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Ontario Economic Briefing

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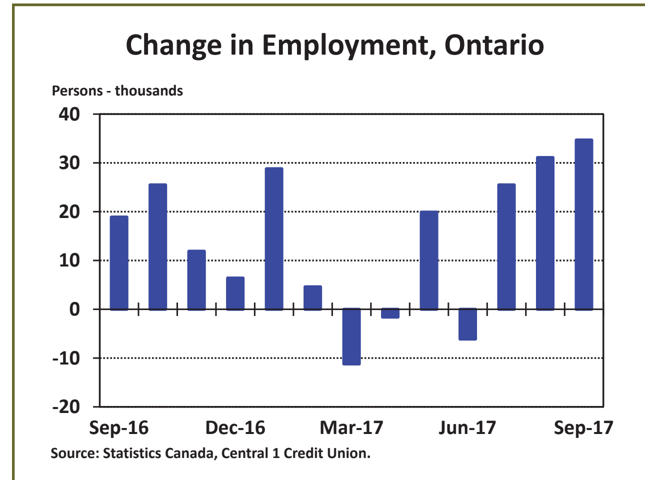
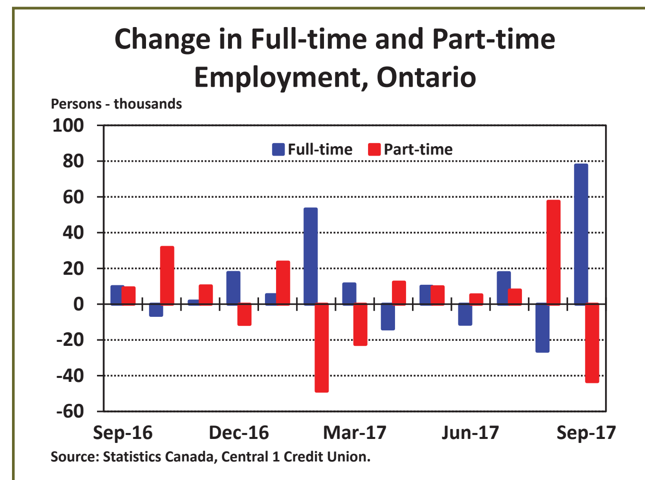
HIGHLIGHTS:

- Labour market tightens
- Toronto housing holds up
- Autos drive exports higher





Job growth surge

For the third month in a row, Ontario's economy generated strong employment growth. September job growth was 34,700 persons, up from 31,100 in August and 25,500 in July. In the past five months, employment has increased 105,100 or 1.5 per cent, the best 5-month performance since early in the last decade.

There was another large swing between full-time and part-time employment. During September, the increase in full-time employment was estimated at 77,800 while part-time employment fell 43,300. This is mostly the reversal of what played out in August, when full-time employment dropped 26,300 and part-time shot up 57,500. It is difficult to explain such large swings other than with sample variability.

Notable changes in industry employment during September were a 16,400 jump in wholesale and retail trade, a 14,700 increase in educational services, and a 17,500 loss in information, culture, and recreation. Manufacturing employment increased 7,000. Other employment changes were statistically insignificant from August.

Compared to one year ago, Ontario's total employment was up 168,900, or 2.4 per cent, and on a year-to-date basis, employment was 1.6 per cent higher than in the January-to -September period last year. This year is well on track to have the best job growth performance since 2013.

This pace of job creation pulled the unemployment rate down to 5.6 per cent seasonally adjusted in September, the lowest rate since June 2000. Growth in the labour force has not kept pace with employment growth. The labour force participation rate has been on a long-term decline since 2003 and recent readings suggest a possible bottoming. Under these ongoing conditions, wage pressures will begin to mount.

The Labour Force Survey (LFS) generates estimates of wages for employees and the year-to-date comparison to last year is showing a less than one per cent increase, using either the average or median hourly wage. In 2016, the increase was 1.4 per cent for the median and 2.2 per cent for the average hourly wage. The LFS sample result may not accurately capture this information. The Survey of Employees, Payrolls, and Hours is another source and its fixed-weight-

ed average hourly earnings measure is up 2.0 per cent so far in 2017.

Given current and future labour market conditions, a faster pace in wages this year and next is expected. In addition to market forces, the provincial government's legislated increase in the minimum wage – to $14.00 Jan. 1, 2018 from $11.60 in Oct. 1, 2017 –should result in a larger overall hourly wage increase in 2018.

Toronto housing market stabilizing?

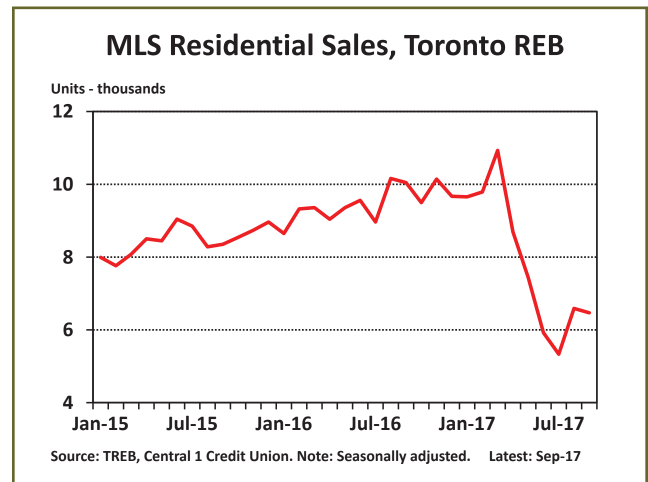
Early signs of market stabilization emerged during September in Toronto's housing market. The market adjustment phase instigated by the Ontario Fair Housing Plan, and later, by the bump in mortgage rates looks to be nearing an end. However, new tighter measures on uninsured mortgages by the federal bank regulator, expected to come later this month, would extend this market adjustment phase.

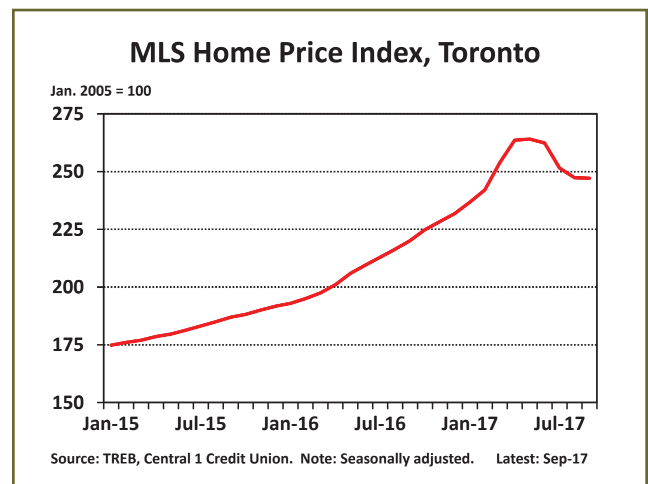
MLS® residential sales in the Toronto Real Estate Board (TREB) held steady during September compared to August. Actual and seasonally adjusted sales changed less than two per cent. Important from a technical standpoint, sales appear to be stabilizing following their steep plunge from March this year.

Sales remained well below year-ago levels, down 36 per cent in September. Large year-over-year declines will continue for many more months, probably through to June 2018, before turning positive. In any case, year-over-year comparisons are inferior technical signs compared to changes in seasonally adjusted data.

Seasonally adjusted new residential listings bounced back in September with a 12 per cent jump over August. New listings returned to 2016 levels following a huge swing this year, starting from around 11,00 units in January shooting to more than 18,000 units in May, and back down to 12,000 units in August. September came in at 13,823 units seasonally adjusted. The cause of this large swing in new listings is not entirely clear.

Active listings edged up two per cent in September from August. This modest increase in





seasonally adjusted active listings, combined with little change in seasonally adjusted sales resulted in a sales-to-active listings ratio of 40.7 per cent – slightly lower than 42.4 per cent in August but up from July's low of 32.8 per cent. This metric hit a record high at 144.2 per cent in February this year. Current values are consistent with prices rising around five per cent annually, though there are time lags involved and the next round of mortgage credit tightening hangs over the market before this would materialize.

Prices held steady in September. The seasonally adjusted Home Price Index (HPI) was little changed from August, another important technical sign. The recent upturn in the sales-to-active listings ratio, or market demand-supply balance, is behind this price performance. Compared to September 2016, the HPI was 12 per cent higher this year.

Year-to-date sales were 18 per cent lower through to September, and with nine months

in the books, sales for all of 2017 will come in around 25 per cent lower than in 2016. The HPI is on track for an 18 per cent increase in 2017 from 2016, with most of this rise occurring in the first half of the year.

The 2018 market is seen with range-bound sales and prices from current lower levels. Expectations of tighter mortgage credit could advance some sales into October and November at the expense of future months. Another bump or two in mortgage rates is very likely next year and, when combined with recent policy and regulatory moves, the Toronto market looks increasingly to undergo a 'soft-landing' – assuming no global economic, financial, or geopolitical crisis in the interim.

Exports bounce back

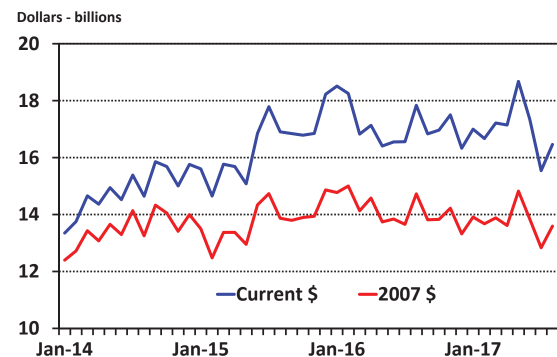
Ontario's international merchandise exports rebounded in August, mainly on auto and related exports. Total exports bounced back 17 per cent following July's 22 per cent plunge. Motor vehicle and parts exports rebounded 49 per cent from July, accounting for the bulk of the overall gain. Shutdowns by auto manufacturers for retooling in July is behind these swings, which were larger than usual.

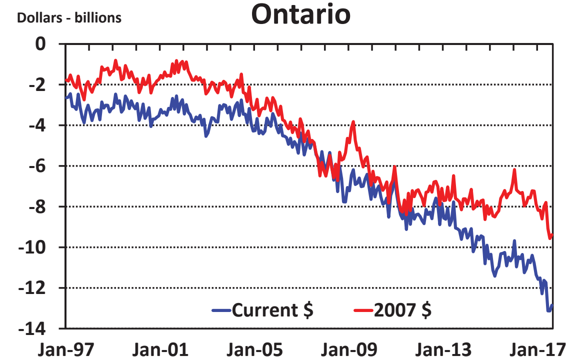
Seasonally adjusted exports were estimated to have risen 6 per cent in August from July. A further adjustment for price changes resulted in a similar increase in constant dollar or volume exports for August. Once again, auto and related exports accounted for most of this increase.

Imports of international merchandise in August behaved nearly identically to exports with a large rebound in auto and related imports driving the changes from July, highlighting the auto supply linkages between the U.S. and Canada.

Year-to-date exports are slightly lower this year than last, while international merchandise imports are five per cent higher. Taking price changes into account results in a similar outcome, though a slightly larger deficit.

Ontario's international merchandise trade deficit has widened steadily since 2004. The current dollar trade deficit as of August 2017 was $13.7 billion, compared to $3.3 billion in August 2004. In price-adjusted terms, or constant 2007 dollars, the deficit increased to $9.4 billion in August 2017 from $2.4 billion in August 2004.





A large portion of the increase in the trade deficit can be traced to motor vehicles and parts. This commodity group saw a swing from a $16.0 billion surplus in 2004 to a $9.9 billion deficit in 2016. So far this year, this deficit is on track to hit $18 billion. Motor vehicle parts are the main contributor to these deficits.

Other commodities with a large trade deficit increase since 2004 were consumer goods and electronic and electrical equipment and parts. On the positive side of the ledger, metal and non-metallic mineral products generated a larger trade surplus, going from a small deficit in 2004 to a $6.5 billion surplus in 2016. This year, that surplus looks to exceed $7 billion.

Ontario's international goods trade outlook is quite uncertain, with the NAFTA negotiations to be resolved and the new duties on softwood lumber imposed by the U.S. CETA, the Canada

EU trade agreement, which came in effect in September, is a potential longer-term positive – though with some negative displacements along the way. The currency is another factor, in addition to trade policy, and the Canadian dollar is likely to remain range-bound around 80 U.S. cents following some near-term weakness into 2018. Peak auto in the U.S. is another issue that is not supportive for exports. Ontario will need to rely increasingly on trade with countries other than the U.S. and on increased trade with other provinces.

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