Central 1™

Economic Analysis of Ontario

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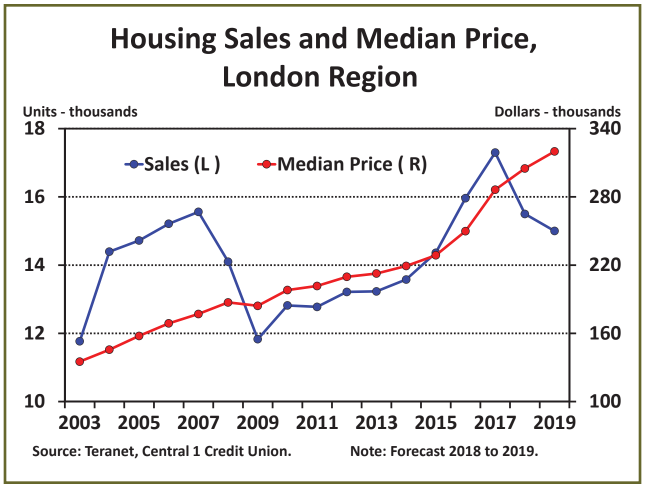
London Economic Region

The London Economic Region (ER) covers Oxford, Elgin, and Middlesex counties and is home to 691,000 residents. The region's economic base is more concentrated in manufacturing and agriculture and it has service industry concentrations in financial services, education and health. The London Census Metropolitan Area (CMA) is the region's principal centre comprised of the cities of London and St. Thomas and neighbouring urban jurisdictions. Outside the CMA, the economic base is relatively more concentrated in agriculture and manufacturing than in London.

The region's economy faced some headwinds in 2017 particularly from the goods-producing sector. While the construction sector posted strong employment growth, supported by residential construction and renovation spending, disruptions to the manufacturing sector and the auto-related sector in the region pushed down overall employment growth that could not be off-set by services sector job growth. Consumer expenditures supported the services sector, which posted 1.1 per cent job growth in the London CMA; growth in key sectors such as wholesale and retail trade, finance, insurance and real estate, professional and scientific services, business building, and educational services helped lift overall services employment.

The unemployment rate decreased as a greater share of full-time jobs were lost that could not be off-set by part time job growth and a greater number of people left the workforce pulling down participation and employment rates. Many of those unemployed and discouraged workers were in the manufacturing sector.

The region's population increased at a faster pace in 2017 expanding 1.5 per cent, up from 1.3 per cent in 2016, resulting in the best two-year growth performance since the early 1990s. Most of the growth to the region's population continues to come from new residents from abroad and Canadians coming from other parts of Canada. Many migrants are attracted to job



opportunities in the construction, finance-insurance-real estate, and other growing industries noted above. The region's educational institutions also attract people from outside.

The existing homes market closed out 2017 in a seller's market. Even with the policy-led sales slowdown, front-loaded sales growth meant more than 17,000 home sales occurred this year, a record high. New listings could not keep pace with sales resulting in a near 15 per cent rise in the median price. With a tight existing homes market and robust price growth, many buyers looked to the new homes market.

New housing starts increased in the London CMA by 27 per cent in 2017. A tight existing homes market increased demand for new ground-oriented housing. Single-detached and row/townhome new housing starts increased by 29 and 86 per cent, respectively. Many new homebuyers looked closer at row/townhomes as a substitute for single-detached homes due to affordability concerns.

Increased population growth through new residents coming from outside the region is not only tightening the homeownership market but the rental market as well. The purpose-built rental market vacancy rates and availability rates continued to trend down. The vacancy rate for purpose-built rental apartment and row/townhomes was 1.8 per cent, the lowest it has been in the London CMA since survey data is available. Furthermore, with the prospect of higher mortgage rates and robust price growth many potential buyers remained in rental contributing to the tightness of the rental market.

Consumer expenditures supported private non-residential investments in the region. Interest rates that remained low and strong retail and wholesale sales motivated many business owners to make expansions to their operations. Private non-residential building permit dollar volume increased 13 per cent in 2017. After propping up non-residential investment over the last few years, public non-residential permit dollar volume decreased and was a drag on total non-residential building permit dollar volume.

London Economic Region						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	324.8	330.4	330.9	330.1	330.4	331.1
% change	0.3	1.7	0.2	-0.2	0.1	0.2
Unemployment Rate, %	7.0	5.9	6.1	5.6	5.3	5.5
Residental Sales, units	13,578	14,361	15,963	17,299	15,500	15,000
% change	2.6	5.8	11.2	8.4	-10.4	-3.2
Residential Median Price, $	219,252	228,655	249,900	286,329	305,000	320,000
% change	3.1	4.3	9.3	14.6	6.5	4.9
Residential Permits, units	3,100	2,773	4,751	4,573	4,450	4,550
% change	4.3	-10.5	71.3	-3.7	-2.7	2.2
Non-Residential Permits ($ mil.)	420.4	535.5	740.0	659.9	800.0	815.0
% change	-12.3	27.4	38.2	-10.8	21.2	1.9
Population (000s)	666.7	671.7	680.7	691.2	701.8	710.7
% change	0.7	0.7	1.3	1.5	1.5	1.3
London CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	243.0	252.0	245.9	245.8	246.3	247.5
% change	1.1	3.7	-2.4	-0.0	0.2	0.5
Unemployment Rate, %	7.5	6.5	7.0	5.9	5.6	5.9
Residental Sales, units	10,296	10,801	11,820	13,014	11,700	11,500
% change	2.9	4.9	9.4	10.1	-10.1	-1.7
Residential Median Price, $	225,583	235,515	249,809	288,067	310,000	325,000
% change	3.7	4.4	6.1	15.3	7.6	4.8
Residential Permits, units	2,442	1,863	3,699	3,573	3,450	3,700
% change	5.4	-23.7	98.6	-3.4	-3.4	7.2
Non-Residential Permits ($ mil.)	273.5	412.7	568.3	328.7	400	410
% change	-4.8	50.9	37.7	-42.2	21.7	2.5
Population (000s)	501.8	505.8	513.1	521.8	530.0	537.5
% change	0.7	0.8	1.4	1.7	1.6	1.4

Source: Statistics Canada, Teranet, Central 1 Credit Union. Forecast 2018 - 2019.

The economic outlook for 2018 calls for modest employment growth and a moderation to new housing demand that will put downward pressure to residential investment. The region's labour force will continue to shrink but at a decreasing rate in 2018 as some workers retire and others remain on the sidelines and not actively looking. Many of these on the sidelines will be young workers still living at home. The increased hourly minimum wage will temper hiring as employers adjust to the higher operating costs. Employment growth will return to the black in 2018 rising by a modest 0.1 per cent after decreasing 0.2 per cent last year.

The services sector will continue to support jobs growth thanks to higher wages funneling to sustained consumer demand. Key services-sector projects in the area include: Ryder a U.S. based transportation services company that just opened a new facility in the London area that will house 210 drivers and 55 employees. This new facility will put a significant footprint in the region for the company and is slated to handle more than 3,000 cross-border freight movements a month in the continent (U.S., Canada, and Mexico). HRDownloads, a human resources solution provider is planning to hire 20-30 new employees.

The goods-sector will report net employment growth. Manufacturing job gains in 2018 will offset construction job losses. Renovation spending will be robust in 2018 as many homeowners will decide to stay in their current homes rather than move-up, but new housing construction will decrease putting downward pressure on job growth in this sector. Key construction projects in the area include: the building of a new IKEA store expected to open its doors in 2019, The Government of Canada is investing $170M in a new bus rapid transit corridor in London, Marwood Metal Fabrication Ltd., of Tillsonburg, Ontario, will receive $953,500 from Ontario to develop a new production process using carbon fibre to manufacture lighter and stronger roof headers. This will help improve cars' structural integrity while making them lighter and more fuel efficient and, Nova Steel Inc., of Woodstock, Ontario, will receive $7,436,750 also from Ontario 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 AHSS for lighter vehicles and for electric and autonomous vehicles.

Possible risks to the region's jobs market in 2018 will be the results of NAFTA negotiations, exchange rate differentials between the Canadian and US dollar, and greater appetite for used cars in the US, which would all affect manufacturing and auto-related exports, a sector with a significant footprint in this region.

Barring any adverse results from those issues mentioned above, the job market will continue to grow in 2018 into 2019. Employment in the region will increase a further 0.2 per cent in 2019 and the unemployment rate will increase to 5.5 per cent from 5.3 per cent in 2018 thanks to an influx of people to the labour force looking for work.

Housing sales, both existing and new, will moderate in 2018 given higher costs of entry due to policy tightening and higher interest rates. Residential permits will decrease slightly in 2018 before recovering in 2019.

Residential sales and median price growth will slow in 2018 and in 2019 as people and the market adapts to the new mortgage rules and higher mortgage rates.

Non-residential investments will increase significantly in 2018 thanks to a jump in public projects. Industrial and commercial investments will push private residential investment up in 2018 and 2019 but at a lower rate than 2017. Business owners will be balancing the benefits of an expansion, through greater sales receipts with the added costs of the investment and operating costs through higher wages.

Population in the region will continue to grow at the recent higher pace of 1.5 per cent in 2018 and slowing to 1.3 per cent in 2019, due to natural increase and continued migration of people from abroad and other parts of Canada.