Central 1™

Ontario Economic Briefing

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HIGHLIGHTS:

- Ontario leads the nation in job growth in November
- Rental market remains tight into 2018
- Motor vehicle output decreases, but sector's contribution to overall GDP expected to increase in coming months

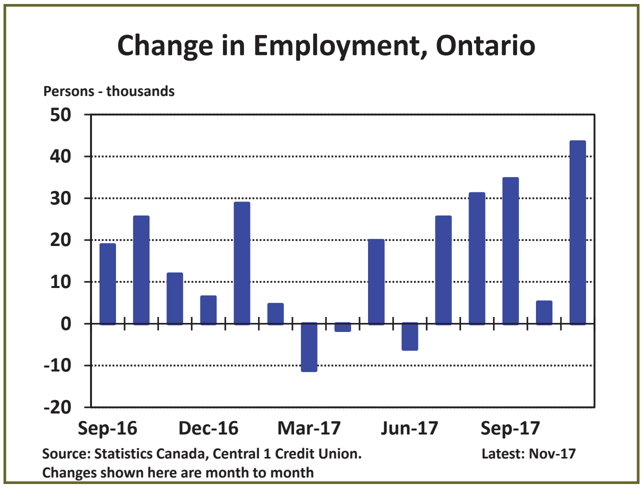
Job creation comes roaring back in Ontario

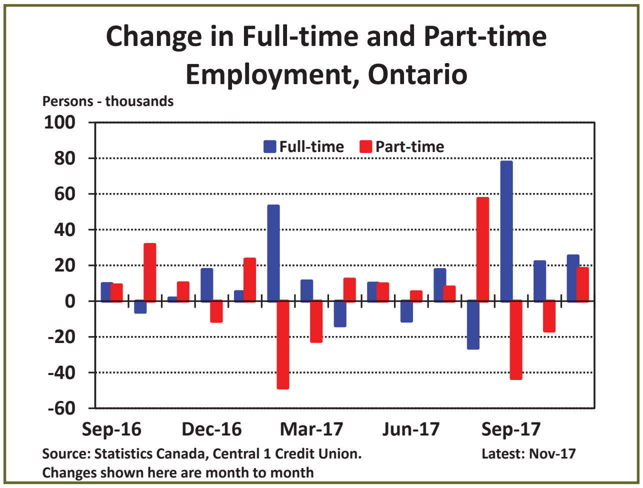
Following a period of slower employment growth, Ontario's economy picked up steam and created 44,000 additional jobs (up 0.6 per cent) in November over October. Most new jobs created nationwide in November were created in Ontario.

After a few months where growth in full-time employment and part-time employment traded places, November's robust job growth was due to growth in both areas. An additional 25,300 full-time jobs were created in November over October (+0.4 per cent) and an additional 18,200 part-time jobs were added this month over October (+1.4 per cent).

The goods-producing sector created 16,000 jobs in November, following the strong jobs numbers posted in this sector since September. Notable drivers of growth in this sector included manufacturing (+15,300) and construction (+2,300). After retooling, auto plants have recalled workers and both commercial and residential construction of new projects is keeping the construction industry busy.

Services-related jobs came back strongly in November after last month's downward blip. In fact, most of the jobs created this month were from within this sector, with the addition of 27,500 jobs. Notable drivers of growth included: education services (+12,000), wholesale and retail trade (+29,700 jobs)





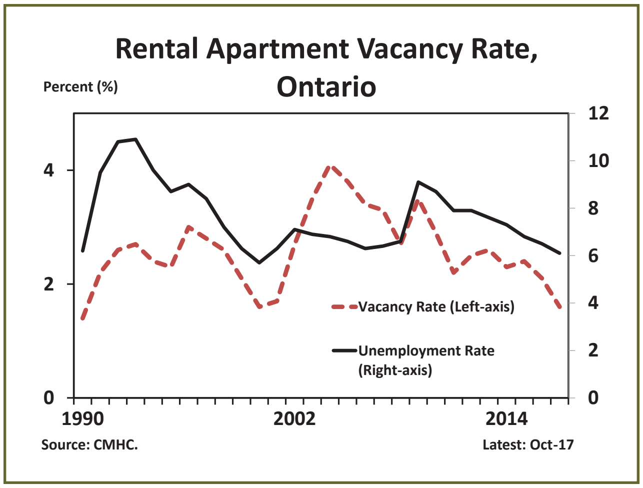
Compared to one year ago, Ontario employment remains up 180,200 (or 2.6 per cent) as the unemployment rate fell by 0.7 percentage points.

The unemployment rate decreased in November to 5.5 per cent, down from 5.9 per cent in October. This month's job creation was robust – with employment growth stronger than labour force growth, there was downward pressure on the unemployment rate. The participation rate remains unchanged this month.

According to the survey of employment payroll and hours conducted on employers, new data released from September coincides with the labour force survey data. The data indicates employment growth and wage growth have been going up in Ontario, generally speaking.

Employment growth should continue for the rest of the year, especially with the busy holiday season ahead, but he effects of the new minimum wage hike is an issue to keep an eye on. If consumer demand remains strong, however, the added payroll costs to employers could be easily absorbed.

The provincial economy, notwithstanding any major shocks, will continue to create jobs into next year. Central 1 expects employment to increase by one per cent and hourly wages to grow by 4.4 per cent in 2018, significantly above inflation.



Ontario's rental market continues to tighten

Ontario's purpose-built rental apartment vacancy rate for buildings with three units or more continues to trend down. The vacancy rate came in at 1.6 per cent – the lowest it has been since 2000 – on the heels of declines over the two previous years. Lower rental vacancy is pushing average rents higher, as fewer people are leaving rental units. The turnover rate, which measures the share of units changing occupancy in the last 12 months, remained relatively unchanged at 18.3 per cent, while the same-sample average rent[1] increased by 3.8 per cent – significantly above the provincial rent increase guideline of 1.5 per cent. Under current legislation, when a tenant leaves a unit the landlord can charge higher rents for buildings occupied before 1991 while landlords of units post-1991 are not currently subject to rent controls. The share of newer units occupied after November 1, 1991 – which were not subject to rent controls in 2017 – is trending up. Furthermore, the turnover rate is relatively unchanged but remains high at just over 18 per cent, meaning there is still substantial movement in the rental market. These factors are pushing average rents above the increase guideline set by the province.

A growing provincial economy, strong population growth, eroding affordability in the homeownership market, and new rules aimed at pumping the brakes on mortgage debt, are putting downward pressure on the primary rental market's vacancy rate.

1 The same sample average rent looks at units that were common to both this year's survey and last year's surveys. In doing so, the measure tries to remove average price swings caused by newer units lifting average rents.

Most metro centres in Ontario reported lower vacancy rates. Toronto remains the tightest market in Ontario with a one per cent vacancy rate. The biggest vacancy drops[2] occurred in Kingston (-1.9 percentage points), Thunder Bay (-1.8 percentage points), and, Hamilton (-1.4 percentage points). Most markets in the Greater Golden Horseshoe[3] reported lower or unchanged vacancy rates. The only market that reported a higher vacancy rate was Oshawa (+0.5 percentage points).

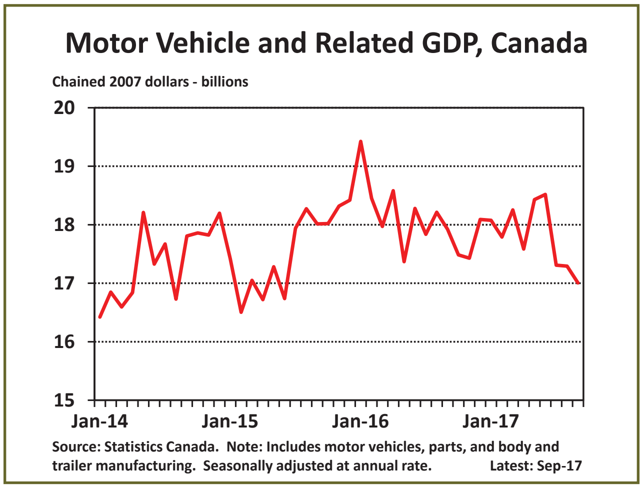
Ontario's rental market will remain tight this year and in 2018. Population growth, another key driver of rental housing demand, will increase further due to continued inflows of new residents to Ontario from abroad. International migration will increase in 2018 by four per cent. At the same time, the new rules put in place in 2017 to curtail mortgage debt growth will continue to exert downward pressure on the homeownership market as potential buyers remain on the sidelines. Repercussions from the *Rental Fairness Act 2018* pose yet another risk to the rental market, given rent controls beginning in 2018 applied to all units – not just those occupied after November 1, 1991. This change would adversely impact the return on investment of rental, resulting in fewer rental housing starts and a further tightening of the province's rental market as supply will not meet the increased demand.

2 Changes in a variable such as the vacancy rate may be evident at first but closer testing reveals that the change is not statistically significant. Changes reported are only those that are statistically significant between the October 2016 and October 2017 surveys.

3 The Greater Golden Horseshoe includes the following CMAs: Kitchener-Cambridge-Waterloo, Guelph, Brantford, Hamilton, St. Catharines-Niagara, Toronto, Oshawa, Barrie, and, Peterborough

The September industry GDP report for motor vehicle and related output recorded a decrease following last month's nearly unchanged total. Many auto plants in Ontario were retooling to be able to produce new models headed for the U.S. markets, which put downward pressure on this sector's GDP contribution this month.

Auto sales in the U.S. remain robust and, now that auto plants are back on-line, this sector's contribution to overall GDP should increase in the coming months.



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