Ontario Economic Briefing

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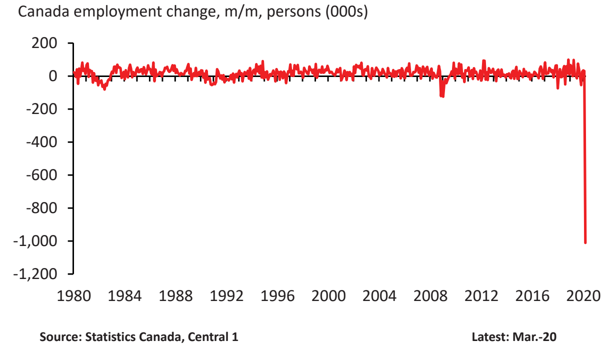
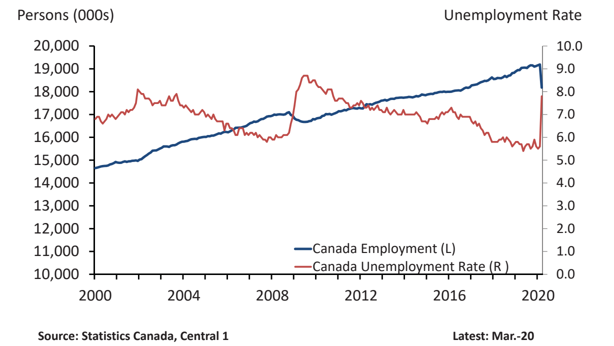
Highlights:

- As expected, COVID-19 battered labour markets in March
- New housing starts fell in March by 12.7 per cent
- Year-over-year building intentions down over 50 per cent in Ontario
- Small-business confidence remained near record lows in the first half of April despite robust policy supports aimed at keeping businesses afloat

COVID-19 effects and policies cut Canada employment by 1 million persons in March



Unemployment rate surges, limited by drop in labour force participation



Canada's labour market sheds 1 million workers in March on COVID-19 effect

As expected, Canada's labour market numbers were gut-wrenching in March as the effects of government interventions to limit the spread of COVID-19 led to an unprecedented decline in employment and the livelihoods of Canadians.

Based on a reference week of March 15 to March 21, estimated Canadian employment collapsed by 1.011 million persons from February, or 5.3 per cent, while the average unemployment rate soared 2.2 points to 7.8 per cent. In both cases, this marked the sharpest change on record going back to 1976. Losses predominantly reflect temporary layoffs as businesses plan to re-hire after measures are lifted. There is no real basis for comparison of the March decline. The worst single-month decline during the 2008/09 Great Financial Crisis was 124,800, with a peak-to-trough loss of 425,000 over a seven month period. As job losses continued after the reference week, further downside is likely for April.

Nationally, full-time employment fell by 474,000 persons or three per cent, while part-time employment plunged by 536,700 persons or 15 per cent. While nearly all sectors experienced losses, those with the most public-exposure experienced were worst hit. Accommodations and food services fell 24 per cent, and arts/entertainment/recreation declined 13 per cent, educational services fell 9.1 per cent, and wholesale/ retail trade declined 7.2 per cent. Natural resources, construction, and public administration were largely unaffected. Sectors with the ability to work-from-home also held up.

Headline statistics tell only part of the story as many technically employed workers were fully or partially idled. The number of employed workers with no hours (up 1.3 million) or worked less than half of their usual hours (up 800,000 individuals) rose substantially. COVID-19 effects on business conditions drove these numbers. Total hours worked in the economy fell 15 per cent in March, reflecting the combination of job losses and idling of employed workers.

The rise in the unemployment rate only tells part of the story, and levels could have been higher. The labour force shrank as fewer opportunities led more individuals to stop looking for opportunities given the current environment.

The shock of COVID-19 is a national rather than provincial story, although labour market shifts during the month differed among regions. This partly reflects timing of measures taken by various provincial authorities to tackle the spread of the virus. Most provinces have enacted similar measures by April. The sharpest employment contractions occurred in Quebec (down six per cent), Ontario (down 5.3 per cent), B.C. (down 5.2 per cent), and Alberta (down 5.0 per cent).

April LFS numbers are likely to become worse through April as more employees were laid off since the last survey amidst the intensifying economic freeze. Millions of applications for Employment Insurance (EI) and Canada Emergency Response Benefit (CERB) signals as much. Some of these workers could be returning to employed status sooner rather than later as businesses make use of the Canadian Emergency Wage Subsidy (EWS) which provides a subsidy of up to 75 per cent for incomes up to $58,700 for hard hit businesses. Nevertheless, the social and economic impacts of COVID-19 will continue into at least mid-year.

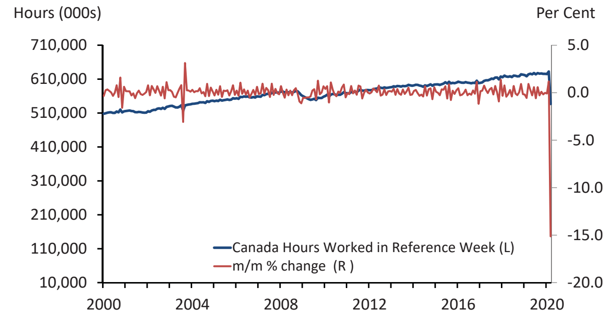
New housing construction started to feel the bite of COVID-19 in March

In late March the province started to curtail social and economic activity in Ontario to mitigate the spread of COVID-19. This consisted of stay at home orders and minimizations of the number of people that could gather in public. This affected construction job sites as many workers had to be sent home and work in progress had to be stalled. New home constructions, among other sectors of the economy suffered and housing starts fell 12.7 per cent in Ontario to 67,984 units at seasonally adjusted at annual rate (SAAR). Even with the economic shock brought about by COVID-19, year-over-year housing starts remained 10.2 per cent higher. Undoubtedly, with Ontario halting all non-critical construction beyond April 4, the month-over-month and year-over-year drops in activity will magnify.

In urban areas, which accounted for nearly all the new home construction in March, activity fell by 12.8 per cent to 66,463 units SAAR due to strong contraction in the construction of all home types with the exception of single-detached homes. Single-detached home construction increased 18.7 per cent to 24,150 units SAAR. Excluding single-detached homes, starts fell a combined 24.3 per cent.

Year-to-date, new housing starts in urban centres remained 14.8 per cent above last year's pace on strong activity posted in February that still offset the declines posted in March. Again, with non-essential construction sidelined in Ontario, this year-to-date pace will start to slide until the province can effectively flatten the epi curve and slowly get the economy back up and running again. Currently, the consensus

Hours worked fall more than headline employment on idle employees, cut hours



Source: Statistics Canada, Central 1 Latest: Mar.-20

is that stay at home orders and physical distancing will remain in place until at least June 30, effectively affecting two quarters of activity. The situation is so fluid that this could change either way depending how effectively Ontarians slow the pace of infection in the general population.

By metro area, of the 15 centres surveyed starts fell in six, among them some large centres such as Toronto (down 19.6 per cent), Ottawa-Gatineau (down 37.9 per cent), Oshawa (down 39.9 per cent), and Hamilton (down 79.8 per cent), which contributed to the overall fall in housing construction in the province.

Finally, with the current pandemic mitigation strategies in place until the end of the second quarter and a gradual rebound in economic activity over the last two quarters of 2020 housing starts will still drop by 19.8 per cent to 55,300 units.

The shutdown in economic activity over the last two weeks of March significantly pulled down year-over-year building intentions

In order to inform the public to the extent of the COVID-19 pandemic on the economy, Statistics Canada released preliminary estimates of building permit activity in select metro markets (23 municipalities representing 29 per cent of total activity in 2019). These figures provide early year-over-year comparisons of how deep the economic contraction was with social and economic activity shut down in most parts of Canada, including Ontario. According to this preliminary release, non-residential building permit volumes fell in Canada 7.4 per cent to $728.4 million, activity in Ontario fell by a larger margin, 44.3 per cent to $198.6 million.

Residential building intentions posted a greater year-over-year contraction in Canada and Ontario respectively. Canadian residential building intentions fell 34.6 per cent to $712.2 million and in Ontario by 54.6 per cent to $242.9 million.

Year-over-year, residential and non-residential intentions together fell 50.5 per cent to $441.4 million in Ontario.

Central 1 is forecasting a 3.7 per cent contraction to non-residential structures in Ontario in 2020 and a 7.2 per cent contraction to residential structure investments.

Despite strong fiscal and monetary policy response small-business confidence remained battered

Small-business confidence in Ontario bounced back very slightly in April with the index moving up from 37 points in March to 41 points in early April. Given the fluidity of the situation, the Canadian Federation of Independent Businesses will do away with convention during this crisis and provide index results every two weeks.

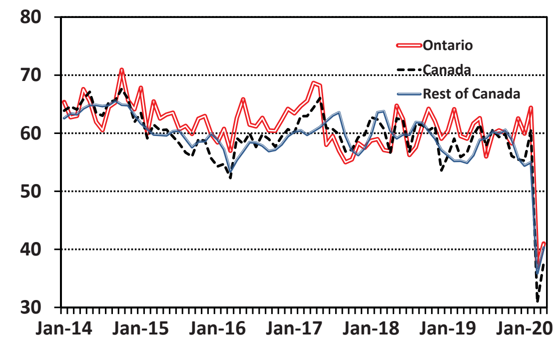
Current index levels remain near values seen during the Great Financial Crisis of 2008-09 and the last major recession of the 1990s. Moreover, an index value below 50 points to an economy that is contracting.

Likely the very meagre move up in small-business confidence came from fiscal and monetary policy response lifting some spirits but clearly not all. Unfortunately, for some businesses the longer this crisis extends into the year, the likelier their businesses will fail, if it has not failed already. Of the businesses that are still open future intentions are grim. Over the next three months, 61 per cent of those businesses surveyed in Ontario expect full-time hiring to decrease and 63 per cent of businesses feel that the general state of business in the province is bad.

Moreover, future investment plans have been largely shelved given the extreme uncertainty going forward. Capacity utilization in Ontario averaged 32.7 per cent compared to 34.7 per cent average nationally. In Ontario, only three per cent of businesses reported 100 per cent capacity utilization with 58 per cent reporting 34 per cent capacity utilization or lower. With nearly no spending happening in the economy businesses shutter or lay off large numbers of employees and keep skeleton payrolls in place.

As expected, food and accommodation and tourism related industries are feeling the greatest brunt of this economic shock initially while tech services and

Small-business Confidence



Source: CFIB, Central 1 CU. Latest: Apr.-20
Note: Above 50 indicates expectations of stronger performance next year

transportation services remain somewhat insulated. Given greater needs to work from home and supply chains of food and medicines needing to stay open, transportation services have benefitted.

Finally, other recent surveys from CFIB suggest that several businesses cannot go beyond one month[1] of zero or nearly zero revenue coming in, government treasuries will need to open up further and program criteria tweaked to be more inclusive to keep many of these businesses afloat. Otherwise, a collapse of many small businesses could have a negative contagion effect on other aspects of the economy.

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[1] https://www.cfib-fcei.ca/en/research/survey-results/investigating-the-impact-of-covid-19-on-independent-business