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Ontario Economic Briefing

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HIGHLIGHTS:

- Job gains and lower unemployment rate
- Toronto housing market stabilizing?
- Ontario exports plunge
- Building permits edge lower

Labour force

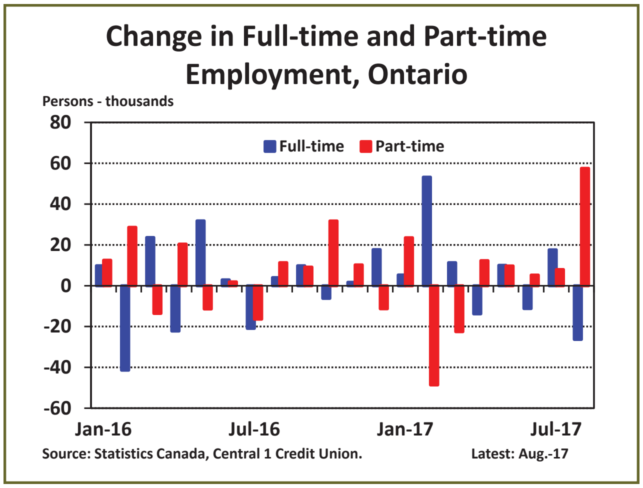
A mostly positive Labour Force Survey (LFS) resulted for Ontario during August. Employment rose and the unemployment rate declined. The less positive centred around a decline in full-time employment, a Toronto-centric job gain, and a lower labour force participation rate. August LFS data generally supports trends in place for many months indicating a growing economy and increasing labour demand.

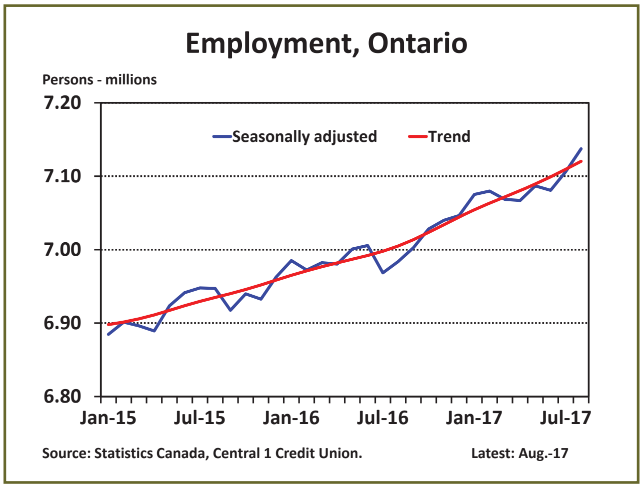
The main feature in the August LFS was a large decline in full-time employment and a large increase in part-time employment. Full-time employment dropped by 26.3 thousand persons over July and was very close to the sample's statistical significance. The increase in part-time employment was 57.5 thousand persons and statistically significant at the 95% level. It was the largest monthly change since February 2015 when there was a 71.0 thousand job loss.

The large increase in part-time employment was centred in the 15-24 age group, up 28.3 thousand, and 55 years and over, up 31.2 thousand, and both changes were highly significant. Full-time job losses were concentrated in these age groups.

LFS monthly results can be volatile due to sample size and not too much should be read into one month. Instead, examining trends over several months is more revealing.

Gains in full-time employment have stalled since February but it was up 1.4% year-to-date over the same period last year. Part-time employment had declined since January 2017 but shot up in August to pull the year-to-date gain up to 2.2%.





Total employment increased 31.1 thousand in August after balancing the full-time and part-time swings. The gain was statistically significant and brought the year-to-date gain up to 1.5%.

Ontario's unemployment rate declined to 5.7% from 6.1% in July and to its lowest point in the post-recession period. This decline was largely due to a rise in employment while the labour force and the participation rate declined.

Practically all of the month's labour market improvement was in the Toronto metropolitan area, which saw a 28.7 thousand employment gain and its unemployment rate fall sharply to 5.6% from 6.9% in July. Toronto's labour force contracted by 17.9 thousand and its participation rate declined to 65.6% from 66.0% previously, contributing to the unemployment rate result. In the rest of Ontario, employment was little changed from July and the unemployment rate edged up to 5.7% from 5.5%.

The province's labour market is a good reflection of the economy it operates, and notwithstanding large swings in the monthly LFS results, trends are clearly positive and suggestive of substantial economic growth in 2017. The 2018 outlook is for further job and economic growth but likely at a slower pace. In the immediate term, a reversal in many of the August changes during September would not surprise.

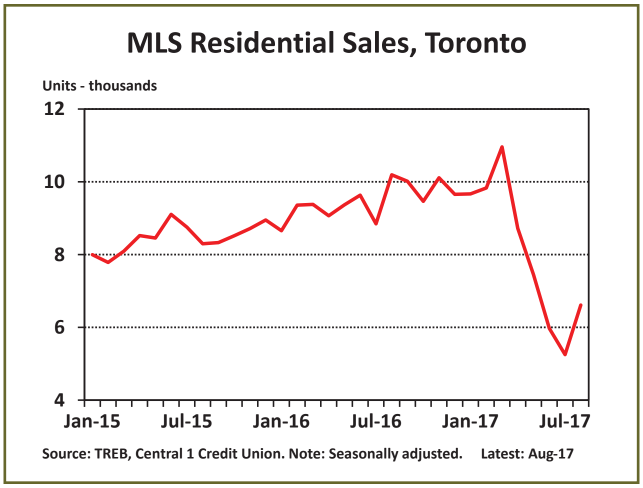
Toronto housing sales rebound

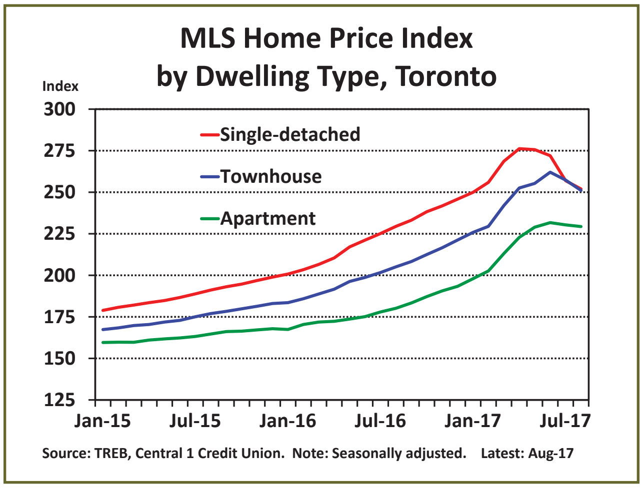
After four consecutive monthly declines, housing sales rebounded in August and market conditions showed early signs of firming. The market correction phase in response to Ontario's Fair Housing Plan could be ending and the market settling in at lower levels. One month does not a trend make, but August points in that direction.

August MLS® residential sales came in at 7% higher than in July at 6,357 units, though seasonally adjusted sales were 26% higher. The year-over-year comparison was decidedly negative at 35% lower, but the more relevant figure is seasonally adjusted sales. Year-to-date sales were 16% lower this year. Sales for all of 2017 look to be heading for a 20% decline.

The sales rebound was accompanied by a decline in new and active listings combining to improve the supply-demand market balance. New listings fell 19% in actual count and 6% on a seasonally adjusted basis. Actual active listings declined 12% with seasonally adjusted active listings down 6%. The new listings supply response is appropriate in a market with declining prices and helps set the stage for price stability and future price appreciation.

The sales-to-active listings ratio rose for the first time in six months, pulled up mainly by more sales. The seasonally adjusted ratio jumped to





42% from 32% in July. While still low, the improvement is a notable development.

The benchmark price calculated by the Toronto Real Estate Board (TREB) slipped 2% in August over July and was lower for the third month in a row. Its decline from the May high was 6%, using seasonally adjusted estimates, with single-detached units 9% lower while the apartment price was little changed. Market conditions differ across dwelling types and TREB areas.

Year-over-year prices remained higher than last year with the benchmark composite price up 14%. Apartment prices were 27% higher than last August compared to a 10% increase in single-detached prices. Year-over-year comparisons are interesting but of limited value when assessing the most recent market developments as evidenced by this metric not capturing the recent price decline.

The near-term sales outlook is for sales to bounce around this new lower level. Another increase in seasonally adjusted sales during September is foreseeable. The recent increase in the prime lending rate will affect variable rate mortgages and squeeze out some potential buyers. However, this impact should be minimal because mortgage insured loans require borrowers to qualify at the 5-year posted fixed rate. The federal bank regulator is considering instituting this requirement for uninsured mortgage loans. The 5-year fixed rate is more important to sales than the prime rate and it will likely increase following the Bank of Canada's latest move.

Other sales fundamentals look to remain positive and supportive. Income, job, and population growth and the accompanying support to consumer confidence point to ongoing sales activity. The desirability of homeownership is a background sales driver.

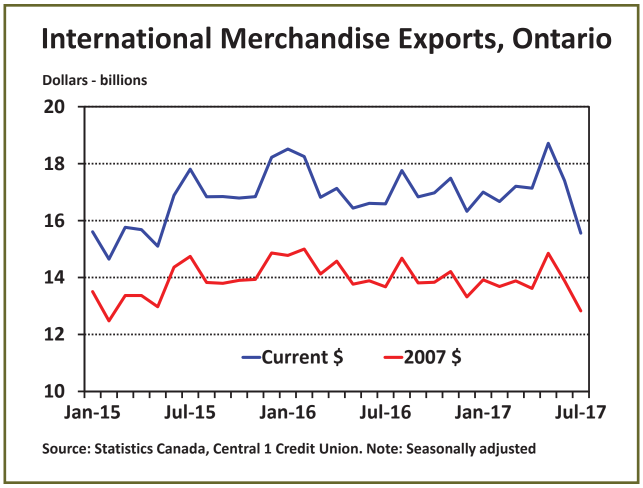
Prices are seen declining in the next three months or so before the sales-listings balance results in firming market conditions and prices. The listings adjustment underway will extend further before settling in at a lower level.

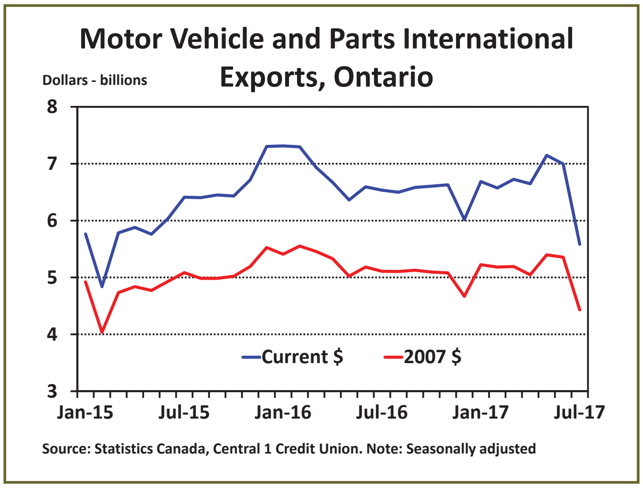
July trade deteriorates

Exports fell sharply in July, mainly on motor vehicle and parts products. Total international merchandise exports from Ontario fell 22% in July over June though down only 5% from last July. Motor vehicle and parts exports tumbled 42% from June and were 14% lower than last year. Plant closures and shift reductions due to slowing U.S. sales and to retooling were cited as primary reasons for the auto exports drop.

Our estimate for seasonally adjusted total exports resulted in an 11% decline in July from June, smaller than the actual drop. Seasonally adjusted motor vehicle and parts exports were off 20% also, less than actual and suggesting this year's summer shutdowns were more substantial than usual. Further adjustment for price changes resulted in a 7% decline in seasonally adjusted real total exports in July from June and 17% for motor vehicle and parts.

Exports in most commodity groups declined in July with consumer goods down 7% from June and metal and non-metallic products off 2%. This is the next largest in dollar value after motor vehicles and parts.





Year-to-date 2017 total exports were at the same level as last year with motor vehicle and parts 2% lower, consumer goods 7% lower, and metal and non-metallic products 8% higher. However, after price adjustment, total real exports were 3% lower, consumer goods 9% lower, and metal and non-metallic 2% lower.

The province's trade balance in international merchandise remained wide at $13.0 billion in July. Last year at this time, it was $11.2 billion. Exports have declined while imports have risen. After price adjustment, the real trade balance in July was in deficit at $9.7 billion in 2007 dollars, the largest on record.

Cyclical and structural factors are behind this deficit performance with the recent run-up in the Canadian dollar a minor contributor. The time lag between currency changes and goods trade flows is several months resulting in a larger impact in 2018. Slowing, or peak, U.S. auto sales is a significant cyclical factor and production capacity relocation to lower cost jurisdictions is a structural factor are evident in lower transportation equipment exports. A new NAFTA agreement reducing exports will be a structural factor influencing Ontario's trade flows.

Building permits slip

Building permits issued during July in Ontario were down 4% from June to $3.34 billion seasonally adjusted. This decline was mainly due to a 20% drop in residential multi-family permits. Non-residential permits eked out a small 1% gain in the month with a large increase in government offsetting declines in commercial and industrial. Building permits have risen sharply since 2013 on residential strength and this is giving way to more non-residential activity. In addition, more permit activity is occurring outside Toronto.

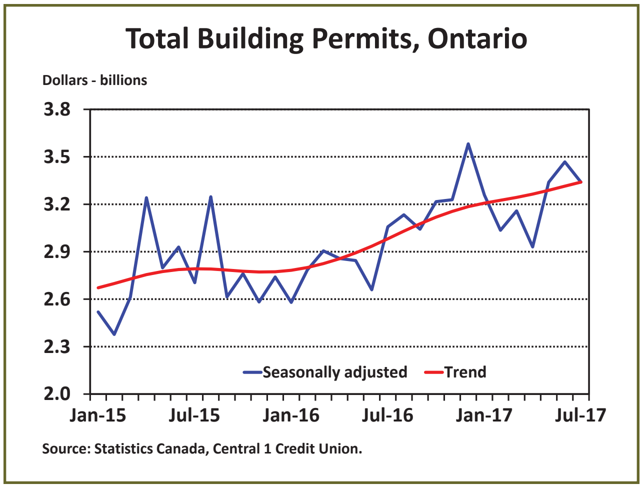
July's decline was led by a 16% drop over June in Toronto CMA permits with residential multi-family falling 44%. Permits in the rest of Ontario rose 10% in the month on a 12% rise in residential and an 8% increase in non-residential.

Metropolitan areas with significant increases in total permits during July were: Belleville, Brantford, Greater Sudbury, Guelph, Hamilton, Kingston, London, and Oshawa. Areas with large declines were: Barrie, Kitchener-Cambridge-Waterloo, Ottawa, Peterborough, and Thunder Bay. In many cases, these large changes in July were off a low or high June base.

Year-to-date permit activity was 20% higher at $23.1 billion in Ontario over the same period last year. Non-residential permits were up 30% while residential was 15% higher. Within non-residential, institutional and governmental permits have shot up 50% led by a 90% surge in hospitals and 87% in schools. More than one-half of year-to-date permits for hospitals were issued in July.

Permits for commercial buildings were 16% higher than last year on strength in months prior to July and mainly in hotels, restaurants and warehouses. Industrial permits have risen 34% to $1.77 billion so far this year on increases of 57% in factories and plants and 41% in mining and agriculture.

Most metro areas are seeing more permits issued this year than last. The larger percentage gains were in Kingston at 100%, Greater Sudbury at 82%, Hamilton at 54%, and Thunder Bay at 43%. Toronto was 24% higher. Kitchener-Cambridge-Waterloo was 17% lower on a 31% drop in residential permits.



The outlook for building permits sees residential increasing at a slower rate not only this year but also in next with non-residential continuing to increase at a faster pace. More gains outside Toronto, led by residential, while non-residential in Toronto plays a larger role.

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