Ontario Economic Briefing

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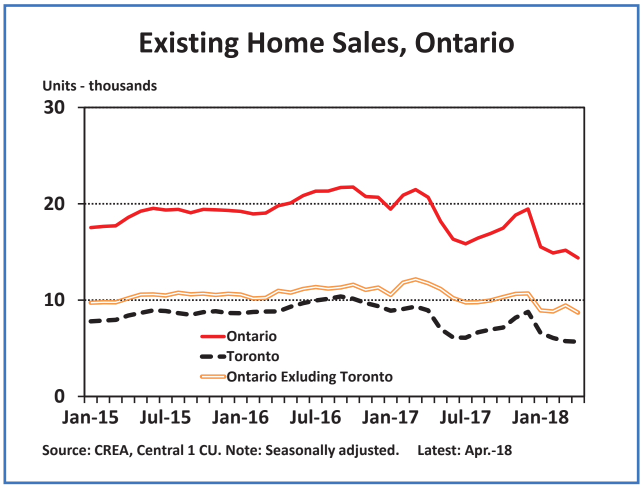
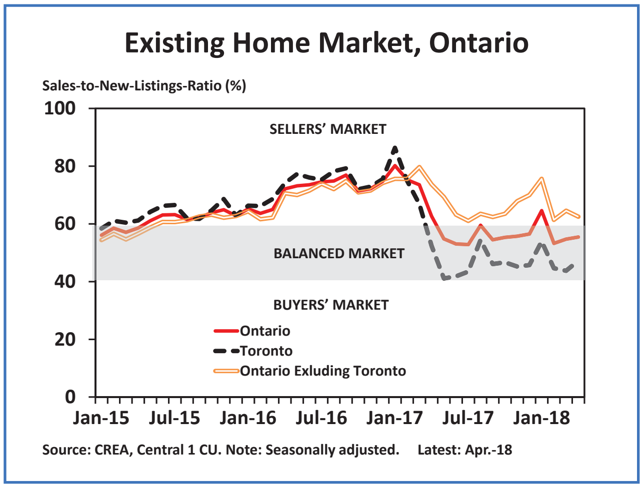
Highlights

- The average price of an existing home declined by 0.6 per cent
- Contraction of transportation equipment manufacturing pulled down all manufacturing in March
- Retail sales inched up 0.6 per cent
- Prices moved up 2.1 per cent year-over-year in April
- Average offered hourly wage in Ontario stayed relatively unchanged, year-over-year, in the fourth quarter of 2017





The existing homes market remained balanced in April

After increasing by 1.9 per cent last month, Ontario's existing home sales decreased by 5.3 per cent in April to seasonally adjusted 14,337 units. This marked the third of four months so far in 2018 that sales have decreased. April's sales are 21.1 per cent down from the monthly average for the period 2009 to 2018. New listings also decreased in April by 6.5 per cent to a seasonally-adjusted 25,931 units. With the decline in new listings outstripping the decline in sales, the sales-to-new-listings-ratio (SNLR) inched up in April to 55.4 per cent from 54.7 per cent in March. Currently, Ontario's existing homes market is classified as a balanced market. The seasonally-adjusted average price declined 0.6 per cent in April to a seasonally-adjusted $550,381.

Over the first four months of 2018, seasonally-adjusted sales are down 27.3 per cent and new listings are down 7.5 per cent. The SNLR declined from 72.2 to 56.7 per cent placing the market firmly as a balanced market. The average price is down 11 per cent.

Month-over-month existing home sales decreased in all markets in Ontario except for Guelph (up 2.2 per cent) and Thunder Bay (up 0.6 per cent). Over the first four months of 2018, all of Ontario's markets posted lower sales compared to the same period in 2017.

New listings continue to trend down as potential sellers of low-density homes remove their homes from the market given very modest price growth which is driven by sales of multi-family homes. Multi-family homes will continue to be the home of choice for Ontarians, particularly in the province's larger markets.

Month-over-month manufacturing gains anemic

In March, Ontario's manufacturing sales volumes accounted for 46.2 per cent of the national manufacturing sales volume and came in at $26.4 billion dollars. Month-over-month growth was a subdued 0.1 per cent while year-over-year growth was stronger at three per cent. By contrast Canada posted 1.4 per cent growth month-over-month and 6.4 per cent year-over-year.

The anemic month-over-month growth was caused by a contraction to durable goods of 0.1 per cent due to contractions to transportation equipment (-0.5 per cent), wood products (-5.6 per cent), machinery (-5.3 per cent), computer and electronic products (-6.2 per cent), and furniture and related products (-0.5 per cent). Together these sectors account for 44.6 per cent of manufacturing of which transportation equipment makes up the majority at 32.3 per cent.

Non-durable goods posted a 0.4 per cent gain in March due to mostly broad-based growth. Of the eleven sub-sectors that make up non-durables only five posted a contraction in March: food manufacturing (-0.4 per cent), textile mill manufacturing (-3.2 per cent), clothing manufacturing (-22.6 per cent), leather and allied products manufacturing (-8.1 per cent), and printing and related manufacturing (-1.4 per cent).

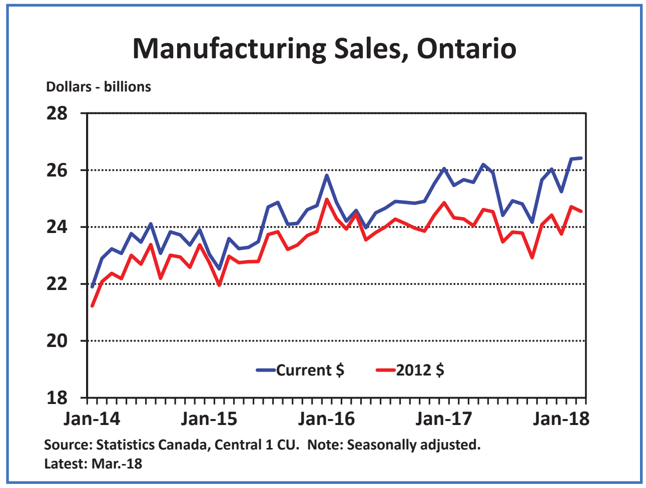
In the first quarter of 2018, manufacturing is up 1.1 per cent to $78.1 billion due to 1.4 per cent and one per cent gains to non-durable and durable manufacturing respectively compared to the first quarter of 2017. Year-over-year, transportation equipment manufacturing is down 4.9 per cent, as well as furniture and related products manufacturing (-0.2 per cent), plastics and rubber products manufacturing (-5.4 per cent), chemical manufacturing (-1.6 per cent), beverage and tobacco manufacturing (-0.5 per cent), and food manufacturing (-1.6 per cent).

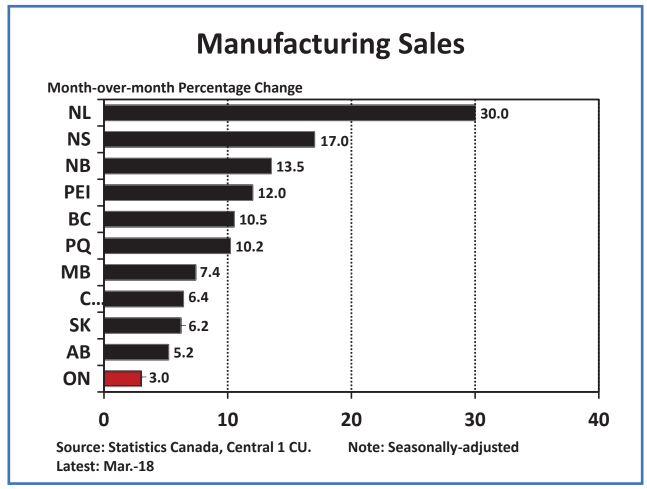
In the very long-term, higher gasoline prices due to constrained oil extraction could affect automobile demand many periods into the future. The current downturn in auto manufacturing is partly due to changing U.S. consumer tastes, but also some fears of auto producers ramping up production too strongly. Should a trade policy mistake materializes by the current U.S. administration, they may be left holding more supply of new autos than they are able to sell. Domestic demand for new automobiles remains strong, particularly for the broad truck category, and will support the sector until all the trade-related issues resolve themselves.

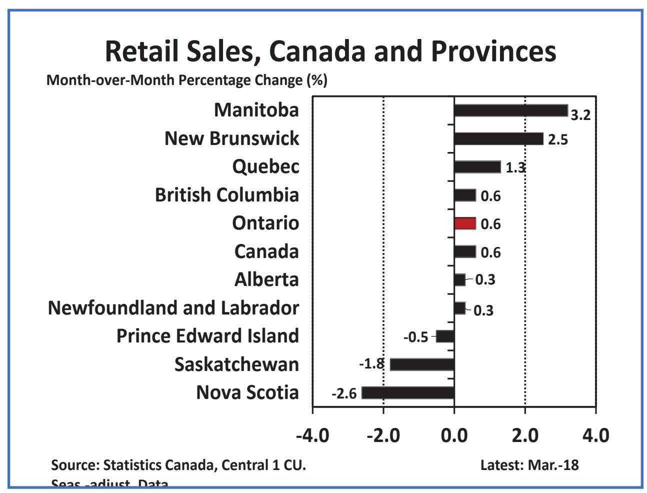
Retail sales increased 0.6 per cent

March retail sales came in 0.6 per cent higher than last month to $18.6 billion and remained up year-over-year by 4.6 per cent. Canadian retail sales moved up by 0.6 per cent in the month due to not only Ontario's contribution to growth, but also British Columbia's (up 0.6 per cent) and Quebec (up 1.3 per cent). Manitoba and New Brunswick rounded out the provinces with retail sales growth in March at 3.2 and 2.5 per cent respectively.

Retail sales were down slightly in March from February's growth rate of 1.1 per cent due to declining sales in six categories that made up over half of the sales volume in Ontario. Among them, motor vehicle and parts sales declined 0.1 per cent (27.3 per cent share of sales), gasoline station sales declined 3.4 per cent (10.2 per cent share of sales), and health related product sales which declined 1.7 per cent (7.8 per cent share of sales).







In Toronto, retail sales moved up by one per cent in March to $7.6 billion, slightly higher than the provincial rate of growth but slower than Canada's other two large cities, Vancouver and Montreal, which each posted 2.4 per cent growth in retail sales in March.

Relatively unchanged wages (more on that below in the job vacancy survey section), higher interest rates which affects debt repayment, and higher gasoline prices are keeping consumers on the sidelines with their belts tightened.

Inflation remained above two per cent year-over-year for the third straight month

The Consumer Price Index (CPI) increased 2.1 per cent year-over-year in April, slightly down from the 2.4 per cent posted in March. This marked the third straight month that the CPI has been above two per cent year-over-year growth. The CPI, excluding food and energy, was slightly higher than the headline CPI coming in at 2.4 per cent growth year-over-year.

Service price growth outstripped goods price growth year-over-year significantly coming in at 2.7 and 1.3 per cent respectively. Price growth for goods came mostly from durable and semi-durable goods. Service price gains came from food, especially food purchased in restaurants, transportation both public and private transportation and personal care services.

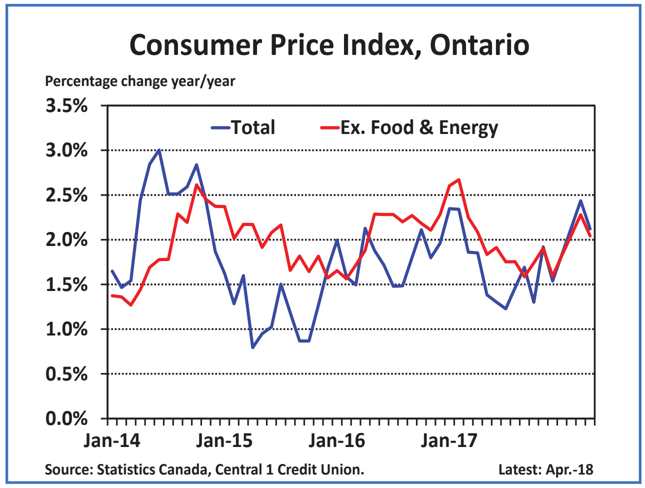
Gasoline prices were up 15 per cent in April, still a substantial clip, but are down from March's 20.2 per cent year-over-year rate of growth. Despite the slight moderation in year-over-year gasoline prices, this marked the ninth consecutive month that Ontario has posted double digit year-over-year gasoline price gains.

Prices in Toronto increased 2.4 per cent year-over-year slightly higher than the province. Owned shelter costs moved up 2.7 per cent in April which helped push the overall headline inflation rate in Toronto higher than the province. In the nation's capital, prices moved up 2.2 year-over-year and in Thunder Bay moved up by 1.4 per cent during the same time frame.

Gasoline price gains were partly attributable to temporary supply disruptions at oil refineries, as they transitioned to summer fuel blends. With higher gasoline prices, the transportation costs for businesses have gone up and these are being transferred to the final consumer. Ontario's higher minimum hourly wage is also having some effect on prices as business owners increased prices to off-set the increased operational costs.

Job vacancies up year-over-year in the fourth quarter of 2017

The Job Vacancy and Wage Survey (JVWS) provides a quarterly indication of the relative tightness of Canada's job market. Looking specifically at Ontario



fourth quarter job vacancies increased by 17.3 per cent to 190,585 vacancies from the same quarter in 2016. By region, Ontario's northern region posted the largest gains year-over-year in job vacancies at 39.8 per cent (to 9,015 vacancies) followed by Ontario's central region (up 19.4 per cent to 21,865 vacancies) and Ontario's southern region (up 15.8 per cent to 159,700 vacancies).[1] The majority of job vacancies are located in Ontario's southern region which accounted for 83.8 per cent of all job vacancies in Ontario.

Ontario's job vacancy rate averaged three per cent in the fourth quarter and increased by 0.3 percentage points from the same period in 2016. Among its regions, the southern region posted the highest job vacancy rate at 3.1 per cent (up 0.4 percentage points year-over-year). Ontario's central and northern regions posted higher job vacancy rates in the fourth quarter of 2017 relative to the same period last year, but despite the gains in the vacancy rate they are still slightly below the provincial average. Northern Ontario's job vacancy rate stood at 2.7 per cent (up 0.8 percentage points year-over-year) and central Ontario's job vacancy rate moved up to 2.5 per cent (up 0.3 percentage points year-over-year).

Despite the increased job vacancies in Ontario, the average offered wage per hour[2] remained relatively

[1] Ontario's economic regions have been grouped into the following broad categories:
Central – Ottawa, Kingston-Pembroke, and, Musoka Kawarthas
Northern – Northeast and Northwest
Southern – Toronto, Kitchener-Barrie-Waterloo, Hamilton-Niagara Peninsula, London, Windsor-Sarnia, and Stratford-Bruce Peninsula

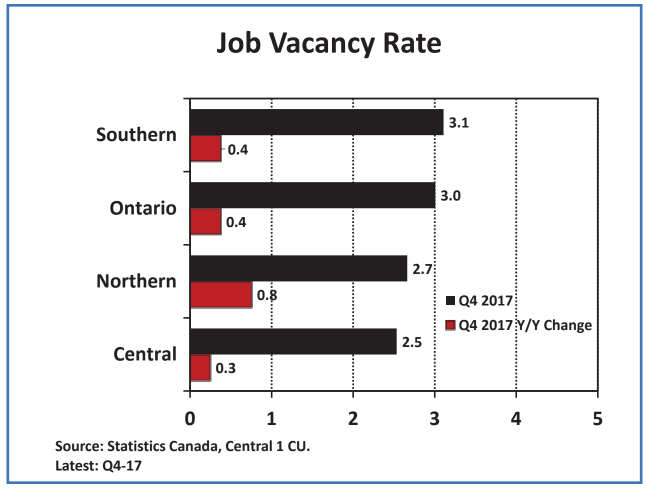
[2] The average hourly wage offered by employers for vacant positions. It excludes overtime, tips, commissions and bonuses. Salaries are converted to hourly wages based on information regarding the frequency of pay and the expected average number of hours worked per week. The offered wage may be different from the actual wage paid once the position is filled. .

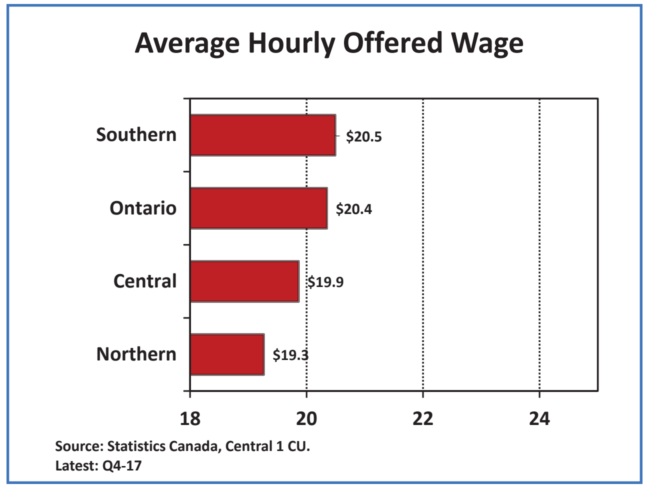
unchanged in the fourth quarter of 2017 compared to the same period in 2016. Ontario's average offered wage stood at $20.40 dollars per hour (down by 0.2 per cent). Central Ontario's average offered wage per hour posted the highest decline year-over-year (down 3.3 per cent to $19.90). Southern Ontario posted the highest average offered wage per hour at $20.50 (up 0.3 per cent year-over-year). Ontario's northern region posted an average offered wage per hour of $19.30 (up 0.1 per cent year-over-year).

Job vacancies in Ontario's central and northern regions have been quite elevated for two consecutive quarters year-over-year. Ontario's central region is home to a significant concentration of government jobs and other skilled jobs (i.e. a growing tech sector). Filling skilled roles remains a challenge for employers in this region. In the north, with continued outflow out of these regions of young people, that has been somewhat off-set by international immigration, filling roles is a challenge for employers. This is the case even with higher paying jobs thanks to the region's goods-producing sector and commodities driven industries (i.e., mining, lumber).

In Ontario's southern region, the jump in job vacancies growth year-over-year in the fourth quarter far exceeds the jump in the same metric in the third quarter. Despite Ontario's southern region being the most densely populated and having the most diverse economy, employers are still facing difficulties filling roles, especially highly-skilled positions. Given this shortage of skilled-workers many employers are moving part-time workers to full-time hours to meet market demand.

Ontario has many growing sectors, among them the tech sector due to several regions of the province becoming hubs of growth for new technologies such as artificial intelligence. Employment is expected to grow by an additional 1.4 per cent in 2018, but the shortage of highly-skilled workers will continue. Worker shortages has been a long-standing issue in Ontario. Unless the government can ramp-up the attraction of skilled-workers, shortages will continue for the foreseeable future.





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