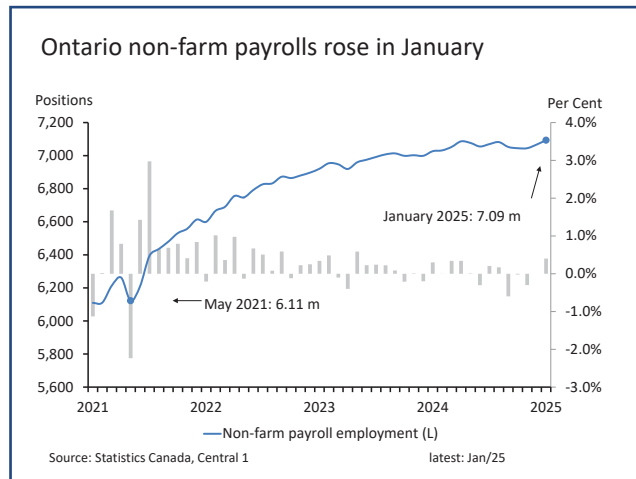
GDP by Ontario - Related Industry, \$2017

Jan/2025	\$mil	m/m %ch	y/y %ch	ann. m/m %ch	ann. 3m %ch	YTD %ch	Month-to-month per cent change		
							Nov/2024	Dec/2024	Jan/2025
Manufacturing	204,167	0.8	-3.0	9.8	-3.4	-3.0	-0.5	-1.1	0.8
Machinery manufacturing	17,818	-3.4	-6.3	-33.7	5.6	-6.3	3.3	1.6	-3.4
Transportation equipment manufacturing	28,586	2.2	-3.7	30.4	3.8	-3.7	0.1	-1.3	2.2
Motor vehicles and parts manufacturing	16,560	2.2	-6.5	30.6	-2.1	-6.5	-1.0	-1.7	2.2
Motor vehicle manufacturing	6,240	4.5	-4.7	70.4	14.4	-4.7	1.2	-2.2	4.5
Motor vehicle body and trailer manufacturing	1,247	-0.3	-10.3	-3.8	-15.9	-10.3	-0.5	-3.4	-0.3
Motor vehicle parts manufacturing	8,764	1.4	-6.9	17.8	-8.1	-6.9	-2.3	-1.2	1.4
Credit intermediation and monetary authorities	99,878	0.3	2.8	4.1	1.3	2.8	-0.1	0.1	0.3
Depository credit intermediation and monetary authorities	89,390	0.4	3.2	4.3	1.3	3.2	-0.1	0.1	0.4
Federal government public administration (except defence)	48,945	0.0	-0.4	0.0	-1.3	-0.4	-0.2	-0.1	0.0

Ontario payroll counts grew to record high in January

Ivy Ruan, Economic Analyst

Employee headcount in Ontario rose in January following a prior month increase. According to the latest Statistics Canada Survey of Employers, Payroll and Hours (SEPH), payroll counts increased 26,745 positions (0.4 per cent), and the total number of payrolls reached 7.09 million in the province, the highest level on record. Services sector payrolls gained 41,044 positions (0.7 per cent) while the goods sector saw a decrease of 5,250 positions (-0.4 per cent).



That said, Ontario's job vacancy rate remained low at 2.6 per cent in January, representing 177,940 vacant positions. The job vacancy rate has seen a sustained downtrend since early 2024, falling towards pre-pandemic levels and remaining flat since the second half of 2024. Modest economic growth and economic uncertainty has maintained job market slack.

The Labour Force Survey (LFS) recorded an increase in employment of 0.5 per cent (month-over-month (39,000 persons) and 0.5 per cent labor force increase in January. It is important to note that while multiple job holders are counted once in the LFS, they appear as multiple entries in payroll records. That said, trends from both the SEPH and LFS align in the long run.

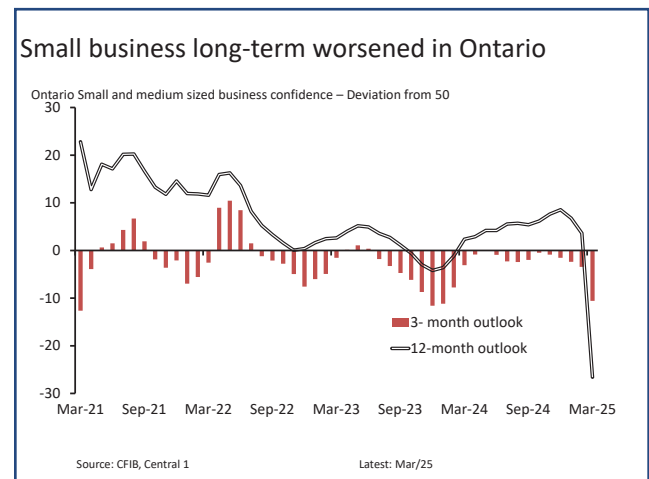
Amongst the goods producing industries, the construction sector reported a decrease of 3,178 positions or 0.8 per cent, representing more than half of the decline in the goods producing category. The manufacturing sector also had a 0.3 per cent (2,101 positions) decline in employee headcount. Within the services sector, the educational services sector led the overall increase, with a jump of 12,233 more positions (2.2 per cent), marking the highest level since August 2024. The health care & social assistance and trade sectors reported growths of 7,864 positions (0.9 per cent) and 5,751 positions (0.5 per cent) respectively. There was mostly positive change in the remaining sectors.

On the wage front, seasonally adjusted average weekly earnings in Ontario edged down to \$1,329.75 in January, the first decrease since November 2023. On a year-over-year basis, January's average earnings in Ontario were 6.0 per cent higher. Going forward, hiring momentum will continue to slow as businesses temper investment and expansion, and remain cautious due to economic uncertainty.

Small business optimism dramatically fell in Ontario and Canada

Alan Chow, Business Economist

The Canadian Federation of Independent Business (CFIB) Barometer Survey showed a dramatic decline in sentiment in March amongst Small and Medium-sized Enterprises (SMEs) as U.S. tariff threats raises worries for Canada's future economic strength. The long-term 12-month confidence index fell for a fourth consecutive month, decreasing by 24.8 points to 23.4 points. The short-term index also declined by 16.1 points to 31.2 points. The 12-month indicator lower than that seen during the 2020 pandemic, 2008 financial crisis, and 9/11. U.S. and Canadian retaliatory tariffs that went into effect in March and the plan for additional measures have caused widespread uncertainty, especially in exposed sectors and businesses. Importing SMEs saw the measure decline to 35.6 points, down from the recent November peak of 60.9 points. Exporting SMEs saw a similar, slightly larger decline from 63.1 points to 35.9 points. The hospitality sector and manufacturing sector are the lowest sectors based on the 12-month index, coming in at 17.0 points and 18.6 points.



In Ontario, the long-term index declined from 53.6 to 23.4 while the short-term index declined from 46.5 to 39.4. Compared to other provinces, Ontario has one of the lowest optimism index values with the long run index being ranked second lowest province, after Nova Scotia and ranking fourth lowest under the short-term index. Ontario is particularly sensitive to

potential tariffs as its large manufacturing base, which would be fully exposed to broad-based tariffs. With about 75 per cent of its international goods exports going to the U.S., Ontario's economy would likely be exposed to maximum tariffs. Manufacturing involves much trade as well as intermediate goods regularly cross the border. Insufficient demand and shortages of skilled labour were the most noted constraints to sales or production growth for businesses in the province. Limited working capital and physical space also limited sales growth. Tax/regulatory costs, insurance and wage costs were the top input cost constraints while fuel, occupancy and electricity costs were also on this list of constraints. Fewer business plan to expand their full-time staff this month, down from 13 per cent to 11 per cent, and more businesses are planning to reduce staff, up to 16 per cent from 14 per cent.

The general state of business health reported by most SMEs in Canada was "satisfactory", like the prior month. That said, more businesses noted insufficient demand as the main limitation to sales growth, compared to the prior month (58.9 per cent vs 53.0 per cent). Shortages of skilled labour was listed as the second highest limitation at 39.1 per cent. The national average price expectations increased to 3.7 per cent, which is beyond the upper band of the Bank of Canada inflation target range and the highest figure since April 2023. On the other hand, average wage plans changes lessened from 2.2 per cent increase to 1.9 per cent increase.

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