Ontario Economic Briefing

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Highlights:

- Employment in Ontario rises in February, unemployment rate unchanged
- Housing starts fell by 22.8 per cent in February
- Ontario non-residential building permits increased by 1.6 per cent in January
- Exports fell significantly by 5.5 per cent in December
- Toronto's home sales declined dramatically in February by 14.9 per cent

Ontario created 36,900 net new jobs in February

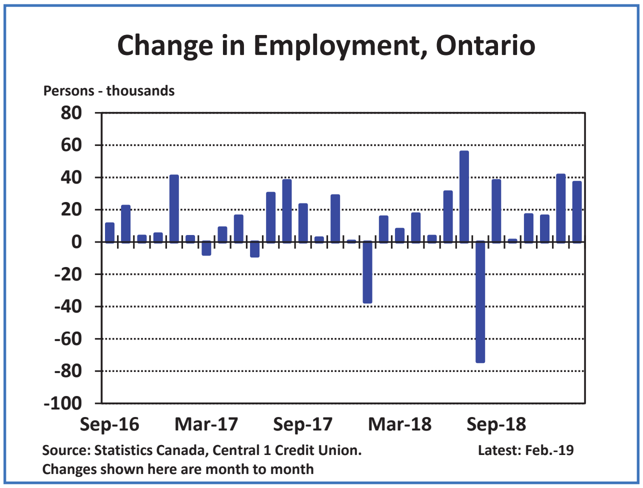
Statistics Canada released February's *Labour Force Survey* figures this week. Ontario's unemployment rate remained unchanged at 5.7 per cent due to nearly equal employment growth (0.5 per cent month-over-month) and labour force growth (0.4 per cent month-over-month). Of the 36,900 net new jobs created in February, most were full-time jobs given that 22,300 net part-time jobs were shed but 59,200 net full-time jobs were created.

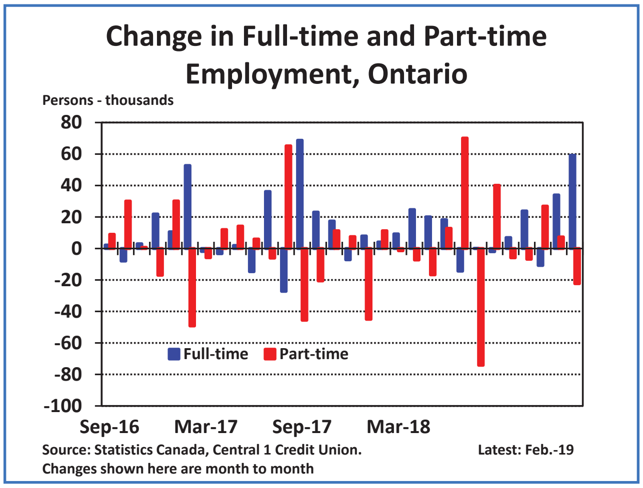
By sector, both goods and services posted employment gains of 0.89 per cent (or 13,000 net new jobs) and 0.4 per cent (or 23,900 net new jobs), respectively. Many new jobs were created in the goods-producing sector, including 18,300 net new jobs in construction, that more than offset 2,800 net job losses in utilities and 2,900 net job losses in manufacturing. In the services sector, some large sectors posted robust job gains to lift overall employment, including:

- Finance, insurance and real estate (9,600 net new jobs created)
- Trade (8,100 net new jobs created)
- Professional services (14,000 net new jobs created),
- Education services (3,500 net new jobs created).

Other sectors posted hiring losses that put some downward pressure on overall services sector hiring, including:

- Health services (3,100 net job losses)





- Accommodation and food services (9,100 net jobs losses)
- Transportation and warehousing (8,400 net job losses)

Compared all historical Februaries from 2016 to 2019, total net employment gains this month are up significantly. During this period the month's average net job creation is 11,000 net new jobs.

Year-over-year total employment is up 2.7 per cent in February, moreover, the pace of year-over-year employment growth increased from 2.4 per cent in January and 1.3 per cent in December.

Housing starts fell dramatically in February

The Canada Mortgage and Housing Corporation (CMHC) released February housing starts numbers this week. The data reveals that Ontario posted 22.8 per cent lower starts month-over-month to 55,742 units at seasonally-adjusted annual rate (SAAR). New construction of all unit types posted softer numbers, except semi-detached homes that increased month-over-month by 14.9 per cent to 1,907 units SAAR. Single-detached homes decreased by 15.4 per cent to 13,863 units SAAR and apartment condos declined by 37.8 per cent to 22,224 units SAAR. Row/townhouse starts are down 3.7 per cent month-over-month to 17,748 units SAAR. With this month's numbers, total starts in Ontario are down 8.6 per cent compared to the long-term monthly SAAR average from January 1990 to February 2019.

In metro areas, new starts are down 28.7 per cent due to strong declines in large centres such as Toronto (down 48.4 per cent month-over-month to 20,213 units SAAR), Hamilton (down 55.0 per cent month-over-month to 1,847 units SAAR), Kitchener-Cambridge-Waterloo (down 45.2 per cent to 1,278 units SAAR), London (down 69.0 per cent month-over-month to 1,171 units SAAR) and Oshawa (down 26.0 per cent month-over-month to 577 units SAAR).

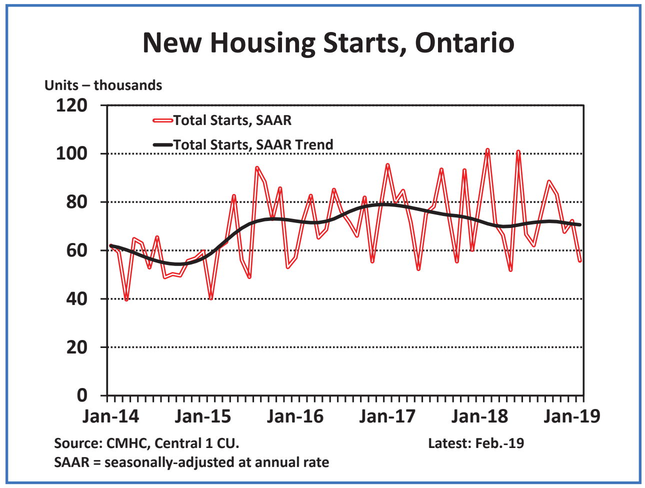
Over the first two months of the year, total starts in Ontario are down 30 per cent due to strong declines across most housing types, except row/townhouse starts.

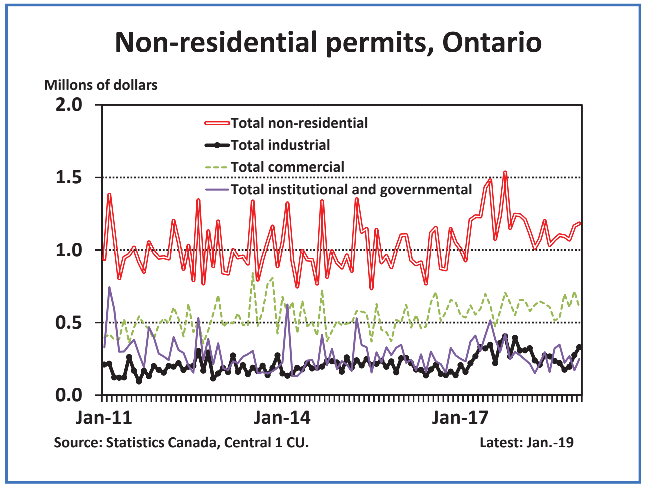
Developers were unable to break ground on many projects or continue work on others with the cold temperatures posted in February. This may be one factor contributing to February's weaker numbers. Buyer restraint is the likelier reason. Potential buyers continue to act prudently with their money and remain on the sidelines until the uncertainty in the economy is resolved.

Ontario's non-residential permit volumes continued to move up in January despite weakness in metro markets

Total non-residential permit volumes in Ontario increased by 1.6 per cent to $1.2 billion (all figures seasonally-adjusted) in January over December. While still a month-over-month increase to start 2019, the rate of growth slowed down from December's growth of 8.6 per cent.

By sub-sector, industry permit volumes and institutional permit volumes increased dramatically in January to more than offset the drop in commercial permit volumes.





While non-residential permit volumes continued to increase in Ontario, albeit at a slower rate, Ontario's metro markets permit volumes declined by 6.7 per cent. The decline in metro markets was more than offset by strong growth of 43.6 per cent in non-metro areas of Ontario.

By sub-sector in Ontario's metro areas, a strong 19.9 per cent drop in commercial project permit volumes more than offset the 37.6 per cent gain in industrial permit volumes and the 2.2 per cent gain in institutional permit volumes.

Toronto and Ottawa-Gatineau, which together make-up 72 per cent of all permit volumes in metro areas, each posted robust declines of 11.1 per cent and 6.2 per cent in activity, respectively. The decline went a long way to pull down permit volumes in metro areas.

Slower retail sales activity in big metro markets may be a factor affecting investments in commercial spaces. Retailers in clothing and shoes have recently posted news about shop closures and layoffs, which could be putting downward pressure on commercial space demand.

Broad-based export volume declines pulled down total exports in December

Seasonally-adjusted exports stalled for the second consecutive month in December falling 5.5 per cent to $16 billion on top of November's decline of 2.9 per cent. Imports fared better in December posting a 1.1 per cent increase to $29.9 billion.

The decline in exports were broad-based with only the following sectors posting month-over-month gains:

- Metal ores and non-metallic minerals
- Forestry products and building and packaging materials
- Special transactions trades

These three sectors make-up only 7.2 per cent of all exports from Ontario. Large sectors such as metal and non-metallic mineral products (14 per cent share, 22.5 per cent drop), motor vehicles and parts (36 per cent share, 4.2 per cent drop) and consumer goods (15 per cent share, 3.9 per cent drop), which together make-up 65 per cent of exports, suffered robust sales volume losses in December and pulled down overall exports.

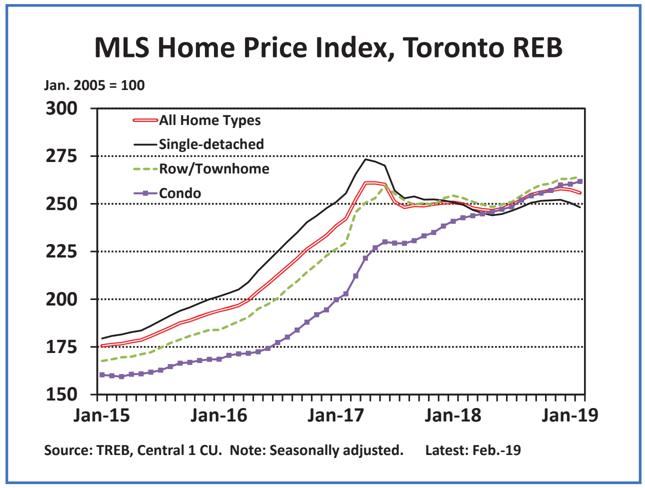
Despite December's lull, stronger activity from July to November of 2018 compared to 2017 allowed total export activity to surpass last year's total by 1.4 per cent.

Economic uncertainty and restrained consumption pulled down overall export volumes over the latter half of the fourth quarter in Ontario.

Toronto's existing home sales were in the deep freeze in February

The positive gains posted in January 2019 may have been short-lived for Toronto's existing homes market. After posting a 6.9 per cent increase in sales month-over-month in January, home sales in February fell (all data is seasonally-adjusted in this section). The Toronto Real Estate Board's (TREB) calculation called for a 7.7 per cent drop in sales in February. Our calculation suggests a steeper fall month-over-month of over 14 per cent. New listings did not fare well in February compared to January, declining by 4.2 per cent month-over-month to 12,838 units.

Both new listings and sales are a long way from their respective monthly averages from 2010 to 2019. For sales and new listings to equal their first quarter averages, they would have to post month-over-month increases of 45.8 per cent (or 10,895 units) and 32.8 per cent (or 12,790 units) respectively.



With sales declining at a faster clip than new listings—a ratio of 1.8—price growth suffered in February as fewer buyers were willing to sign in the dotted line. As a result, buyers still actively looking were able to negotiate prices down. In February the average price of an existing home in Toronto's real estate board fell by 1.7 per cent to $763,845. February's month-over-month price drop now marks four consecutive months that Toronto's average price has contracted.

Over the first two months of 2019, the average number of days on the market remained elevated compared to the same period in 2017 and 2018 at 29 days. Currently, the sales-to-new-listings-ratio (SNLR) places Toronto's market further entrenched in a balanced market at 46.2 per cent.

Year-to-date, the growth numbers posted in January have balanced out the weaker numbers posted in February and smooths out some of the month-over-month volatility. Sales are down 1.9 per cent, new listings are up 1.2 per cent and average price is up 1.6 per cent.

Benchmark home prices—a measure of quality-adjusted prices—decreased by 0.6 per cent in February over January. The decrease came from a 1.0 per cent decline in the price of a single-detached home. Townhome prices increased 0.4 per cent and condo apartment prices edged up 0.6 per cent.

Residential housing demand continues to perform sluggishly as consumers continue to show restraint and tighten their spending belts. This week the Bank of Canada took note of the weakness in the economy late in 2018 and kept its policy rate unchanged at 1.75 per cent for the third straight announcement. Unchanged interest rates may help consumers service debt quicker and save for a down payment, but we won't see that until later in the year or in 2020. Our view remains unchanged in that 2019 will be a year where residential spending will decrease given the uncertainty in the economy. If any activity happens in the residential market, it will be in renovation spending where current homeowners renovate their homes as they remain in them longer.

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