Central 1™

Economic Analysis of Ontario

Volume 9 • Issue 1 • March 2018 | ISSN: 0834-3980

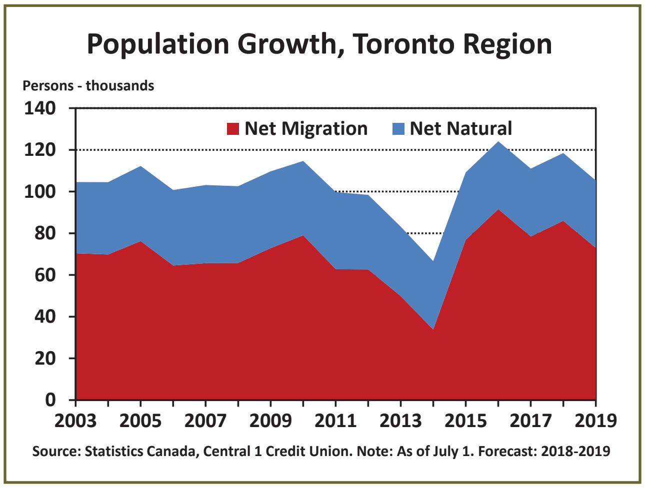
Toronto Economic Region

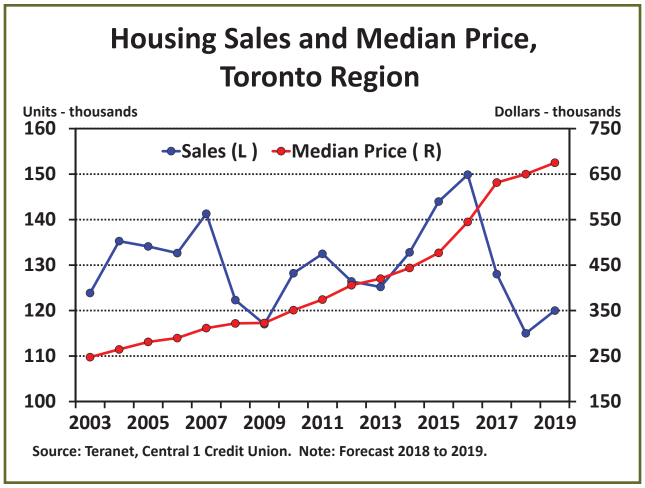
The Toronto Economic Region (ER) is dominated by the Toronto Census Metropolitan Area (CMA), which itself is anchored by cities such as Toronto, Mississauga, Markham, Vaughn, Ajax, Pickering, and Milton to name a few. This roughly comprises 95 per cent of the population, with Oshawa rounding out most of the remainder.

Broad economic indicators pointed to solid growth momentum, although the housing market entered a market correction due to provincial policy measures to slow the market. Headline employment growth in the broad Toronto ER surged in the second half of 2017 to drive annual growth of two per cent in 2017 - outstripping both Ontario and the national gain and representing a gain of 69,000 persons. Full-time employment rose a modest 1.5 per cent, or about 60 per cent of net job growth with part-time growth accelerating to 4.7 per cent. Gains were driven by service sector expansion with large gains in wholesale and retail trade (up 4.3 per cent), transportation and warehousing (up 12.0 per cent), and professional/technical services (up 5.0 per cent), and health and social services (up 5.5 per cent). Most goods-producing sectors shed workers, with construction turning lower while manufacturing was a bright spot with a 1.9 per cent gain, adding jobs for a second straight year.

The Toronto Census Metropolitan Area accounted for the entirety of 2017's gain, with a net increase of about 74,600 persons, marking a 2.3 per cent increase and third successive increase. In contrast Oshawa saw mild reversal of 2016's nine percent surge, giving back 1.7 per cent in 2017. Rising employment trends have eroded the unemployment rate in the broader region, which averaged 6.4 per cent last year, and down from eight per cent in 2014.

Retail sales in the Toronto metro area outpaced provincial and national growth with a gain of more than seven per cent from 2016 reflecting strong consumer demand, rising population





growth and rising tourism. Meanwhile, business investment, proxied by associated real spending on commercial and industrial non-residential building structures, remained near the highest level going back to at least 1997, although public sector investment has waned after cyclical highs in 2004 and 2011/12. A strong bump up in non-residential permits last year points to an increase in construction activity over the next two years.

Not surprisingly, housing was the big story of 2017 with the Toronto ER feeling the chill of policy measures to stem housing market appreciation. A new 15-per-cent Non-Resident Speculation Tax (NRST) and expansion of rent control to units built after 1991 sent sales in the Greater Golden Horseshoe region tumbling, driven largely by Toronto Metro as investors recalibrated expectations, and buyer confidence was shaken. Monthly MLS® residential sales fell by half during the from the beginning to end of the second quarter followed by a vigorous rebound. Prices retreated from early-2017 record highs, with the both the MLS® and Teranet home price indices showing declines in the seven to eight per cent range, which likely contributed to the sales rebound. Prices resumed their upward movement in the more affordable townhome and apartment units, which could reflect a rush of buyers for affordable properties that moved in advance of tighter federal mortgage regulations that took effect January 1, 2018. Softer pricing conditions are likely to continue through the first half of 2018 with tighter mortgage regulations constrain purchasing capacity of younger households and mortgage rates rise.

Economic prospects in the region remain bright and are expected to lead provincial growth given its role as a global financial hub, headquarter base for various industries, diverse economic base, and attraction for new immigrants. Further improvement in the global and national economies will lift service exports, contributing to growth in financial and professional services. Relatively stronger growth in the high technology sector, which is increasingly intertwined with financial services with institutions investing heavily in fintechs and growth in accelerators such the MaRS innovation hub, is accelerating this trend. Toronto is ranked first by CBRE as Canada's pre-eminent high-tech region, although growth in Waterloo is faster. Higher profile examples Toronto's tech acceleration include the partnership between Alphabet's Sidewalk Labs division and Waterfront Toronto related to develop a smart city model (a living laboratory of sorts) at Quayside, which would also include relocation of Google Canada to the area. Toronto's inclusion as the only non-U.S. city in the running for round of Amazon HQ2 is also positive signal for firms to locate in the region. High-tech agglomeration economies will build on itself as the breadth and depth of human capital, owing in part to a strong post-secondary network of institutions, contribute to further sector expansion and clustering benefits increase. Outside tech, pharmaceutical company Apotex announced technology and product development investment in Etobicoke.

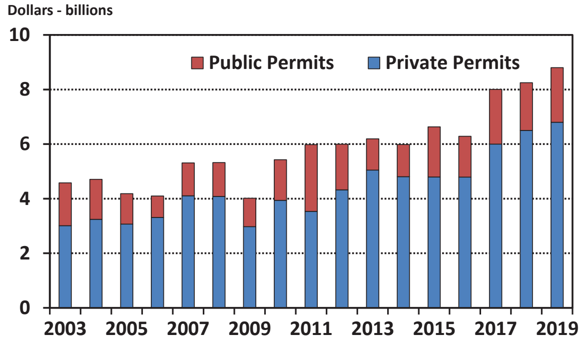
Toronto's manufacturing footprint is relatively small, compared to the service-sector, with an employment share around ten per cent while it shrunk to around nine per cent Oshawa. Provincial manufacturing growth is forecast to average about 1.5 per cent through the forecast period with less new vehicle demand in the U.S. Northstar Aerospace closed its Milton operations in late 2017.

Robust population gains reflects and drives economic activity in the region. The dynamism of this mega-region and its labour opportunities will continue to attract new residents to the region. The region's population has swelled over the last two years, averaging growth of more than 115,000 persons, and anticipated to grow by more than 100,000 persons each year through 2019. Nearly all of this will be in the Toronto CMA. Large international flows and a jump in interprovincial migration drove recent momentum, with gains in the former temporarily lifted by refugee inflows from Canada's humanitarian efforts. International in-migration will continue to track high reflecting increased federal government targets over the forecast period, which pre-dominantly flow into the country's largest metro centres. Net interprovincial migration to the region is expected to slow. High levels of population growth will underpin rising consumer demand for goods and services and housing. Canada's skills-based immigration system further benefits the economy, contributing to a skilled workforce that further enables the economy to grow and fuels business formation.

Employment growth is forecast to rise at 1.7 per cent this year and 1.3 per cent in 2019 led by the Toronto CMA, despite NAFTA uncertainty and the transition for businesses to the higher minimum wage. Non-residential permits rose nearly 30 per cent in 2017, which will contribute to higher investment spending this year. Consumer driven demand will continue to underpin retail investments, while engineering spending on projects such as the Darlington Refurbishment, upgrades and expansion to the subway and LRT lines will all contribute to growth. Non-residential permits trend higher over the forecast period.

Housing markets look to remain soft in the first part of this year before firming into 2019. Annual 2018 home sales will come off about ten per cent and post a modest gain in 2019 on underlying strength in the economy, income and population growth. However, the combination of rising mortgage rates, poor affordability, and tighter credit availability will restrain entry-buyers. Limited turnover by existing homeowners, partially constrained by inadequate supply, is another factor behind fewer sales. Market conditions will continue to generate higher prices with the region's median home value increasing three to four per cent annually through 2019.

Non-Residential Building Permit Volume, Toronto Region



Source: Statistics Canada, Central 1 Credit Union. Note: Forecast 2018 to 2019.

Toronto Economic Region						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	3,241.1	3,320.4	3,373.2	3,443.0	3,502.0	3,549.0
% change	0.0	2.4	1.6	2.1	1.7	1.3
Unemployment Rate, %	8.0	7.1	6.9	6.4	5.9	5.7
Residental Sales, units	132,793	143,962	149,883	128,025	115,000	120,000
% change	6.1	8.4	4.1	-14.6	-10.2	4.3
Residential Median Price, $	443,628	476,891	544,922	631,632	650,000	675,000
% change	5.6	7.5	14.3	15.9	2.9	3.8
Residential Permits, units	35,136	40,153	38,094	35,082	34,000	35,500
% change	-12.7	14.3	-5.1	-7.9	-3.1	4.4
Non-Residential Permits ($ mil.)	5,985.0	6,630.9	6,288.2	8,025.6	8,250.0	8,800.0
% change	-3.4	10.8	-5.2	27.6	2.8	6.7
Population (000s)	6,354.7	6,421.4	6,530.6	6,654.7	6,773.2	6,883.7
% change	1.3	1.0	1.7	1.9	1.8	1.6
Toronto CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	3087.4	3176.7	3215.0	3289.6	3348.8	3395.7
% change	-0.2	2.9	1.2	2.3	1.8	1.4
Unemployment Rate, %	8.0	7.0	7.0	6.4	5.9	5.7
Residental Sales, units	126,570	136,873	142,788	121,710	110,000	115,000
% change	6.3	8.1	4.3	-14.8	-9.6	4.5
Residential Median Price, $	452,905	487,006	558,106	644,240	665,000	690,000
% change	5.9	7.5	14.6	15.4	3.2	3.8
Residential Permits, units	34,252	38,945	37,480	33,217	32,500	34,000
% change	-13.2	13.7	-3.8	-11.4	-2.2	4.6
Non-Residential Permits ($ mil.)	5648.2	6557.4	6088	7926.6	8200	8700
% change	-7.0	16.1	-7.2	30.2	3.4	6.1
Population (000s)	6,050.9	6,116.7	6,224.0	6,346.1	6,460.3	6,567.0
% change	1.4	1.1	1.8	2.0	1.8	1.7
Oshawa CMA						
	2014	2015	2016	2017	2018	2019
Total Employment (000s)	201.4	196.4	214.0	210.4	211.5	213.6
% change	3.5	-2.5	9.0	-1.7	0.5	1.0
Unemployment Rate, %	7.1	7.5	5.9	5.5	5.7	5.7
Residental Sales, units	8,605	9,640	10,109	9,548	9,300	9,500
% change	0.6	12.0	4.9	-5.5	-2.6	2.2
Residential Median Price, $	330,839	375,983	437,899	527,148	515,000	525,000
% change	8.6	13.6	16.5	20.4	-2.3	1.9
Residential Permits, units	1,829	2,729	2,430	3,245	2,800	2,700
% change	5.4	49.2	-11.0	33.5	-13.7	-3.6
Non-Residential Permits ($ mil.)	394	206	258.6	221	215	250
% change	121.3	-47.7	25.5	-14.5	-2.7	16.3
Population (000s)	383.8	388.5	395.2	402.4	409.5	417.0
% change	1.3	1.2	1.7	1.8	1.8	1.8

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