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Ontario Economic Briefing

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HIGHLIGHTS:

- Toronto housing market ends 2016 on a strong note
- Labour market improved in 2016
- Trade gains continue in November

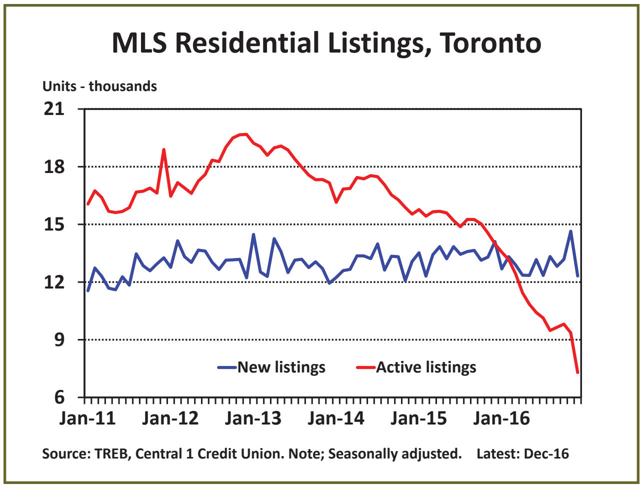
Toronto housing market ends year on a strong note

Housing prices continued to climb in December under tight market conditions. Toronto's Home Price Index (HPI) published by the Toronto Real Estate Board (TREB) using MLS® residential sales data rose to a new high in December. The seasonally adjusted HPI increased 1.5 per cent in December over the previous month and the HPI was 21.1 per cent higher than one year ago. For the year 2016, TREB's HPI rose 15.9 per cent, the fastest pace on record, which begins in 2000.

Market conditions tightened during December with the seasonally adjusted sales-to-active listings ratio shooting up to 134.4 per cent from 109.1 per cent in November. One year ago, this ratio was 64.8 per cent and two years ago it was 52.1 per cent. The sales-to-active listings ratio is a telling indicator of housing market strength or weakness and a leading indicator of short-term price movements.

TREB MLS® residential sales usually fall considerably during winter months and fell 38 per cent this December from November. Seasonally adjusted sales, which accounts for this seasonal impact, slipped only four per cent from November's record high. For the year, TREB sales were 11.7 per cent higher than in 2015.

The flow of units onto the market fell more than sales, resulting in tighter market conditions. New MLS® residential listings fell 60 per cent in

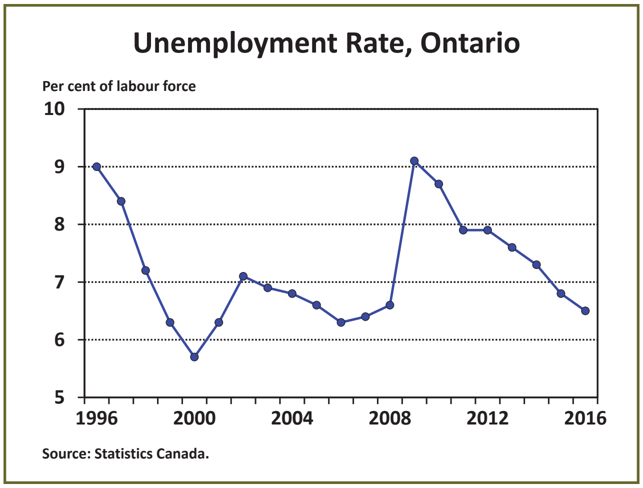


December over November and 16 per cent after seasonal adjustment. New listings did not keep pace with sales in 2016, declining four per cent in the year compared to a sales increase.

The number of units available to the market measured at month's end fell 45 per cent in December from the previous month. Active MLS® residential listings dropped 22 per cent after seasonal adjustment. Compared to last December, active listings were 48 per cent lower.

That prices are rising at a 20 per cent annual clip should not come as a big surprise under current market conditions. There is not enough supply on the market to satisfy demand. Recent policy measures to cool demand will only go so far, and while the full impact of these measures have yet to play out, more policy effort to address supply issues is sorely needed.

A mild sales correction in the near term is expected as potential buyers adjust to the new federal mortgage insurance rules. Perhaps December's decline in seasonally adjusted sales is the first sign of this? Or, were fewer sales the result of an inadequate amount of supply – a supply-constrained sales decline – a view supported by the way prices performed. During this expected sales correction phase, HPI prices are not seen declining because of supply issues, though the rate of increase looks to slow.



With 2016 in the books, attention turns to the new year. Predictions of a housing bust abound and have for several years into this cycle. This is a housing cycle and cycles usually end when an economic recession or crisis unfolds. Housing cycles do not end because of high prices alone.

Our view is this cycle will extend through 2017 because demand fundamentals remain favourable – a growing economy, higher employment, rising incomes, expanding population, supportive mortgage rates, and a strong desire for homeownership. On the negative side, mortgage credit is less available for low equity and first-time buyers and higher housing prices will squeeze out potential buyers. Housing sales are forecast to rise up to five per cent while prices climb about 10 per cent because of ongoing supply constraints.

Labour market improved in 2016

Ontario's economy generated its best job growth in three years during 2016. With the just released December Labour Force Survey (LFS) results showing total employment grew 1.1 per cent compared to less than one per cent in each of the prior two years. During 2016, employment increased 76,400 persons to just under seven million persons.

The province's unemployment rate dipped to 6.5 per cent from 6.8 per cent in 2015 and to the lowest rate since 2008. A contributing factor to this performance was a declining labour-force participation rate, which slid further in 2016 to 65.0 per cent of the population aged 15 years and over. In 2008, the participation rate was 67.7 and it has been declining since 2003 when it was 68.5. The aging population and possibly a discouraged-worker effect since the recession are likely factors.

For the month, LFS results were generally positive with a 9,100 person or 0.1 per cent rise in employment over November. All of the gain in total employment was full-time at 20,100 persons. However for the year, part-time employment increased 1.7 per cent while full-time rose 1.0 per cent. This was a reversal from 2015.

The unemployment rate in the Toronto metro area bounced up to 7.0 per cent from 6.6 per cent in November, as labour force growth outstripped employment growth in December. For the year, the unemployment rate averaged 7.0 per cent and employment rose 1.2 per cent.

In other regions, the largest employment gain during 2016 occurred in the Kingston-Pembroke Economic Region (ER) at 5.7 per cent, which pulled the region's unemployment rate down to 6.0 per cent. Other regions posting job gains above the provincial rate were the Northwest ER at 2.6 per cent, Muskoka-Kawarthas ER at 1.7 per cent, Toronto ER at 1.6 per cent, and Windsor-Sarnia ER at 1.5 per cent.

The unemployment rate fell in most economic regions and metropolitan areas in 2016. The lowest metropolitan area unemployment rate was in Peterborough at 5.1 per cent, while the highest was in Greater Sudbury at 8.1 per cent. The largest improvement occurred in the Windsor metropolitan area with a decline to 6.0 per cent from 9.8 per cent in 2015.

The 2017 labour market outlook is for a continuation of recent trends. Employment is forecast to increase 1.2 per cent with an unemployment rate of 6.4 per cent. Labour force growth is seen rising to 1.1 per cent from 0.8 per cent in 2015 due to the recent upshift in Ontario's population growth.

Trade gains continue

Exports are a key driver in Ontario's economy and recent reports suggest further moderate gains. The latest report on international merchandise exports from Ontario recorded a gain in November. Seasonally adjusted nominal goods exports to other countries rose 3.3 per cent in November over October and 2.9 per cent in 2007 dollars. Auto exports rose 1.2 percent in current dollars and 0.3 per cent in real dollars. Non-auto exports drove the total higher.

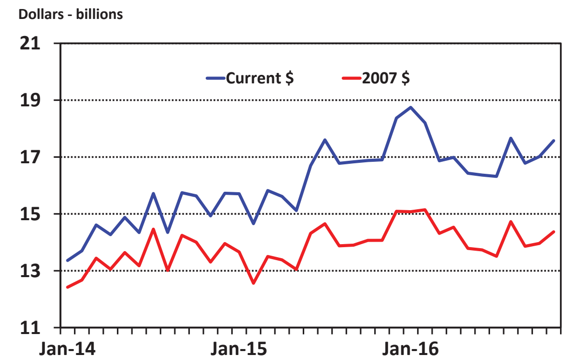
For the year to November, current dollar exports are 5.7 per cent higher than the same period last year and exports adjusted for price changes are up 3.9 per cent. Auto exports are the largest component and posted 11.4 per cent and 7.4 per cent increases in current and 2007 dollars, respectively. Most of these gains occurred in the early months of 2016 with auto exports mostly flat since.

One encouraging recent sign is the increase in non-auto exports in the past few months. However, it is too early to call this an established trend given volatility in monthly data. With U.S. new vehicle sales at or near a peak providing little scope for additional growth, more gains in non-auto exports will be needed to provide a growth contribution to the provincial economy.

In 2016 imports of goods from other countries expanded at a slower pace than exports, resulting in an improving trade balance. Current dollar merchandise exports were up 3.2 per cent and imports in 2007 dollars were up only 0.5 per cent. The trade balance remains in a deficit position though smaller than 2015.

The export outlook is clouded by possible trade policy changes emanating from the new U.S. administration. Economic factors such as a low Canadian dollar and a faster growing U.S. economy in 2017 are supportive of more goods

International Merchandise Exports, Ontario



Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted
Latest: Nov-16

exports. With Ontario's dependence on auto exports, any gains into the U.S. look to be small in 2017, and instead, Ontario will likely see stronger gains in international service exports and in interprovincial exports of goods and services.

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