Ontario Economic Briefing

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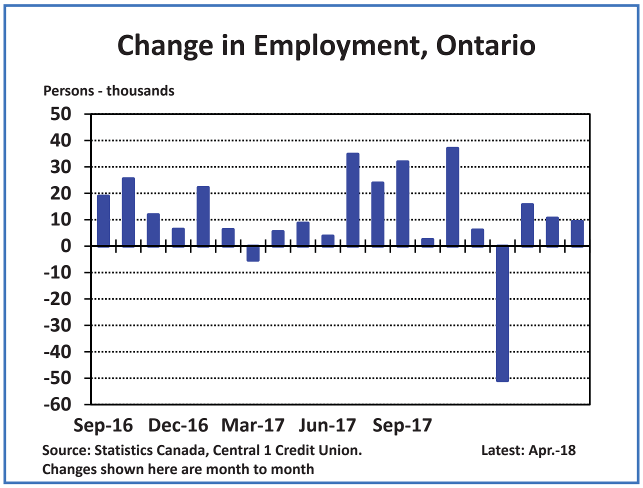
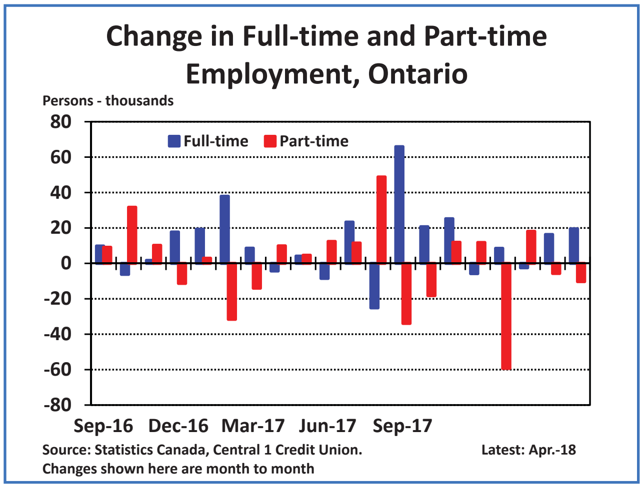
Highlights

- Strong full-time work growth lifts employment in April
- New housing starts down in April in Ontario
- Tourist visits to Ontario increased by 4.1 per cent in February
- Small business confidence in Ontario remains relatively unchanged in April
- Average price growth of an existing home in the Toronto area very modest in April





Ontario created 9,300 net new jobs in April

April's unemployment rate inched up to 5.6 per cent from 5.5 per cent due to slightly stronger growth in the labour force (0.2 per cent) relative to growth in employment (0.1 per cent). In April, 9,300 new jobs were added to the Ontario economy due to growth in full-time jobs (19,500 new full-time jobs in the month), off-setting the decline in part-time jobs (10,300 fewer part-time jobs in the month).

By sector, services created 26,300 new jobs (0.5 per cent growth) due to significant gains to: finance, insurance, and real estate (14,200 new jobs); professional and scientific services (11,000 new jobs); educational services (2,700 new jobs); accommodation and food services (4,800 new jobs); public administration (4,500 new jobs); and information, culture and recreational services (6,200 new jobs). On the other hand, the goods sector lost 17,000 jobs this month due to shedding of construction (10,400 jobs) and manufacturing (8,800 jobs). The shedding of construction jobs in April erased almost all the gains from the previous two months. Manufacturing has been oscillating between positive and negative jobs gains over the last four months. This fluctuation could be white noise from the survey sampling.

Our forecast for employment growth this year is currently 1.4 per cent. This month's seasonally-adjusted at annual rate (SAAR) calls for 1.6 per cent well above our forecast. It is also encouraging to see that full-time job creation is more than off-setting the decline to part-time jobs for the second consecutive month. It has been noted in the media and by Central 1 that the Canadian economy is very tight and working at or very near capacity to meet market demand as employers are hiring more workers and moving some part-time workers to full-time work. The drop to construction employment this month is a by-product of the current adjustment in the province's housing market, as evidenced by fewer new housing starts in April (discussed in detail below).

Fewer low-density housing starts pull down Ontario's total new housing starts in April

Ontario housing starts continued to decline in April with 66,684 new housing starts at SAAR from 71,109 in March (down 6.2 per cent). The drop in new housing starts in April can be attributed to significantly fewer single-detached and semi-detached homes getting to the build stage. New apartment starts remained relatively unchanged in April and row/townhomes increased by 3.2 per cent, the largest gains by tenure type this month.

SAAR housing starts in the Greater Golden Horseshoe (GGH) declined in April by 15.3 per cent to 44,463 units SAAR following the 37.2 per cent decline last month. In areas of Ontario excluding the GGH, new housing starts increased in April by 19.8 per cent to 22,021 units SAAR.

In April, half of the markets in the GGH declined. All other markets in Ontario posted new housing starts gains. Significant gains occurred in the following markets: Barrie, Brantford, Greater Sudbury, Hamilton, Kingston, London, Ottawa, St. Catharines-Niagara, and Windsor.

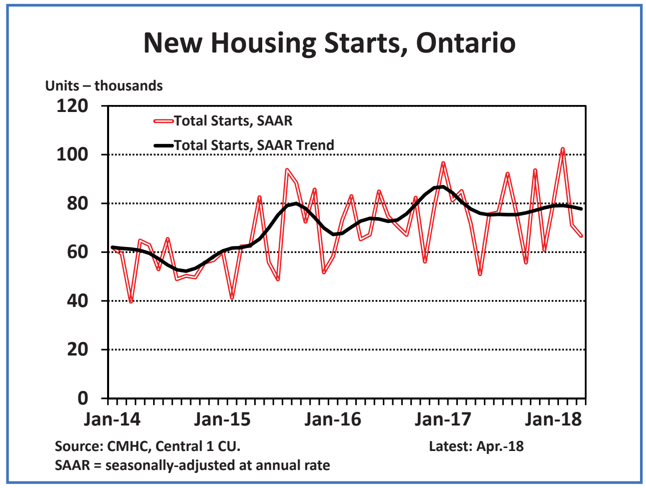
The seasonally-adjusted price of a new single-detached home in Ontario, based on the contract price, increased in April. The average price increased 10.5 per cent (to $854,765) from March and the median price increased 6.9 per cent (to $657,500). Both the median and average price posted significant year-over-year gains in April at 11.4 and 17.7 per cent respectively.

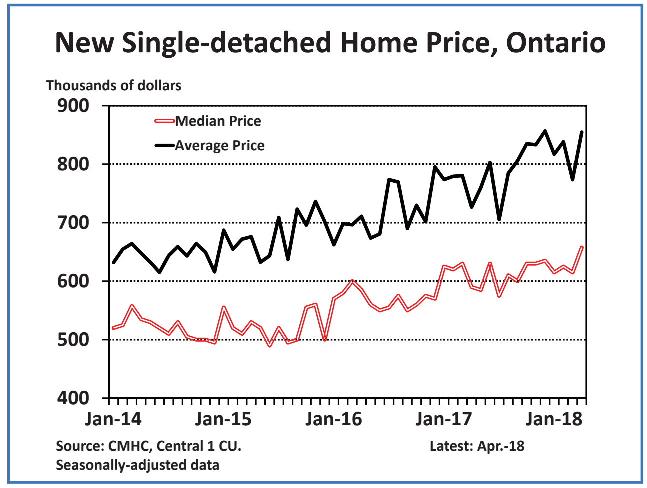
Similarly, March residential building permit dollar volumes for all Census Metropolitan Areas (CMA) in Ontario declined by 12.2 per cent, the second consecutive month of declining volumes. Permits for single-detached and multi-family homes declined by 11 and 13.4 per cent, respectively.

Volumes in the GGH, where close to 81 per cent of volumes occurred in March across all CMAs, declined by 11.2 per cent to $1.2 billion due to a moderation in permit volumes for single-detached and multi-family homes. The concentration of building intentions in the GGH pulled down volumes in Ontario. In CMAs outside the GGH, volumes also declined in the month by 16 per cent to $274 million.

Despite the widespread moderation to building intentions in Ontario, not all regions posted fewer volumes. The following CMAs posted gains in March: Greater Sudbury (up 27.8 per cent), Hamilton (up 111.5 per cent), Kingston (up 29 per cent), Oshawa (up 172.6 per cent), St. Catharines-Niagara (up 51 per cent), and Thunder Bay (up ten per cent).

In the first quarter of 2018, residential building permit volumes in Ontario CMAs are down 9.8 per cent to $4.9 billion compared to the same period last year due to a 11.9 per cent decline in the GGH to $4 billion. The decline in volumes in the GGH is due to a drop to both single and multi-family residential permit volumes. Year-over-year, residential permit volumes increased in regions outside the GGH by 0.2 per cent to $951 million due to gains in single-detached permit volumes, which off-set the decline for multi-family residential permit volumes.





A tale of two regions is emerging in Ontario's new homes market. In regions in the denser GGH, the housing demand-related policies continue to take a bite out of activity as evidenced by the leading indicator building permits. Volumes are down in the GGH for the more expensive lower density housing such as single-detached and semi-detached homes, which months down the road translates to less new housing of this type getting to the build stage. New condo apartment starts are less volatile in the short-run due to pre-sale contracts many years in advance. On the other hand, in regions outside the GGH, new housing starts are up but there are signs that even in these regions where the new policies will not affect new home buyers as much, supply will moderate as evidenced by fewer building permit volumes in March.

As expected, the new policies will continue to affect the new homes market for at least the first half of the year. Buyers looking for a new home will have to look specifically at higher-density housing in the GGH or face an uphill battle getting mortgage approval for a new low-density home such as a single-detached or semi-detached home. In regions outside the GGH, buyers still have options and the data suggests they are still interested in low-rise housing because they can get mortgage approvals there. However, higher-interest rates may be starting to weigh even on the minds of buyers outside the GGH as evidenced by fewer building permit volumes.

Ontario's tourism industry gets a boost in visitors in February

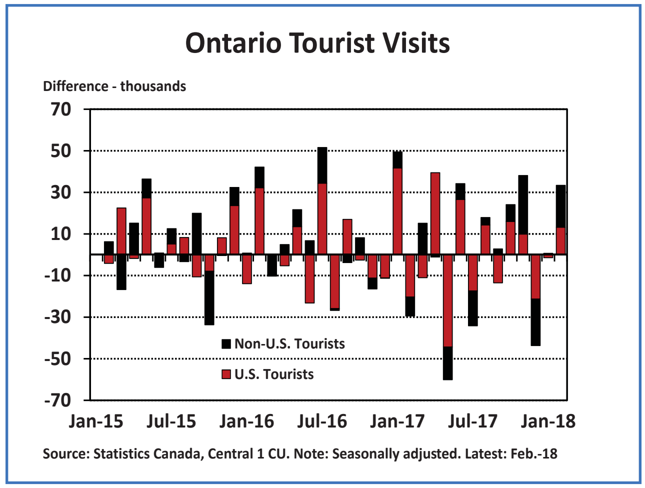
The number of visitors to Ontario increased in February over January by 4.1 per cent (843,635 visitors) after dipping each of the last two months. Visits from U.S. citizens rebounded in February by 1.3 per cent (355,374 visitors), coupled with a surge in non-U.S. visitors of 8.5 per cent (258,109 visitors). After peaking in August of 2017, the share of U.S. visitors to Ontario has declined and non-U.S. visitors, while still only about one-third of total visitors, are slowly becoming a bigger share of the visitor pie.

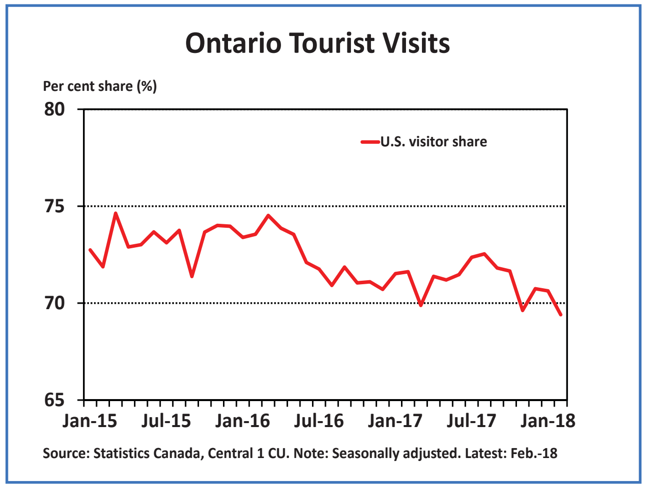
Given the proximity to the densely populated eastern seaboard of the U.S., most visitors from the U.S. (over 60 per cent), come via automobile. A stronger U.S. dollar relative to our loonie attracts visitors, however recently elevated gasoline prices makes a trip to Ontario more expensive for U.S. visitors, hence some of them may be forgoing their vacation plans in Canada.

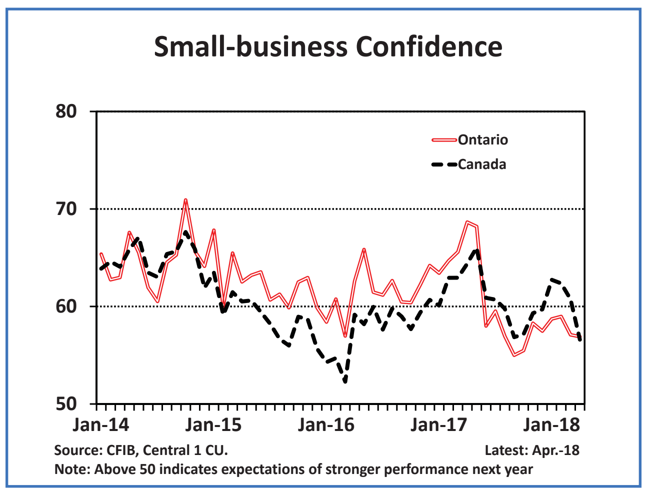
Small business confidence unchanged, hiring intentions positive over the next few months

Small business confidence in Ontario remained relatively unchanged in April, decreasing by only 0.2 points from March to 56.9 points. Ontario's index had been consistently tracking lower than the corresponding national index, but March's reading marked the first time in eleven months that the Ontario index was higher than the national index. In April, the national index reading stood at 56.6 points, a robust 4.1 points lower than March's reading. The moderation in the national index this month is due to lower month-over-month small business confidence across all provinces in April over March. Among provinces, Nova Scotia (67.9 points), Prince Edward Island (65.3 points), and British Columbia (61.4 points) remained unchanged from last month as the regions with the highest small business confidence.

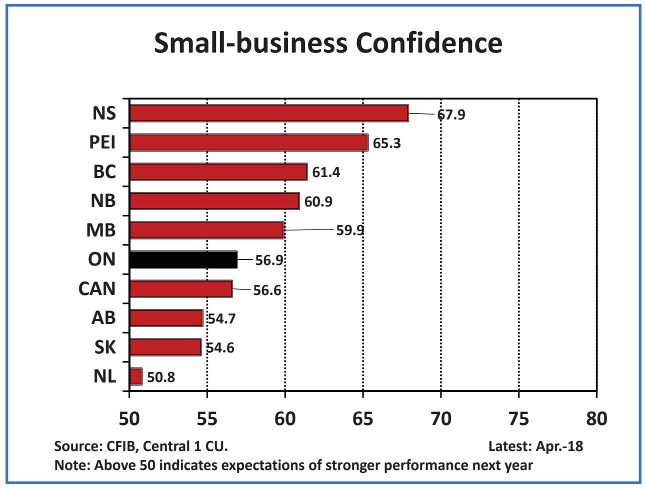
Year-over-year, small business confidence continues to persistently track lower than the same period last year and the difference in index readings are increasing. April's reading is a whopping 11.8 points off the same month last year, the largest difference year-over-year so far.





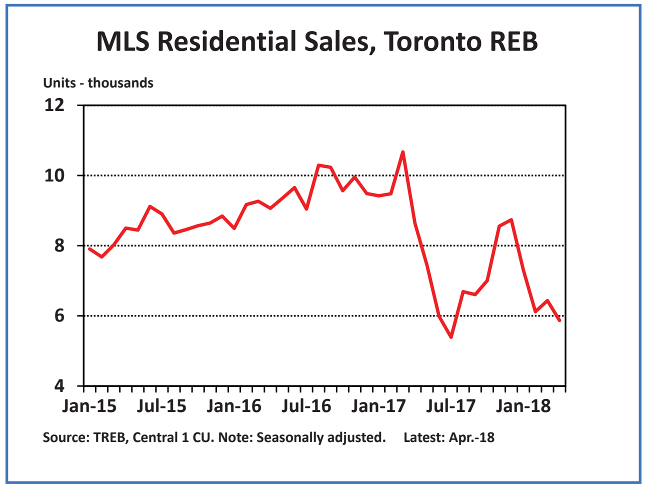


Ontario's small business confidence remained relatively unchanged, while the rest of the country saw more pronounced declines. According to small business owners, the general state of the economy remains good and hiring intentions over the next three months are pointing up. A tight jobs market is a potential headwind for small business growth with sales and/or production growth for small business, possibly challenged by a shortage of skilled workers which has translated to higher wage costs (provincial minimum wage hikes notwithstanding). Ontario is expected to continue to attract skilled workers. In 2018, we are expecting a further 19,000 additional people with most of those new Ontarians coming from abroad. The continued influx of skilled workers should alleviate labour market tightness.

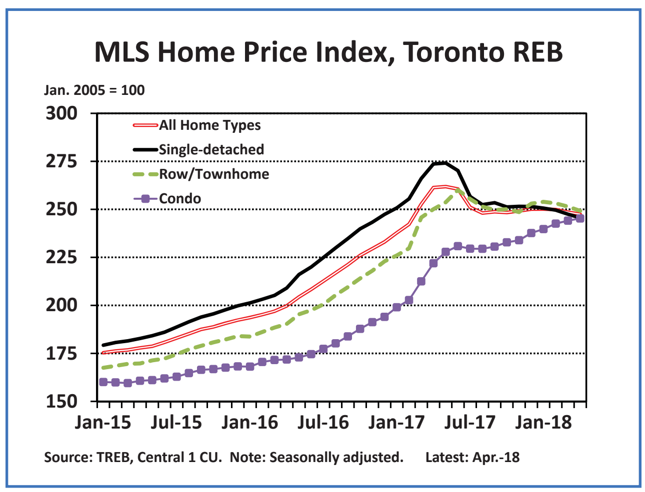


Fewer existing home sales in the Toronto area in April

Seasonally-adjusted existing home sales from the Toronto Real Estate Board (TREB) are down in April by 8.8 per cent to 5,869 units over March. Compared to the same month last year, existing home sales are still down 32.1 per cent. Year-over-year sales are down thirteen straight months. Supply-side, seasonally-adjusted new listings moderated in April by 5.4 per cent to 12,085 new listings. This marked two consecutive months that new listings moderated in the Toronto area. A stronger moderation of sales relative to the moderation in new listings continued to place the market deeper in a balanced market (seasonally-adjusted sales-to-new-listings-ratio at 48.6 per cent, down from 50.4 per cent last month).



The seasonally-adjusted average price, across all housing types, continued to decline in April. Prices declined a further 1.1 per cent in April to $752,155 after declining in each of the previous three months. Year-over-year, the average existing home in the Toronto area was down 12.6 per cent. Benchmark home values, a measure of quality-adjusted prices, decreased year-over-year in April by 5.3 per cent due to a 10.3 per cent single-detached home benchmark price drop. The benchmark price for row/townhomes remained relatively unchanged year-over-year (down only 0.4 per cent) and the corresponding measure for apartments increased 10.5 per cent.



Underlying economic and demographic fundamentals remain unchanged and supportive of homeownership. Policy changes continue to create noise in the economy and the housing market as evidenced by fewer sales and listings. When sales do occur, they are in the higher density apartment space, thus contributing to muted average price growth. The data continues to support our contention that at the onset of 2018, the market will progress at a moderate pace for at least half the year to allow the market to adapt to the new environment.

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