Ontario Economic Briefing

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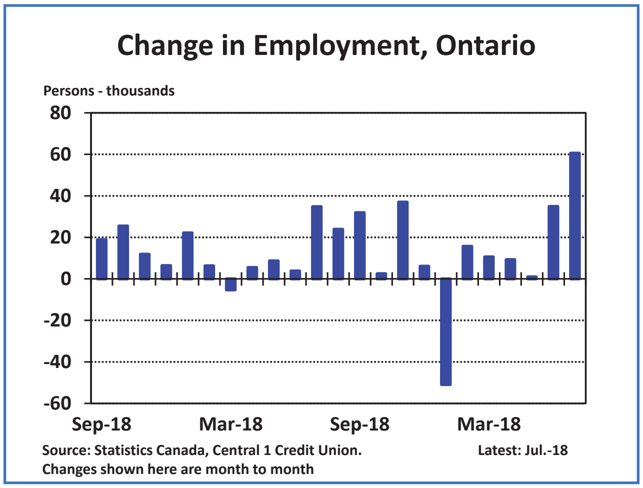
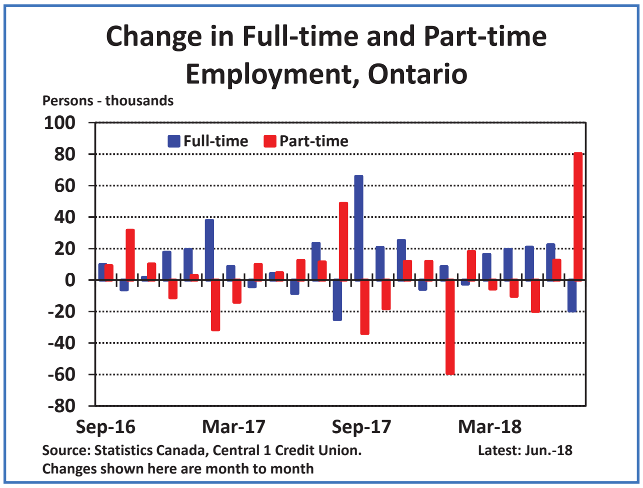
Highlights

- Strong part-time job creation lifts total employment in July
- New home construction took a significant pause in July
- Non-residential permit volumes up in June but still down year-to-date
- Condo apartment sales decreased in the second quarter by 3.8 per cent





Over 60,600 net new jobs created in July

The latest reading from the Labour Force Survey shows that in July, Ontario created 60,600 net new jobs, the largest net month-over-month net increase in jobs in 2018 thus far. Moreover, the unemployment rate declined to 5.4 per cent (a drop of 0.5 points from June), matching the most recent low recorded in July 2000 due to stronger growth in employment than the growth to the labour force. If one ended the story there, one would say this was a very good month for Ontario but digging a little deeper some cracks start to become evident. In the month, the net gain in jobs came from an over-abundance of part-time job creation (80,300 net new jobs) at the expense of a significant shedding of full-time jobs (19,700 net jobs shed).

By industry, the goods-producing sector shed 22,200 net jobs while the services industry added 82,800 net jobs, and likely many of those jobs in this sector were the part-time jobs mentioned above. In the goods-producing sector, a significant shedding of jobs in two key sectors: construction (6,500 net jobs shed) and manufacturing (14,200 net jobs shed), which account for 89 per cent of goods-sector jobs in Ontario, anchored job growth. On the other hand, strong employment in services came from the following large sectors:

- Wholesale and retail trade (23,200 net new jobs)
- Health and social services (18,800 net new jobs)
- Finance, insurance, and real estate (3,000 net new jobs)
- Educational services (24,200 net new jobs)
- Transportation and warehousing (4,800 net new jobs)

Less demand for new housing and for automobile affected employment in both the construction and manufacturing sectors. Moreover, a heightened sense of uncertainty with regards to the future evolution of the economy may have tempered businesses' desire to expand operations, particularly in commercial. This has also led to hiring part-time workers rather than full-time workers, who tend to be more expensive given that employers must provide along with a wage or salary other benefits such as healthcare, pensions, training, and vacations.

Housing starts declined by 34.8 per cent in July

The robust housing starts growth numbers posted in June in Ontario seems to be a short-lived boom. July's numbers came down significantly by 34.8 per cent when 65,742 new seasonally-adjusted at annual rate (SAAR) foundations were poured in the province. Housing starts decreased across all housing types in June, with particularly strong moderations to apartments and row/townhomes which declined by 46.4 and 32 per cent respectively.

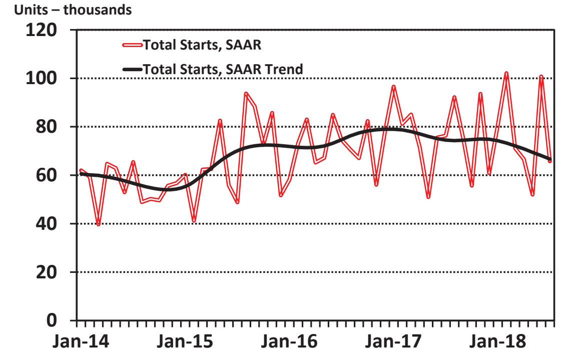
The moderation to housing starts is broad-based with a significant drop not only in those regions within the Greater Golden Horseshoe (GGH), but also in those regions outside this dense region. In July, housing starts in the GGH declined 34.3 per cent month-over-month to 49,381 units SAAR, while in regions outside the GGH housing starts declined 36 per cent month-over-month to 16,361 units SAAR.

Housing starts declined in all but two Census Metropolitan Areas (CMA) in July, those markets being Peterborough (13.7 per cent increase) and Windsor (4.3 per cent increase).

The seasonally-adjusted average and median prices of a new single-detached homes in Ontario, based on the contract price, continued its slide in July, falling a further 1.7 and 2.4 per cent respectively. This marked the third straight month both median and average prices have declined, and over the first seven months of the year these prices have only increased two of those months.

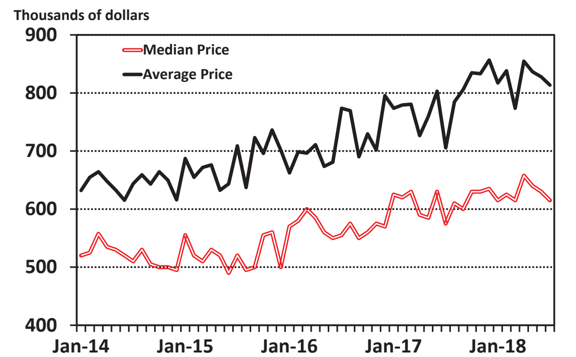
An uncertain economic future may possibly be affecting new housing construction in Ontario. Yet, on the other hand, the slowdown in construction this month may be due to the 64,536 SAAR apartment starts from last month, which usually take longer to complete and call on more resources taking away from other projects. We will need to see what the next five months of 2018 hold to really see if it's the latter or the former influencing new housing construction in the province.

New Housing Starts, Ontario



Source: CMHC, Central 1 CU.
SAAR = seasonally-adjusted at annual rate

New Single-detached Home Price, Ontario



Source: CMHC, Central 1 CU.
Prices are based on contract price.

Non-residential permit volumes increased second straight month in June

Ontario's non-residential building permit dollar volumes increased a further 6.1 per cent to $939.7 million following last month's jump of 13.5 per cent. This month's additional growth is due to growth to industrial and institutional building permits. Commercial building permits, which are 62 per cent of total volumes, declined slightly by 1.3 per cent in June.

With half the year completed, non-residential building permit dollar volumes in Census Metropolitan Areas (CMA) lag last year's total by 12.8 per cent. Commercial permit volumes remained 3.8 per cent higher than last year, while industrial and institutional permits remained 15.3 and 40.3 per cent lower respectively. To reach last year's total, non-residential building permits in Ontario's CMAs would need to average $1.2 billion monthly for the rest of the year. So far this year, the highest volume reached was $979.5 million in January.

Non-residential building permit volumes increased throughout the province, not only in the denser markets in the Greater Golden Horseshoe (GGH) but also in those markets outside this region. In June, volumes increased by 5.1 (to $794.8 million) and 11.3 per cent (to $144.9 million) in the GGH and non-GGH markets.

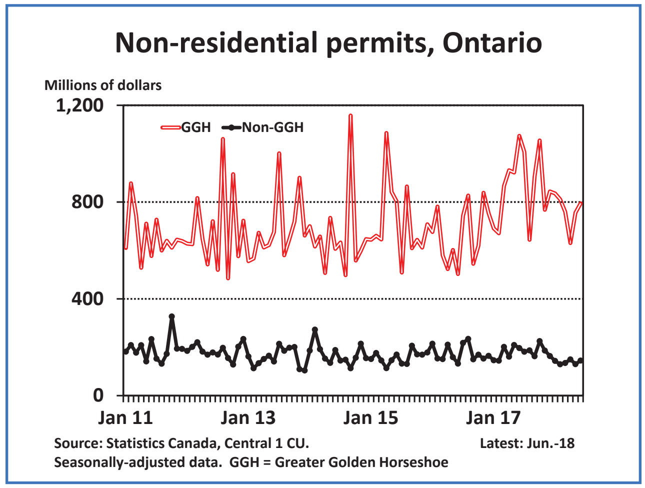
Year-to-date, non-residential permit volumes remained down in both GGH and non-GGH urban areas by 11 per cent (to $4.6 billion) and 21.4 per cent (to $833.6 million) respectively. Even with the gains over the last two months in the GGH, permit volumes remained anchored lower than the same period last year.

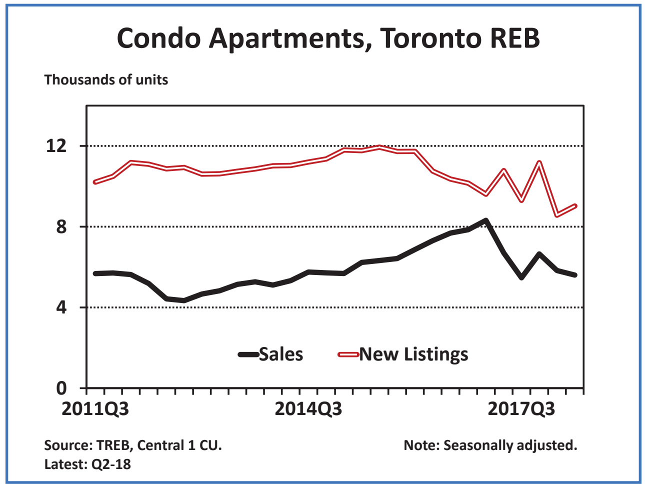
By CMA, non-residential permit volumes decreased month-over-month in nearly all markets with the following exceptions:

- Greater Sudbury (down 46.8 per cent)
- Kingston (down 9 per cent)
- Kitchener-Cambridge-Waterloo (down 27.7 per cent)
- Ottawa-Gatineau, Ontario part only (down 2.1 per cent)
- Peterborough (down 25.7 per cent)
- Thunder Bay (down 60.9 per cent)

Last month we mentioned when the provincial accounts came out that in the second quarter of 2018, the only area of provincial expenditures that was up compared to the same quarter last year was government spending. Many key ministries such as health and education have increased funding this fiscal year compared to last year. Some of those dollars may have now started to funnel into the economy into projects, hence the higher dollar volume this month to institutional permits.

Commercial permits, which are still up year-to-date compared to 2017, may be starting to feel the pinch from lessened consumer spending. Disposable incomes are up but with higher debt loads and uncertainty in the horizon, consumers are tightening their belts and as a result, business confidence is starting to wane and some projects that would have gone ahead are now being perhaps shelved until all the uncertainty gets resolved.





Condo apartment price growth strong despite fewer sales in the second quarter

Given the new rules restricting mortgage credit, buyers are still looking at higher density housing such as condo apartments, but this segment of the market has also seen a moderation in activity since the new rules came into effect.

The latest quarterly release from the Toronto Real Estate Board (TREB) shows that seasonally-adjusted condo apartment sales decreased a further 3.8 per cent, to 5,605 units, in the second quarter following a 12.4 per cent drop in sales in the first quarter.

The average seasonally-adjusted price for a condo apartment came in at $541,525, only a 1.7 per cent quarter-over-quarter increase. As new listings moved up by 5.3 per cent quarter-over-quarter, the increased inventory in the market gave buyers more choice and hence the muted price growth.

The average days on the market remained relatively unchanged at 22 days. Since the third quarter of 2017, the average days on the market have been oscillating between 21 and 23 days, well below the 14 to 16-day range seen over the first six months of 2017. With the new mortgage rules and tighter credit, there appear to be fewer buyers and therefore fewer multiple offers on units, hence higher average days on the market. Negotiating power has swung towards the side of buyers and slightly away from sellers. Currently the sales-to-new-listings-ratio still qualifies the market as a sellers' market (62 per cent seasonally-adjusted), but this is down seven per cent from the first quarter.

Over the first six months of the year, condo apartment sales are down 23.9 per cent compared to the same period last year, while new listings are also down year-to-date by 13.7 per cent. The significant drop in new listings during the first quarter this year pulled down the year-to-date tally. The drop to inventory, perhaps due to sales but also some potential sellers not listing or removing their listings, helped price growth. Year-to-date prices are still up 7.3 per cent to $541,538.

Potential demand for condo apartments will remain strong in Toronto, as many first-time buyers and empty nesters would like to get into the market. Yet, the new mortgage rules continue to filter who can qualify to buy from who would like to buy. This is one aspect to explain the muted activity this quarter. Another reason for the muted activity could be the uncertainty surrounding the economy.

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