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Ontario Economic Briefing

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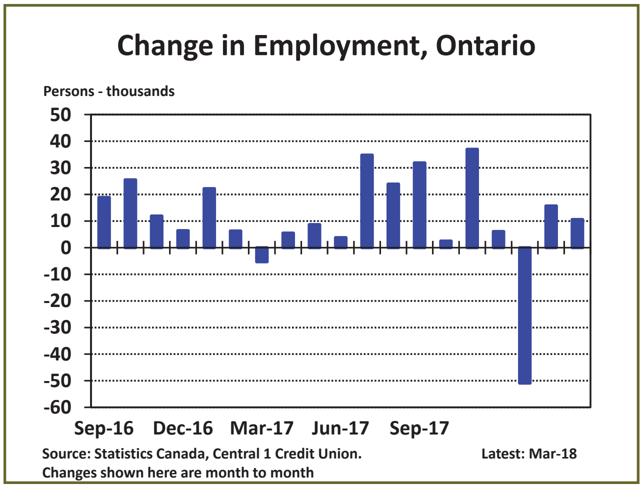
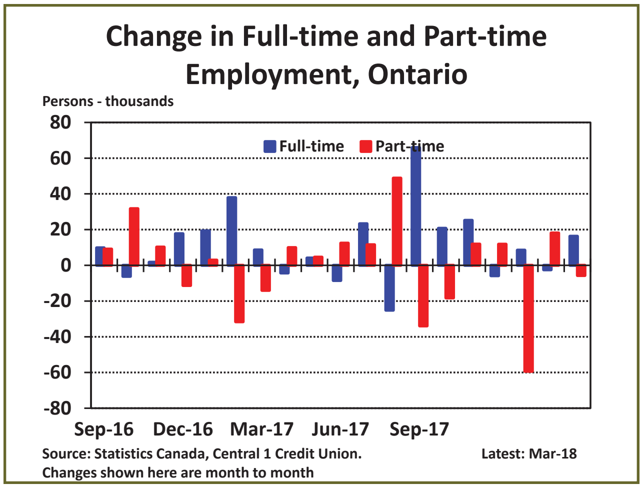
HIGHLIGHTS:

- Goods-sector job creation in March helps lift overall employment
- The trade deficit increased in February due to fewer exports and robust imports growth
- Ontario's small-business confidence dipped in March
- Existing home sales and average price are up in March over February after two consecutive months of month-over-month declines to start 2018





Full-time job gains drive employment growth in March

Employment gains continued in March on the heels of employment growth last month. Employment in March increased by 0.1 per cent (10,600 new jobs created) due strong full-time employment growth that off-set the drop to part-time jobs. In the month full-time employment increased by 0.3 per cent (16,300 new full-time jobs created) while part-time jobs declined by 0.4 per cent (5,700 fewer part-time jobs).

March's job gains came from the goods-producing sector which added 11,900 new jobs this month while the services sector shed 1,300 jobs. In the goods-producing sector a large portion of new jobs created came from construction, manufacturing, agriculture, and forestry. The services-sector shed jobs in finance, insurance and real estate, educational services, health and social services, and information, culture, and recreation. Together these service sectors shed 22,300 jobs and more than offset the 21,000 jobs created in other service sectors.

The unemployment rate remained unchanged at 5.5 per cent due to nearly equal growth in the labour force and employment. The unemployment rate has been hovering tightly around 5.5 per cent since November of last year and has not been this low since the summer of 2000.

The drop in part-time jobs and the increase of full-time jobs are not only new jobs created but possibly also people moving from part-time to full-time work as employers' labour needs rise. Employment this month is growing at a seasonally-adjusted annual rate of 1.8 per cent above our forecast for 2018 of 1.4 per cent.

Exports decreased in February due to less exports of metals and chemicals

The trade deficit increased in February due to slightly fewer exports (down 0.6 per cent seasonally-adjusted) and a robust increase to imports (up 2.2 per cent seasonally-adjusted).

Over the first two months of 2018, imports were up slightly (+0.4 per cent) while exports were down (-3.1 per cent) from the same period last year.

Exports decreased in the month due to decreased exports of metals (-26.7 per cent seasonally-adjusted) and basic chemicals (-1.3 per cent seasonally-adjusted). Exports of motor vehicles and consumer goods increased by 3.1 and 1.4 per cent seasonally-adjusted respectively. The gains in these two significant sectors while robust were not sufficient to off-set the export volume declines to metals and basic chemicals.

It is encouraging to see motor vehicle exports up, which is a key sector in Ontario that faced some headwinds in 2017 (i.e., plant closures) negatively affecting production and exports. According to the University of Michigan's consumer sentiment index, consumer sentiment in the U.S. trended up in January and February contributing to growth in consumer good exports growth and bodes well for vehicle exports.

As commodity prices for metals and other goods stabilize and U.S. consumer sentiment continues to climb, this will support Ontario export growth in 2018. Our latest forecast expects exports to increase by 1.4 per cent in 2018.

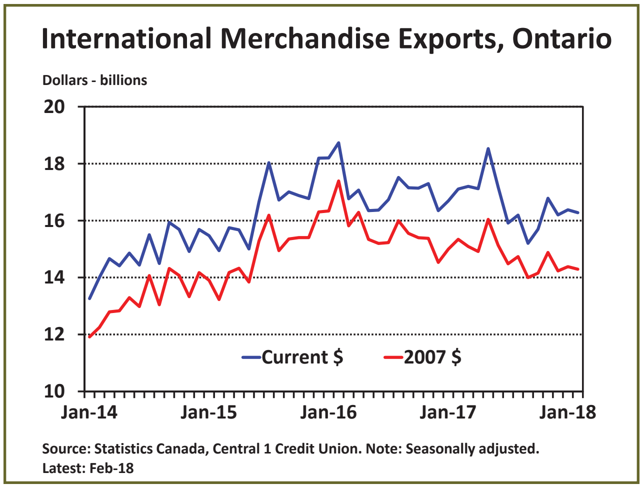
Small business confidence remained relatively unchanged in February

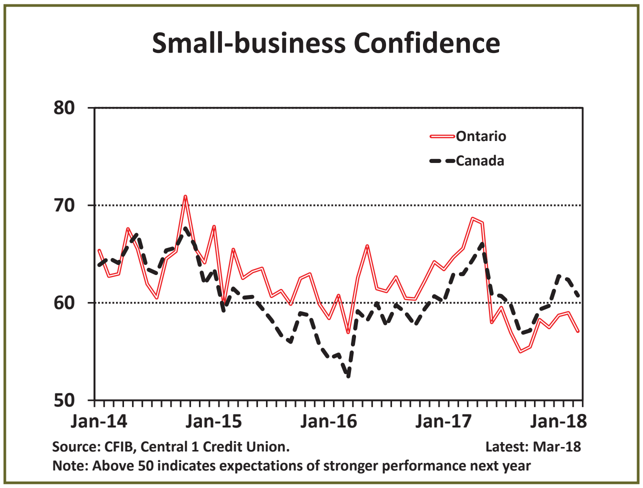
After two months of small-business confidence gains Ontario's March index dropped almost two points falling to 57.1 down from 59 in February. Ontario's index continues to track lower than the national index (60.7 points). Of the ten provinces Ontario's index continued to move lower and was the third lowest index in March only ahead of Newfoundland and Labrador and Alberta. Nova Scotia recorded the highest small-business confidence reading in March (75 points).

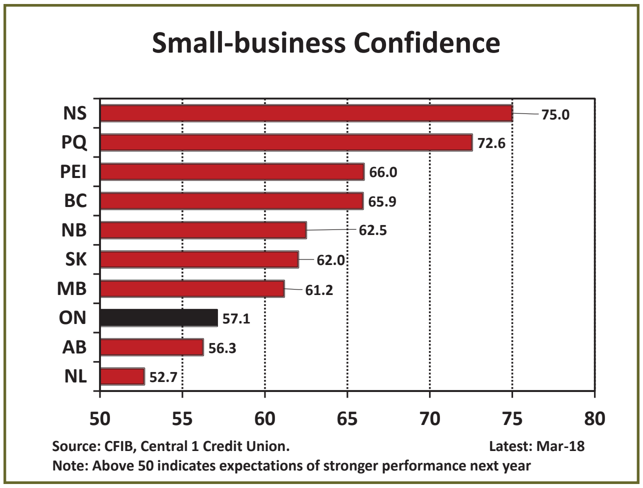
Year-over-year, small business confidence in Ontario continues to track lower, off 8.5 points from March 2017's reading.

According to this month's survey small-businesses see insufficient domestic demand as a major limitation on sales and production growth. When asked about major constraints wages continues to weigh on small business with 60 per cent of those asked noting this as a constraint. With these principal concerns net short-term hiring intentions are at a standstill with an equal share of business owners looking to hire as those looking to trim full-time employment (16 per cent each) in the next three months.

Increased interest rates and housing costs are lifting average household debt levels and are cutting into household's discretionary spending,







coupled with the higher minimum wages are likely to dampen profits. We expect employment and wage growth to increase in 2018 which should bring back consumer spending and alleviate business owner's concerns.

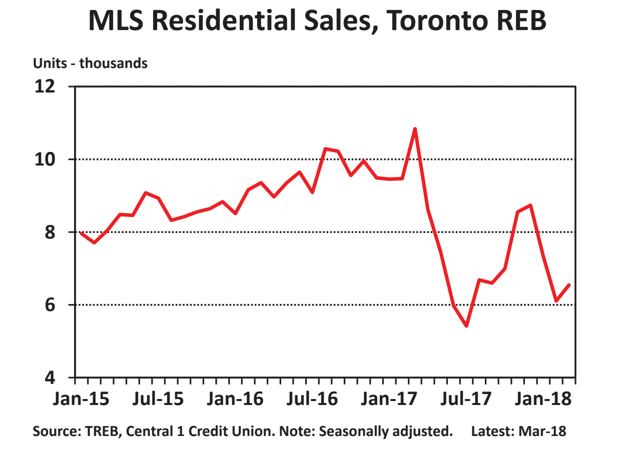
Existing home sales remain down year-over-year in March, but month-over-month sales and price growth are up

Policy changes, specifically the new B-20 stress test rules, continue to affect the market. In March 2018, Toronto existing home sales were down 39.5 compared to the same month last year. This marks the twelfth consecutive month of lower year-over-year sales. Month-over-month data seasonally-adjusted sales in March were up 7.2 per cent from February but still remained below the longer-term trend. This marked the first increase in month-over-month sales of the year.

Like sales, existing home average price has come down significantly year-over-year. In March 2018, existing home prices were down 14.3 per cent to $784,558. But, the seasonally-adjusted average price was up 1.1 per cent in March over February. Benchmark home values, a measure of quality-adjusted prices, decreased year-over-year in March by 1.5 per cent due to a 6.8 single-detached home benchmark price drop. Higher-density housing such as row/town homes and condominium apartment benchmark prices were up 2.3 and 15 per cent year-over-year respectively yet, these prices increases were not enough to off-set the single-detached home price moderation.

New listings, trended down year-over-year (- 12.4 per cent) and month-over-month (-5.3 per cent seasonally-adjusted). Currently, even with slightly less supply, Toronto's existing homes market sits comfortably in a balanced market.

Seasonally-adjusted month-over-month data for sales and average price posted increases in March. We expected the market to moderate for at least the entire first half of 2018, the fact that sales and prices are up in March over February could be a sign that the market is stabilizing, and buyers are slowly adjusting to the new rules. A few more months of data is needed to see if the data supports this idea.



Buyers are moving away from low-density housing towards higher density housing such as condominium apartments. This is a function of not only affordability but also robust condominium supply in Toronto relative to low-rise housing.

Edgard Navarrete
Regional Economist, Central 1 Credit Union
enavarrete@central1.com
www.central1.com **905 282 8501**