Ontario Economic Briefing

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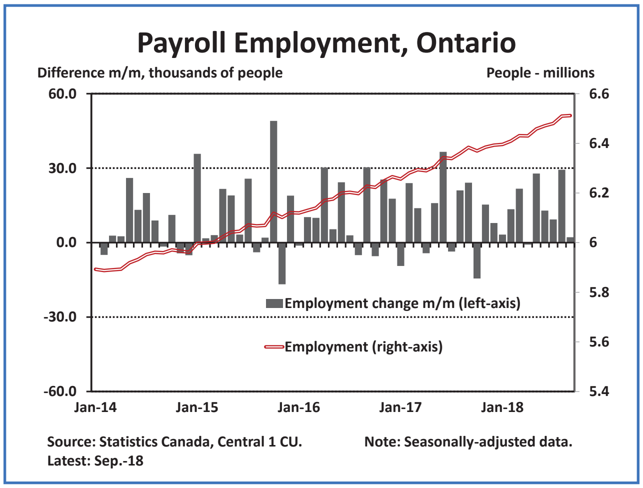
Highlights

- Payroll hiring moved up only 2,184 net jobs in September
- Very strong growth in auto body and parts manufacturing in September
- Increased rental supply edged up the vacancy rate
- Ontario's small business confidence declined 2.1 points in Novemberr



Payroll employment nearly unchanged in September

Payroll employment was nearly unchanged in September over August inching up by only 0.3 per cent or 2,184 net new jobs. The anemic job numbers this month were broad-based as the goods-sector hiring inched up 0.7 per cent and services-sector up 0.3 per cent. Despite the minor increase in employment this marked five consecutive months that hiring increased in Ontario.

By sector, the following key sectors posted job gains or losses in September:

- Manufacturing (423 jobs loss)
- Construction (1,059 job gains)
- Utilities (338 job gains)
- Retail trade (4,376 jobs loss)
- Transportation and warehousing (1,987 job gains)
- Administrative and support, waste management and remediation services (4,845 job gains)
- Education (3,131 job gains)
- Health care and social assistance (385 job gains)
- Finance and insurance (407 jobs loss)
- Real-estate rental and leasing (438 jobs loss)
- Professional, scientific and technical services (1,298 jobs loss)
- Accommodation and food services (819 jobs loss)

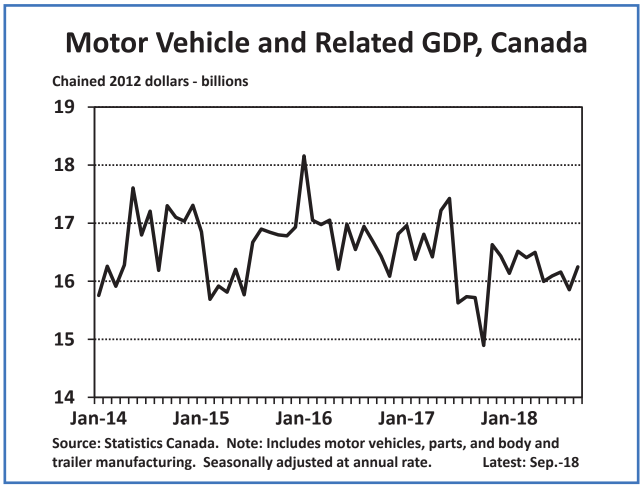
Fewer housing sales, less mortgage financing and related activity weighed on finance and insurance and real estate rental and leasing employment. Tighter consumer budgets are keeping people at home rather than going on vacations or eating at restaurants as regularly thus pulling down accommodation and food services employment. The drop in professional, scientific and technical services and manufacturing employment reflects diminished investment by businesses. Consumers are starting to spend less given economic uncertainty for the rest of this year and into 2019.

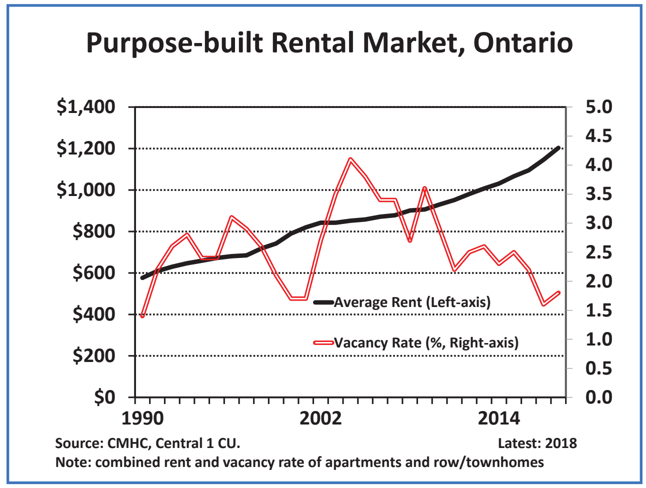
Average weekly earnings were virtually unchanged at $1,025.45 but wage earnings in the goods-sector fell $5.55 to $1,213.25. Service-sector wages moved up by $4.41 to $988.03 to provide a partial offset. Year-over-year, the fixed-weight index increased by 1.2 per cent, down from last month's year-over-year reading of three per cent.

Motor vehicle and parts manufacturing rebounds in September

September's industry Gross Domestic Product (GDP) reading for Canada eased 0.1 per cent from August. This was due to a moderation of 0.7 per cent in the goods-sector which more than offset a 0.2 per cent boost in the services-sector.

Despite the decline in the goods-sector, motor vehicle and parts manufacturing came back strongly in September by 2.5 per cent to $16.2 billion seasonally-adjusted at annual rate (SAAR), more than erasing last month's 1.9 per cent decline in activity. The rebound in motor vehicle and parts manufacturing was due to strong growth in motor vehicle body manufacturing





(8.9 per cent growth to $1.2 billion SAAR) and motor vehicle parts manufacturing (3.6 per cent to $9.2 billion SAAR). Motor vehicle manufacturing grew modestly by comparison (0.2 per cent to $6.1 billion).

High gasoline prices, ride sharing services and consumers waiting for electric cars to become more accessible are putting downward pressure on auto manufacturing. Instead of buying a new car many car owners may be opting to repair their current automobile. People who do not own a car are not purchasing cars—choosing to use public transportation, carpooling, or ride sharing services.

Combined purpose-built rental universe increased 1.1 per cent

The Canada Mortgage and Housing Corporation (CMHC) released their annual rental market survey this week. Ontario's combined purpose-built vacancy rate[1] in October 2018 inched up 0.2 percentage points to 1.8 per cent compared to the same time last year. The move up in the overall vacancy rate was due to increased vacancies in units built after 2000 with fewer than two bedrooms and with the highest average monthly rents of $1,500 or more.

Despite the movement up in the combined vacancy rate it remains well below the long-term average of 2.6 per cent.

Average monthly rents in Ontario mostly increased for newer units with two or fewer bedrooms. The increase helped pull up the combined same-sample average monthly rent by an extra 4.8 per cent in 2018, up from 3.8 per cent growth in 2017.

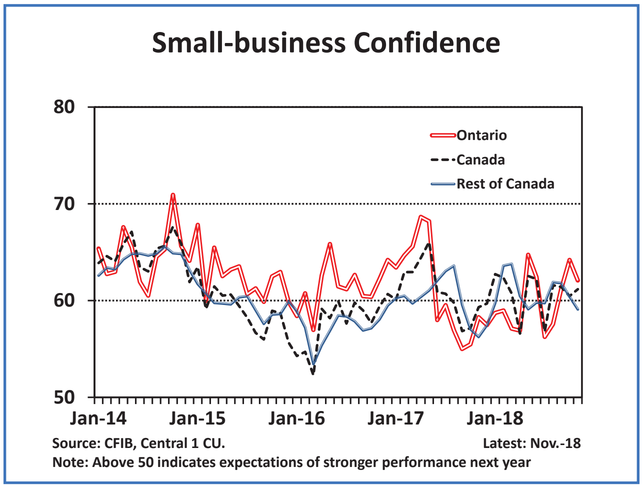
Ontario's combined purpose-built rental universe has increased over the last two years. In October 2018, the rental universe increased a further 1.1 per cent or 7,267 net new units to 689,320 total units, compared to 1.4 per cent growth in October 2017. Many extra units pushed up the province's vacancy rate. This is despite poor homeownership affordability conditions that leave some potential homeowners as renters, as well as strong rental demand from downsizing seniors and inflows of new Ontarians from Canada and abroad. Many of the new units commanded higher than average monthly rents due to the unit's newness, amenities, proximity to high-demand areas or urban core, and, proximity to public transportation or highways to serve commuting workers or students.

By census metropolitan area (CMA) Kingston posted the lowest vacancy rate at 0.6 per cent (down 0.1 percentage points from last year) due to a nearly unchanged rental universe (0.5 per cent growth to 14,130 units) and continued demand from students and downsizing seniors.

Thunder Bay had the highest vacancy rate at 5.1 per cent up from 3.3 per cent last year. Moreover, Thunder Bay posted one of the largest same-sample average rent jumps at 6.4 per cent up from 3.5 per cent last year. Peterborough and Ottawa-Gatineau (Ontario part only) posted larger same-sample average rent gains. Year-to-date, residential home sales remain up for only two CMAs—Ottawa-Gatineau and Thunder Bay—according to the Canadian Real Estate Association (CREA). The outflow of renters to homeownership raised the vacancy rate allowing landlords to charge higher rents to prospective new renters.

Strong rental supply growth in seven of Ontario's 16 census metropolitan areas helped edge up the provincial vacancy rate despite increased demand for rental. Toronto and Kitchener-Cambridge-Waterloo had the largest increase in universes at 1,616 net units and 1,728 net units respectively. The new units in

[1] For both apartments and row/townhomes



Toronto increased the universe by 0.5 per cent while in Kitchener-Cambridge-Waterloo the new units had a bigger impact increasing the universe by 4.8 per cent, the largest change in universe of all CMAs in Ontario. Despite a slightly increased universe, Toronto's vacancy rate remained unchanged at 1.1 per cent while the vacancy rate in Kitchener-Cambridge-Waterloo increased to three per cent from 1.9 per cent last year. The vacancy rate increased significantly in four of the five remaining five CMAs:

- Guelph (286 new units or 3.8 per cent growth, vacancy rate edged up 0.2 percentage points)
- Hamilton (722 new units or 1.6 per cent growth, vacancy rate up 0.8 percentage points)
- London (948 new units or two per cent growth, vacancy rate up 0.5 percentage points)
- Oshawa (468 new units or 3.7 per cent growth, vacancy rate up 0.6 percentage points)
- Ottawa-Gatineau (431 new units or 0.6 per cent growth, vacancy rate down 0.1 percentage points)

Over the next few years modest economic growth and constrained homeownership activity should absorb the new units and pull down the combined vacancy rate.

Business confidence retracts in November

Ontario's small and medium enterprise (SME) confidence declined by 2.1 points to an index value of 62.1 in November over October. November's reading reverses three consecutive months of increasing confidence. Nationally, SME confidence inched up 0.7 points to an index value of 61.2 due to declining confidence in seven of ten provinces.

Short-term employment plans are stable with 18 per cent of business owners looking to hire (a one per cent gain from last month) and 14 per cent looking to reduce staffing (a five per cent increase from last month). About 44 per cent of respondents say their firms are in good shape (a drop of three per cent from last month), while 10 per cent say their businesses are in bad shape (a three per cent gain from last month).

As consumers continue to tighten belts, businesses in several services-sectors such as retail sales, information, arts, and recreation, and finance, insurance, and realty are seeing diminished sales. This is putting downward pressure on their expectations for the next few months. Usually, business activity increases over the upcoming holiday season. Next month's data will provide a verdict as to whether this month's result was a temporary blip or the start of a longer-term malaise.

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