Ontario Economic Briefing

Volume 24 • Issue 28 • Week of July 9-13 2018 | ISSN: 1981-355

Highlights

- Very strong townhome and condo apartment starts recorded in June
- Commercial and institutional permit volume growth lifted total volumes in May
- Ontario's job market getting tighter, year-over-year rate of growth of job vacancies slows down

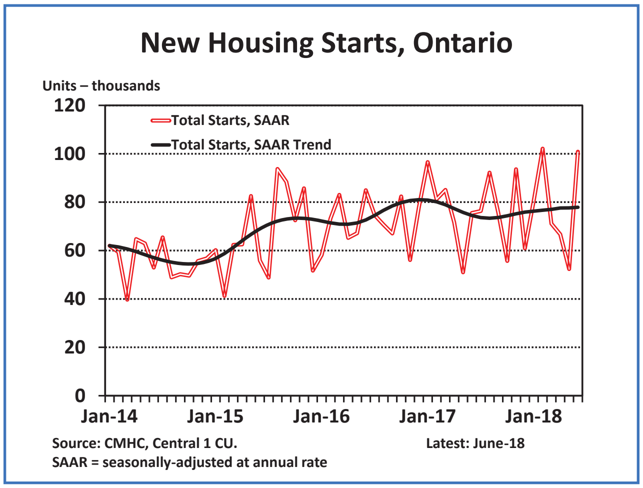
Housing starts surpassed 100,000 SAAR units for only the fifth time in June

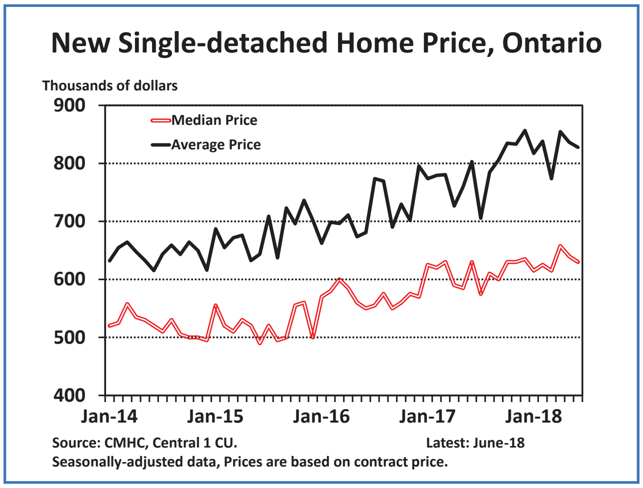
Very strong growth in multi-family housing starts in June helped lift Ontario's overall tally despite another month of declining single-detached housing starts. In June, Ontario builders poured a seasonally-adjusted at annual rate (SAAR) 100,816 foundations, up 92.6 per cent from May, mainly due to a robust increase in townhome and condo apartment starts.

In the Greater Golden Horseshoe (GGH), starts doubled from May and similarly in areas outside the GGH, starts grew impressively by 71 per cent month-over-month. The GGH accounted for close to 75 per cent of Ontario's starts in June.

Starts increased in 12 of the 15 Census Metropolitan areas (CMA) in Ontario with very strong month-over-month SAAR gains recorded in the following:

- Barrie
- Greater Sudbury
- Guelph
- Kingston
- Kitchener-Cambridge-Waterloo
- London
- Ottawa-Gatineau (Ontario part only)
- Thunder Bay
- Toronto





The seasonally-adjusted average and median price of a new single-detached home in Ontario, based on the contract price, continued to decline in June by 1.6 and 1.1 per cent respectively. Since April 2017, the average price of a new single-detached home has declined eight times.

Over the course of the last three months, from the beginning of April to the end of June, homebuilders dwindled down the backlog of units under construction by completing more low-rise homes. These low-rise homes can be easier to complete, thus helping to push completions up. Moreover, another factor that could have helped bring down this backlog is added labour. For example, in June the Labour Force Survey from Statistics Canada reported that over 18,000 workers were brought on to construction sites. With more completions in the books, home builders were able to break ground on new projects.

Currently, SAAR housing starts are tracking significantly higher than our forecast for 2018. The market should moderate after the summer months, when construction is typically very robust. Uncertainty surrounding the outlook of the Ontario economy, given unexpected shocks, should also moderate homebuilding as the backlog decreases and fewer new homes are purchased in showrooms off specs.

Non-residential permit volumes increased for first time this year in May

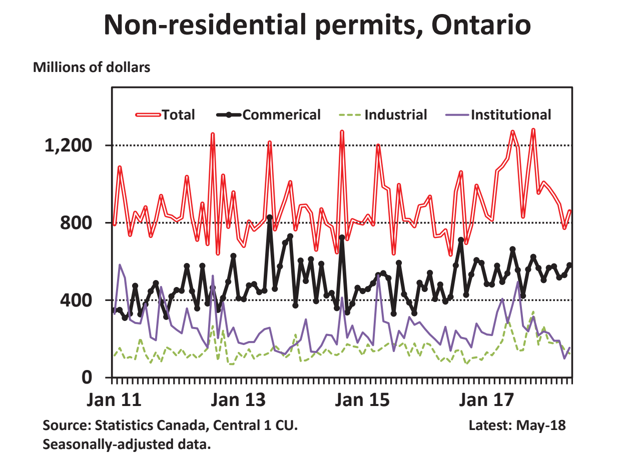
Non-residential building permit dollar volumes in Ontario's urban centres rose for this first time this year in May, coming in at $859.6 million, a very healthy 11.2 per cent growth month-over-month. May's jump in volume can be attributed to a robust jump in commercial and institutional volumes that more than made up for the drop to industrial permit volumes. Commercial permits, which made up most of volumes in May at 68 per cent, increased 9.6 per cent over April to $580.9 million.

Over the first five months of the year, non-residential building permit dollar volumes in Ontario's Census Metropolitan Areas (CMA) lag last year's total by 10.1 per cent. Institutional permit volumes have mostly lagged last year's volumes four of the five months, while industrial permit volumes have recoiled significantly over April and May compared to those same months last year. Together, these two segments have dropped $691.8 million compared to last year. On the other hand, commercial permit volumes have outpaced last year's totals all months this year compared to last year apart from March. The gains posted by commercial permit volumes, while significant at $194.6 million, cannot off-set the losses in commercial and institutional permit volumes.

In the Greater Golden Horseshoe (GGH,) CMAs non-residential building permit volumes increased by 17.6 per cent in May over April to $725.7 million, while in CMAs outside the GGH permit volumes declined 14.2 per cent month-over-month to $133.9 million.

Year-to-date, non-residential permit volumes are down in GGH and non-GGH urban areas by 8.1 and 19.1 per cent respectively. Year-over-year declines over the last three months in GGH markets have anchored the year-to-date tally, while lower growth over all five months this year (compared to last year) pulled down year-to-date volumes in non-GGH markets.

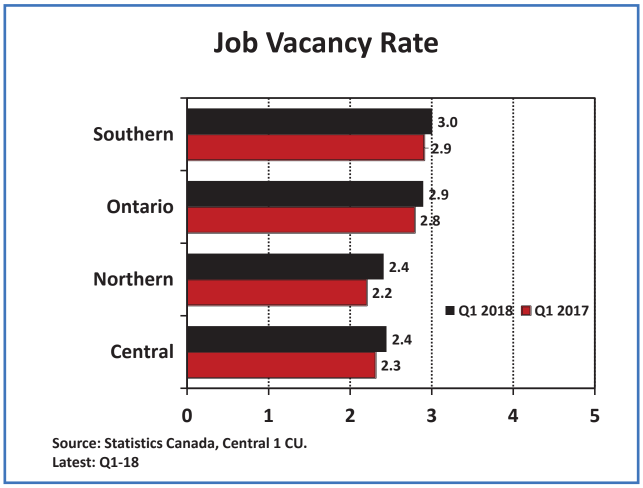
By CMA, non-residential permit volumes decreased month-over-month in nearly all markets with the following exceptions:

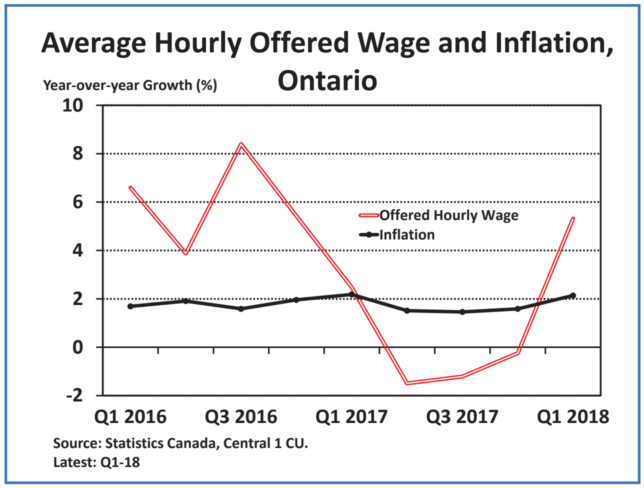


- Brantford (25 per cent)
- Kitchener-Cambridge-Waterloo (230.7 per cent)
- London (1.1 per cent)
- Oshawa (63 per cent)
- Thunder Bay (25 per cent)
- Toronto (22.1 per cent)

There are several mixed-used projects in the pipelines that are getting started in Ontario that are contributing to growth in commercial permit volumes. Some of the projects under way this year include:

- The continued redevelopment of the old Kellogg's factory in London into a 17,000 square feet indoor recreational facility dubbed "The Factory"
- Dundas Place in London (phase 1 redevelopment began in April). This is a multi-phase project ending in 2025 aimed at redeveloping London's main commercial corridor.
- London's Camden Terrace is a mixed-used multi-tower project is expected to begin construction this year. Upon completion of all phases, this project will add 18,000 square feet of street-level commercial and retail space.
- 345 King West in Kitchener-Cambridge-Waterloo is under construction. This office building will have ground-level retail spaces when completed.
- 900 Albert in Ottawa-Gatineau is another mixed-used project breaking ground this year that will include 116,000 square feet of retail space. This project will be near Bayview station with accessibility to the Confederation LRT line and the O-Train.





Year-over-year wage growth stronger than inflation

According to the Job Vacancy and Wage Survey (JVWS), which provides a quarterly indication of the relative tightness of Canada's job markets, the year-over-year rate of job vacancies growth decelerated in Ontario and all its sub-regions in the first quarter of 2018, compared to the fourth quarter of 2017. Ontario's vacancies increased 5.7 per cent to 180,950 jobs year-over-year in the first quarter of 2018, compared to an increase of 17.3 per cent year-over-year in the fourth quarter of 2017. Year-over-year growth in job vacancies was the lowest in southern[1] Ontario at 4.3 per cent and the highest in northern Ontario (14.9 per cent) and central and eastern Ontario (13 per cent).

By sector, Ontario's job vacancies are most concentrated in the following sectors:

- Health care and social assistance (11.7 per cent share)
- Administrative and support, waste management and remediation services (10.5 per cent share)
- Manufacturing (9.4 per cent share)
- Accommodation and food services (8.4 per cent share)
- Professional, scientific and technical services (7.8 per cent share)
- Retail trade (7.5 per cent share)

Year-over-year, job vacancies fell significantly in construction (805 jobs), retail trade (7,645 jobs), and accommodation and food services (2,720 jobs).

Ontario's job vacancy rate averaged 2.9 per cent in the first quarter of 2018, edging up 0.1 points from the same period last year. Among its regions, Ontario's south had the highest vacancy rate at three per cent (up 0.1 points year-over-year), while its northern and central regions both registered identical job vacancy rates of 2.4 per cent. Year-over-year however, northern Ontario's vacancy rate edged up 0.2 points while central Ontario's vacancy rate edged up 0.1 points.

With a tighter job market, Ontario's average offered wage per hour[2] increased 5.3 per cent year-over-year in the first quarter to $21.80. Moreover, this quarter's year-over-year growth is significantly higher than the year-over-year inflation growth. By region, the highest average hourly wage is found in Ontario's southern region, but Ontario's northern and central regions posted stronger year-over-year growth.

Ontario is facing a shortage of labour in its construction industry due to aging workers and looming retirements. This affects the homes sector in a variety of ways, for example, as noted above with less labour, new projects get delayed and take longer to complete. Increased wage growth is attracting much needed workers to the construction sector.

Over the last two quarters, tourist visits to Ontario increased year-over-year, putting pressures on the hospitality industry to hire more workers, hence the significantly lower year-over-year job vacancies in the accommodation and food services sector.

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.

Finally, year-over-year quarterly retail sales volumes in Ontario were 4.5 per cent higher in the first quarter of 2018 compared to the same period last year. This followed strong year-over-year growth for several quarters prior. Continued retail sales growth led to increased hiring in this sector to meet market demand.

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