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Ontario Economic Briefing

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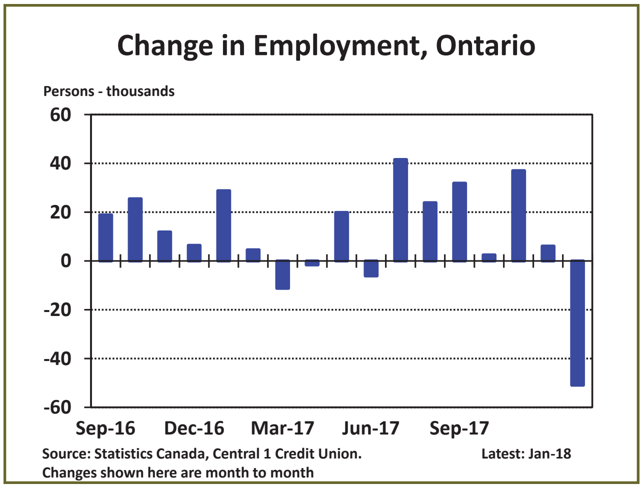
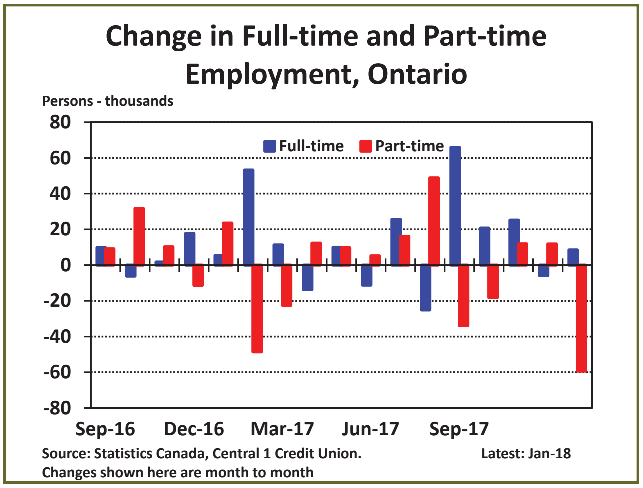
HIGHLIGHTS:

- Significant service sector jobs losses pull down jobs
- New housing starts up in January, future building intentions show signs of moderating
- Lower export volumes in key sectors weighted on total exports
- Policy changes implemented last year reason for sales growth moderation this month





Ontario losses significant number of jobs due to a strong drop in part-time work

Employment dropped significantly to start the year losing 51,000 jobs over December (-0.7 per cent). Several other provinces posted job declines to start the year, with Ontario leading the pack. By job type full-time employment increased by 8,500 (+0.1 per cent) but was not enough to overshadow the significant loss of 59,300 part-time jobs (-4.3 per cent).

Most of the jobs losses this month came from the services sector, which lost 44,000 jobs in the month (-0.8 per cent) from several key groups such as: wholesale and retail trade (-1.4 per cent), transportation and warehousing (-1.7 per cent), and health and social services (-1.1 per cent). The goods sector lost 6,800 jobs (-0.5 per cent) from key areas such as: construction (-1.6 per cent), and agriculture (-5.8 per cent).

The unemployment rate remained relatively unchanged at 5.5 per cent down from 5.6 in December due to a stronger contraction in the labour force that overshadowed the loss of jobs.

The lost jobs in the goods sector could be attributed to the inhospitable weather in parts of Ontario during the first half of the month. Employers preferred to send workers home rather than have them attempt to work in those conditions and add to the number of unemployed. In the case of the services sector, the strong moderation could reflect effects of the minimum wage hike starting to funnel through the economy. Recall from our previous briefing employers' intentions to let employees go over the next couple of months were at an all time high according to those surveyed.

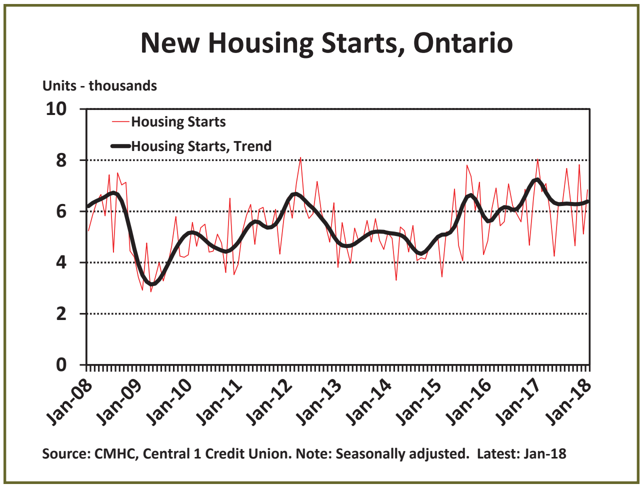
We feel that consumer demand will remain supportive of profit growth for employers. It may take a few months for employers to recognized that higher operating costs are more than covered by sustained profits and thus will hire back many of those workers they let go.

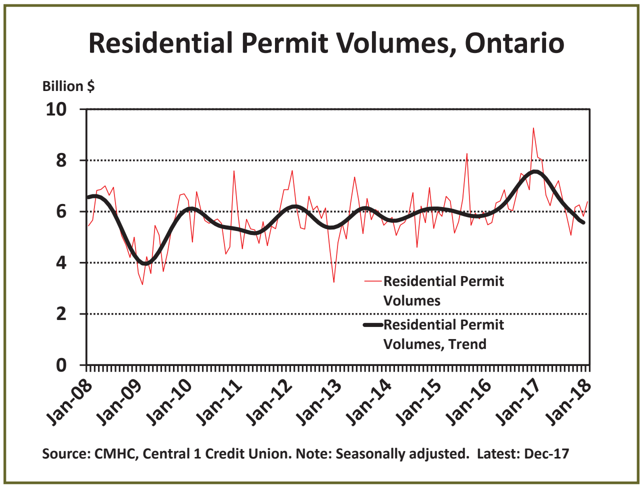
New housing starts up this month due to strong growth in the multi-family segment, residential permits show signs of moderating which will affect future new housing starts

After coming in last month at 61,361 units seasonally-adjusted at annual rate (SAAR) new housing starts rebounded to 82,155 SAAR to start 2018 due to strong gains to semi-detached and apartment housing starts. Single-detached housing starts are up 4.1 per cent to 25,663 units SAAR but growth has been decelerating over the last three months. Year-over-year, new housing starts are down 14.9 per cent.

In the Greater Golden Horseshoe (GGH), new housing starts have rebounded by 53.1 per cent to 60,304 units SAAR in January after declining by 43.8 per cent last month. Toronto's new housing starts increased significantly in the month to 40,166 (+54.7 per cent) due to strong growth to multi-family housing starts (+76.8 per cent). Single-detached housing starts increased by 7.4 per cent. The only Census Metropolitan Areas in the GGH in Ontario that posted lower new housing starts numbers in January were Peterborough (-26.1 per cent) and St. Catharines-Niagara (-13.5 per cent) while in Ontario, the following CMAs posted lower starts growth in the month: Kingston (-41.4 per cent), London (-46.2 per cent), Ottawa-Gatineau (-29.7 per cent) and, Thunder Bay (-12 per cent).

December 2017 numbers for residential building permits volumes points to a moderation in future building intentions as permits are a leading indicator for new housing starts. At the end of 2017, residential building permit volumes decreased by 5.2 per cent to $1.99 billion seasonally-adjusted. Year-over-year, residential building permits are down 23 per cent. The decrease in residential building permits was due to a significant drop of 32 per cent to $6.25 billion seasonally-adjusted to multi-family residential permits. Single-family residential permits increased by 15.7 per cent but it was not enough to wipe out the loss volume in multi-family permits. Residential building permit volumes decreased in many Census Metropolitan Areas (CMA) in December over November. Building permits increased in the following CMAs: Barrie (+21.6 per cent), Brantford (+202.9 per cent), Kingston (+68.7 per cent), Kitchener-Cambridge-Waterloo (+144.2 per cent), Oshawa (+29 per cent).





In 2017, residential building permits increased 1.7 per cent to $24.37 billion due to robust growth of 7.8 per cent to multi-family residential permits. Single-family residential permits decreased by 2.3 per cent.

Ontario's *Fair Housing Plan* has affected not only demand in the existing homes market but also the new homes market. Buyers in larger metropolitan areas, especially around the Greater Toronto Area made increased investments in new multi-family housing and shied away from single-family homes typically associated with higher prices.

Residential building permits volumes will moderate in 2018 due to less demand for housing in general because of the policies put in place last year. Most of the moderation will occur to single-family building permits and subsequent new housing starts of that type.

Trade moderates in December, export volumes down in 2017

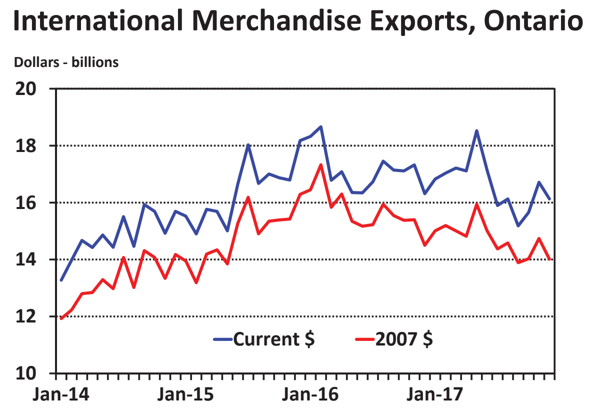
International merchandise trade moderated in December with imports decreasing by a larger margin (-8.1 per cent over November) than exports (-6.9 per cent over November) decreasing the trade deficit this month. Adjusting for seasonal effects exports decreased by 3.5 per cent and imports decreased by three per cent in the month.

Several key exports sectors, which together make up close to 70 per cent of export volumes, contributed to lower total exports volumesThese included: motor vehicles and parts (-10.9 per cent seasonally-adjusted), consumer goods (-11.5 per cent seasonally-adjusted), and, industrial machinery, equipment and parts exports (-4.8 per cent seasonally-adjusted)

In 2017, exports decreased by 2.9 per cent while imports went up by four per cent. Of all the provinces Ontario was the only one to report an export contraction. Export volumes moderated robustly for half the year, in the other six months when export volumes increased that could not off-set the declines leading to a lower yearly total. Motor vehicle exports and related sectors were affected in 2017 given work-related disruptions and increased demand for used vehicles in the U.S. Auto parts demand remains robust south of the border given the aging car stock there.

Ontario's export position should improve as the year progresses. As the U.S. economy continues to expand and build upon economic growth from last year and American companies invest demand for Ontario exports will begin to increase as well as many exports are inputs into their production chain. Furthermore, several key projects are getting under way in Ontario's auto-sector financed by federal government dollars through the *Strategic Innovation Fund* (SIF) to revitalize the sector and make it more efficient and competitive. Among them:

- Nova Steel Inc., of Woodstock, Ontario, that will receive $7.4 million to develop second-generation advanced high-strength steel (AHSS) as well as technologies to make its plant more efficient. This will help Nova Steel leverage current and future demands for lighter vehicles and for electric and autonomous vehicles;
- Lakeside Plastics Ltd., of Tecumseh, Ontario, that will receive $1,100,250 to develop innovative new molding processes for lightweight and more environmentally friendly material for vehicles; and,



Source: Statistics Canada, Central 1 Credit Union. Note: Seasonally adjusted. Latest: Dec-17

Meridian Lightweight Technologies Inc., of Strathroy, Ontario, that will receive $347,840 to build a strong magnesium joint to replace existing steel shock towers. This technology can help reduce vehicle weight by up to 57%, thus increasing fuel efficiency.

OSFI's B-20 stress-test deflate existing housing sales in January, average price remains relatively unchanged

Toronto's existing home sales are beginning the year down from last month by 18.5 per cent and down 22.5 per cent when compared to January 2017 sales. Over the longer term, when looking at January sales from 1995 to 2018, this month's sales are still above average but, as expected, the OSFI B-20 stress testing for all mortgages not just high loan to mortgage value ratio loans (i.e. buyers putting a down payment of less than 20 per cent) and Ontario's *Fair Housing Plan* have all created a perfect storm to depress market activity. The drop to sales year-over-year is due to both the Fair Housing Plan and OSFI while the month-over-month drop is due to the OSFI rules motivating buyers to pull forward home purchases. Late in the year buyers moved to get ahead of the new B-20 rules and make a purchase or at least get a mortgage pre-approval locked-in.

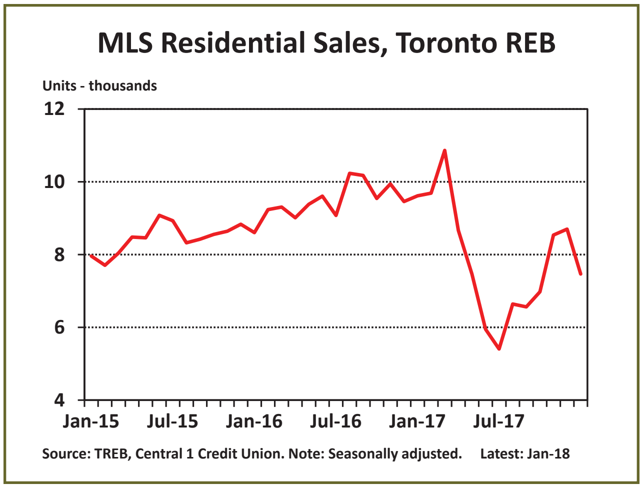
This brisk movement by buyers into the market depleted the pool of buyers currently able to pull the trigger on a home purchase. Another thing to consider when looking at this month's sales is weather. The first two weeks of this year posted frigidly cold temperatures. Fewer potential homebuyers would be willing to go out and look at homes when the weather is this inhospitable.

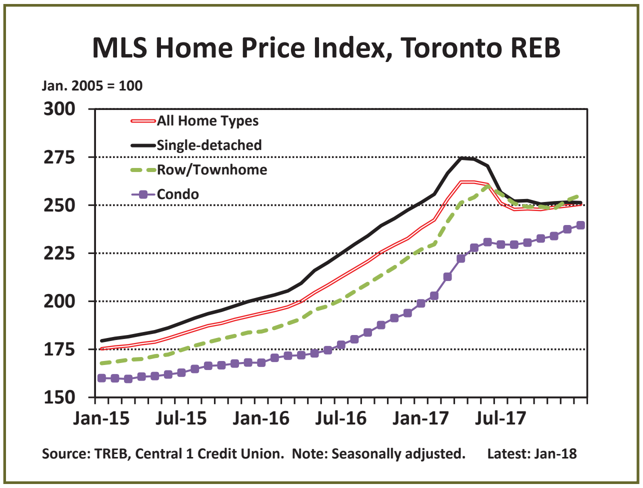
New listings are 35.6 per cent higher than last month and 17 per cent higher year-over-year. With supply up and demand down the average price of an existing home in Toronto remained relatively unchanged in January over December (+0.2 per cent) but down 4.4 per cent year-over-year.

Benchmark home values, a measure of quality-adjusted prices remained also unchanged in January over December due to a moderation to single-detached benchmark prices that could not be off-set by higher benchmark prices for condominium apartments and row/townhomes.

Toronto's current demand and supply dynamics has downshifted the market to a balanced market from a sellers' market in January 2017.

As noted above, this moderation in home sales was expected given the policy changes put in place last year. Typically, when new policies come into effect the market moderates as people adjust to the new rules and then it is typically business as usual several periods after the change. Many who have followed the Toronto housing will recall the introduction of the *Land Transfer Tax* for an example of a similar trend. Sales should trend up especially in the second half of the year, but the new B-20 stress test will affect the type of home that is purchased this year. Households willing and able to pull the trigger on a purchase this will look closer at higher-density housing options such as row/townhomes and apartments. Single-detached home sales should moderate if sale price does not move down significantly enough this year to attract bids. Furthermore, with buyers looking for deals expect the average days on the market of a listing to increase as well.





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