Ontario Economic Briefing

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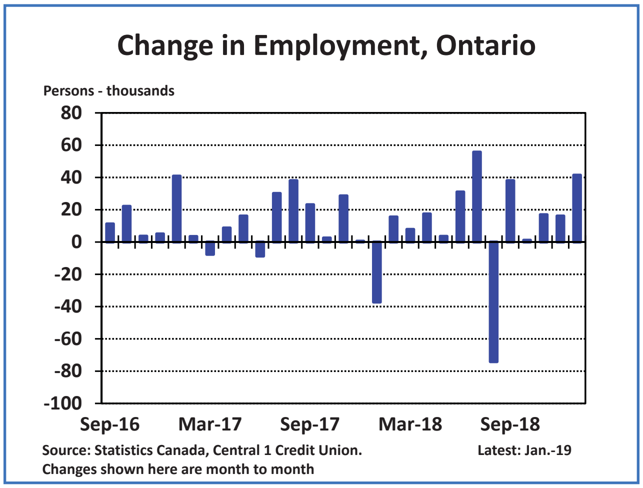
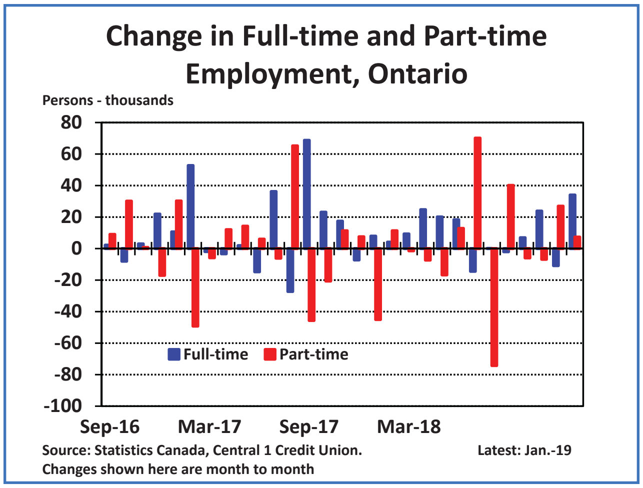
Highlights:

- Strong employment growth overshadowed by more people actively looking for work
- Ontario's housing starts increased by 6.8 per cent in January due to more high-density construction
- Non-residential permit volumes recoiled in 2018
- Increased supply in Toronto's existing homes market pulled down price growth in January



The unemployment rate moves up as more people actively looking for work

Statistics Canada released January's Labour Force Survey figures this week. First the good news. Employment continued to increase in January for the fifth consecutive month. More importantly, fulltime employment growth increased substantially in January over December adding 34,000 net fulltime jobs (all figures in this section are seasonally-adjusted) of the 41,400 total net new jobs created. Nationally, total employment increased by 67,000 net jobs of which Ontario accounted for 61 per cent of all new job creation nationally. Even though Ontario created substantial new employment in January, the number of people actively looking for work increased by a larger margin—pulling up the unemployment rate. In January, the labour force increased by 72,000 net potential workers to 7.8 million, which is more than double the net gain in employment. The unemployment rate moved up from 5.4 per cent in December to 5.7 per cent in January.



By sector, the services-producing sector added 49,700 net new jobs, which more than offset the 8,400 net jobs shed in the goods-sector mostly due to contractions in utilities, construction and manufacturing. Large gains were reported in the following services-sectors: trade, health services, professional services and transportation and warehousing.

	M/M Growth (%)	Net change '000s M/M
All	0.6%	41.4
Goods	-0.57%	-8.4
Agriculture	1.7%	1.2
Forestry, fishing, mining, quarrying, oil and gas	11.3%	3.6
Utilities	-3.7%	-2.2
Construction	-1.4%	-7.3
Manufacturing	-0.5%	-3.6
Services	0.9%	49.7
Trade	1.7%	18.7
Transportation and warehousing	0.7%	2.9
Finance, insurance, real estate, rental and leasing	0.8%	4.5
Professional, scientific and technical services	2.2%	14.4
Business, building and other support services	-1.7%	-5.7
Educational services	-0.3%	-1.4
Health care and social assistance	0.8%	7
Information, culture and recreation	-0.5%	-1.4
Accommodation and food services	-0.6%	-3
Other services (except public administration)	2.2%	6.6
Public administration	2.0%	7

Diminished housing demand and business investment continues to affect the construction sector. Manufacturing has faced some headwinds from auto plant shutdowns and decreased auto demand that are reflected in the numbers. On the other hand, growth in the tech sector continues to support employment growth in professional services

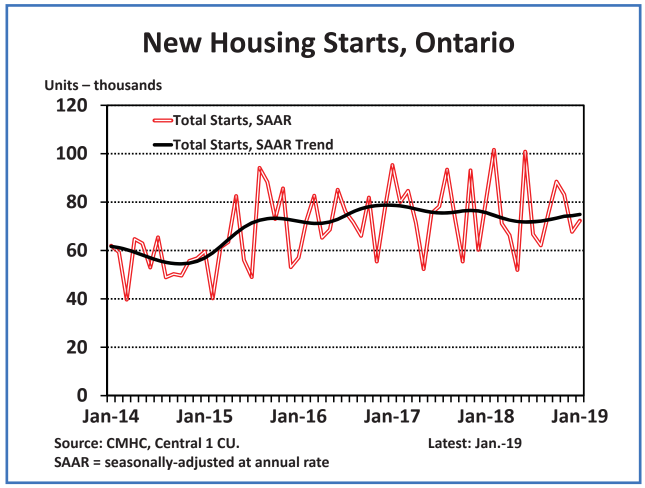
Housing starts rebounded in January after last month's large contraction

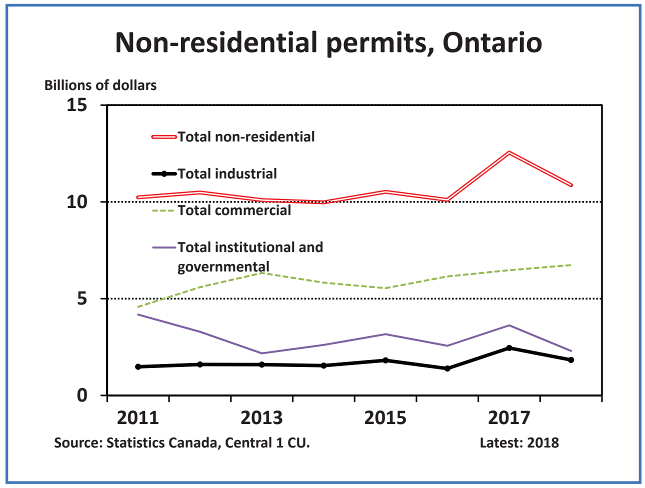
The Canada Mortgage and Housing Corporation (CMHC) released January housing starts numbers this week. After a slow end to the year—where total housing starts in Ontario contracted by 18.5 per cent in December—new construction activity picked up in January. In January total starts increased by 6.8 per cent to 72,332 units at seasonally-adjusted annual rate (SAAR). Ground-oriented housing continued to struggle with single-detached and semi-detached home construction down 12.2 per cent and 30.7 per cent month-over-month, respectively. On the other hand, January's gains are due to a robust pick-up in higher-density housing with row/townhome construction increasing 38.2 per cent and apartment construction increasing 7.7 per cent. Moreover, Greater Golden Horseshoe (GGH) metro markets posted a 2.7 per cent increase to 49,318 units SAAR in new construction. Areas outside of the GGH contributed most to the new construction in January, reporting a 16.7 per cent month-over-month increase or 23,014 units SAAR. Ontario's total housing starts are 18.5 per cent above the long-term monthly average from January 1990 to January 2018.

By Census Metropolitan Area, strong new home construction numbers were posted in a few markets such as Barrie, Hamilton, Kitchener-Cambridge-Waterloo, London and Toronto. Unfortunately, less construction month-over-month in all the other markets kept the net gains in Ontario's CMAs quite low. Below is a table with a breakdown by metro market.

Affordability concerns continue to affect the housing mix of new construction with activity skewing to higher-density housing. Metro market activity remained flat as potential homebuyers continue to wait to see what happens with the economy and the housing market in 2019 before jumping back into the housing market. The effects of credit policy continues to constrain any significant bounce back in housing markets.

	Total Starts SAAR, January 2019	M/M growth (%)
Barrie	392	56.2
Brantford	145	-84.3
Sudbury	116	-29.3
Guelph	424	-79.2
Hamilton	4,091	153.9
Kingston	2,326	-13.6
KCW	2,520	29.8
London	3,817	112.4
Oshawa	792	-47.7
Ottawa	3,098	-40.1
Peterborough	132	-63.6
SCN	1,725	-31.0
Thunder Bay	5	-97.0
Toronto	39,229	5.4
Windsor	756	-2.6
All Metro Areas	59,568	0.4





Non-residential permit volumes fell by 9.4 per cent in 2018 despite December's strong numbers

Total non-residential permit volumes in Ontario increased by a strong 8.1 per cent to $1.2 billion (all figures seasonally-adjusted) in December over November. The increase is due to strong growth across the province not only in Census Metropolitan Areas (CMA), which posted 7.8 per cent growth to $970.1 million, but in areas outside CMA markets which posted 9.7 per cent growth to $185.2 million. Despite the strong gains to close out 2018, this year's picture is starkly different. Ontario's non-residential building permit volumes declined by 9.4 per cent to $13.4 billion compared to the previous year. Total non-residential permit volumes in non-metro markets experienced gains of 13.4 per cent to $2.5 billion. The gains could not offset the strong contraction of 13.4 per cent to $10.9 billion in Ontario's CMAs.

By sub-sector, Ontario's year-over-year contraction can be traced to decreased volumes in industrial permits (13.9 per cent drop to $3 billion) and institutional permit volumes (30.1 per cent drop to $2.9 billion).

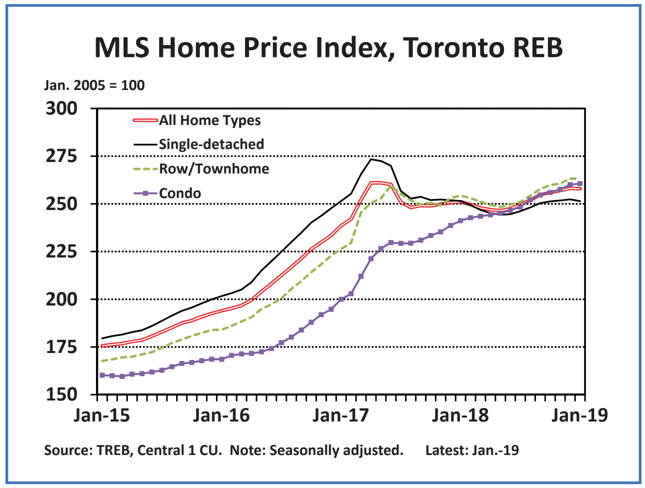
Commercial permits increased by five per cent in 2018 to $7.5 billon but the severe contraction to industrial and institutional permit volumes erased the gains in commercial permits. In fact, while commercial permits had a good year retracing —and at times surpassing a month's year-over-year total volumes—industrial and institutional permits significantly lagged 2017 monthly totals.

In Ontario's CMAs, December's month-over-month 7.8 per cent increase in permit volumes was largely due to a 10.1 per cent jump in activity in Toronto's CMA. This metro area alone accounted for 67.2 per cent of all permit volumes. Other CMAs that posted strong month-over-month activity included: Guelph, Greater Sudbury, Kingston, Oshawa, St. Catherines-Niagara and Thunder Bay.

In 2018, nearly all CMAs posted lower non-residential permit volumes with the few exceptions of Barrie, Belleville, London and Oshawa. Below is a table that provides month-over-month dollar volumes, year-to-date dollar volumes and corresponding growth rates for all CMAs.

Over the course of 2018, household consumption held up despite economic uncertainty and increased interest rates—which somewhat supported commercial investment. Growth in the tech sector could have also contributed growth in commercial investment.

Trade policy uncertainty in 2018 caused businesses to shelf some industrial investments. With Ontario's current government still reviewing government spending—institutional permit volumes were adversely affected in 2018.



Toronto home sales increased in January

Toronto's existing homes market posted increased sales and new listings to start 2019. Sales increased by 3.8 per cent to 6,851 units or 249 net new units (all figures seasonally-adjusted) in January over December. New listings increased 5.3 per cent to 13,490 units—on a net basis—new listings increased by 674 units month-over-month. Despite increased demand through increased sales, supply of homes for sale increased nearly three-to-one giving buyers more choice. Not surprisingly, the average days on the market increased to 33 days in January from 31 days in December. To a lesser degree, the frigid temperatures may have kept potential buyers at home, affecting days on the market.

Increased supply on the market affected price growth, giving buyers the power to negotiate down a listed price. Downward pressure on the average price was also affected by more potential buyers seeking higher-

	December 2018 Volume ($M)	YTD Volume ($M)	M/M Growth	YTD Growth
Barrie	14.4	237.4	-55.4%	69.2%
Belleville	3.7	77.1	-23.3%	17.6%
Brantford	2.3	82.8	-65.0%	-29.5%
Sudbury	14.0	174.3	43.8%	-35.3%
Guelph	10.8	126.4	181.7%	-36.2%
Hamilton	30.4	566.5	-30.7%	-27.8%
Kingston	15.7	106.9	305.3%	-62.2%
KCW	28.8	554.2	-49.1%	-11.6%
London	21.2	354.8	70.3%	8.0%
Oshawa	61.0	332.8	275.7%	50.6%
Ottawa	75.8	782.3	-21.1%	-12.9%
Peterborough	2.3	49.6	9.3%	-8.4%
SCN	29.1	294.1	256.1%	-14.3%
Thunder Bay	3.1	32.5	23.0%	-67.0%
Toronto	651.8	6,926.1	10.1%	-12.2%
Windsor	5.8	169.8	-38.1%	-24.2%
Ontario Metro Markets	970.1	10,867.6	7.8%	-13.4%

density housing. In January, Toronto's average price declined 1.6 per cent to $777,579 month-over-month.

Benchmark home prices—a measure of quality-adjusted prices—decreased by 0.1 per cent in January over December. The decrease came from a 0.4 per cent decline in the price of a single-detached home. Townhome price remained unchanged and condo apartment price edged up 0.2 per cent.

With an economy expected to slow down, demand for housing will also moderate in line with this month's activity. Consumers will focus on debt servicing and tightening their belts on spending.

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