Ontario Economic Briefing

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Highlights:

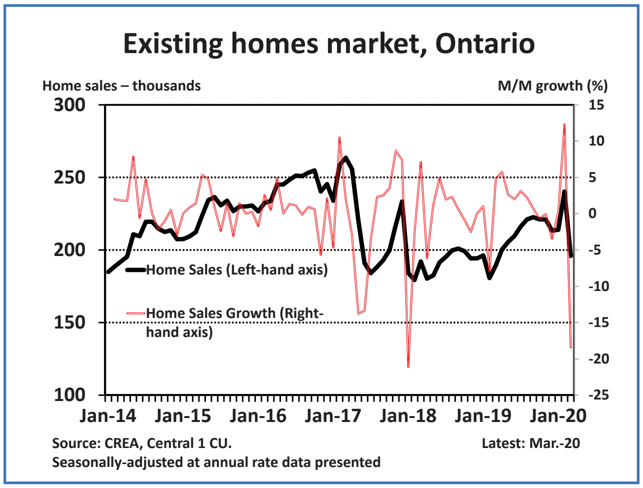
- Statistics Canada suggests Canadian economic activity dropped 9 per cent in March, largest monthly decline on record
- Ontario existing homes metrics all in the red in March; expected to get much worse in months ahead
- Effects of COVID-19 will become apparent in future Employment Insurance numbers
- February manufacturing sales show 3 per cent increase; pandemic impact to show in next month's data

COVID-19 health crisis hammers the economy

How much has Canadian economic activity been hit due to the COVID-19 health crisis and containment measures? An almost unfathomable amount.

Statistics Canada produced a nowcast for March to gauge the current economy amidst the twin hits of the virus effects and the oil price collapse. Its preliminary estimate for industry gross domestic product (GDP) point to a 9.0 per cent decline in economic activity from February. During the Great Financial Crisis, the deepest one-month drop was 1.4 per cent in December 2008. The agency does not normally publish nowcasts, and indeed February data has yet to be formally released, but these are unprecedented times. Not surprisingly, and consistent with March Labour Force Survey data, services were hardest hit with severe contractions in travel and tourism sectors, restaurants, accommodations and other services. Recall that LFS data showed an employment decline of about one million persons or 5.3 per cent, with hours worked down 15 per cent, but reflected a reference week ending March 21. This nowcast is broader in scope. Including the March estimate, Q1 GDP was estimated to have contracted 2.6 per cent from Q4 2019, which was much worse than our forecast. This marks an annualized contraction of about 10 per cent for Q1.

Q2 is likely to be worse. Containment efforts ramped up in late March into April. Based on applications for



Employment Insurance and the Canada Economic Response Benefit, employment likely fell in the range of 2 million persons. The number of employed persons working no hours or reduced hours in March had already reached 2 million, many of which who would fall into technical unemployment in April. The Bank of Canada noted in its anticipated policy rate announcement and accompanying Monetary Policy Report, a contraction expectation of 15 to 30 per cent in Q2 2020 relative to Q4 2019. This is not an annualized figure but an unrivalled contraction on record. The sharpest q/q decline during the GFC was -2.3% in Q1 2009. Bank of Canada's assessment implies an annualized quarterly decline of 40 to 70 per cent, but at those levels there is less relevance of the actual number.

March existing homes numbers very weak. This is the start of a potentially very rough ride ahead

March was a month of two tales with the first half showing strong activity in the existing homes market. At that point, the market was so tight that it looked like it was poised for a very strong Spring and Summer season as potential buyers were out in large numbers, sales were brisk and average price growth kept climbing. Unfortunately, the second half of the month saw measures put in place to stem the contagion and protect public health. One could say that over the last two weeks of March Ontario's market became increasingly sicker. Beyond March, the malady only looks to get worse.

Overall, sales activity in March will go down in the books for being in the red. Sales fell 18.4 per cent in

March over February to 16,332 units. Moreover, sales remained two per cent above last year's pace only because brisk activity in February is still insulating the numbers.

New listings also fell 9.6 per cent month-over-month. Over the first three months of the year new listings remained 2.5 per cent above pace. More slack in the market as evidenced by a falling sales-to-new-listings-ratio (sliding down 0.7 percentage points to 62.1 per cent) and increased months of supply (up from 1.7 months in February to two months in March) also weighed on average price. Home price fell 2.9 per cent month-over-month to $662,968.

Again, brisk activity from February is still insulating year-to-date numbers for listings and average price which remained 2.5 per cent and 2.1 per cent respectively above pace.

Almost all real estate boards across Ontario posted deep sales losses month-over-month. Below is a snapshot of sales losses in Ontario's larger real estate boards:

- Toronto (down 20.8 per cent)
- York region (down 20.7 per cent)
- Durham region (down 14.7 per cent)
- Barrie (down 26.9 per cent)
- Hamilton-Burlington (down 24.9 per cent)
- London-St. Thomas (down 17.4 per cent)
- Ottawa (down 7.9 per cent)
- Peterborough and the Kawarthas (down 18.3 per cent)
- Sudbury (down 15.5 per cent)
- Thunder Bay (down 12.6 per cent)

The rate of growth of the constant quality price index slowed down month-over-month in several real estate boards surveyed, which was expected with the lockdown economy in effect. The largest slow down occurred in Guelph (down one per cent to 0.1 per cent growth) and Hamilton-Burlington (down 0.8 percentage points to 0.9 per cent growth). Index prices in Toronto edged down to 1.1 per cent (down 0.2 percentage points) and in Ottawa they edged down to 1.6 per cent (down 0.1 percentage points).

The situation will only get worse for the housing market. The Prime Minister has consistently signaled that Ontarians will remain sheltered in place for many more weeks, if not months. Baseline scenarios suggest that even if Ontario flattens the epi curve by the end of the second quarter 2020, it will go into the books in the red even with a robust recovery over the last two quarters. If the virus cannot be controlled by the end of the second quarter the situation becomes more dire and losses increase significantly. For context, during the recessions of the late 1980s and 2008 home sales in Ontario declined by a range of 10 and 28 per cent. This contraction and recovery will be much slower and those numbers from previous contractions may not be the worst case scenarios but good starting points of discussion as to the extent of this crisis.

Employment Insurance beneficiaries fell by 2.6 per cent in February, full effects of COVID-19 still far off in the horizon

February was the calm before the impending storm in terms of Employment Insurance (EI) beneficiaries receiving regular benefits. By February, China and most parts of Asia were already tussling with the COVID-19 pandemic but that had not hit Canadian shores fully yet. There were some disruptions in supply chains but not enough to lay off workers in large numbers. The real bleeding will be seen once March EI numbers are out, as already foreshadowed by the sobering Labour Force Survey numbers from March. In Ontario, workers receiving regular benefits fell by 2.6 per cent or 3,180 net beneficiaries with strong falls across all age groups of workers but especially those 55-years of age or older (down by 3.3 per cent, or 1,060 net beneficiaries.) Potential workers between 15 to 24-years-old and those between 25 to 54-years-old receiving benefits fell by 1.4 per cent and 2.5 per cent, respectively.

In census metropolitan areas and census agglomerations EI beneficiaries fell in February by three per cent and 1.2 per cent, respectively.

Initial and renewal EI claims adjusted for seasonal effects saw a slight increase month-over-month of 0.4 per cent to 77,310 beneficiaries. Year-over-year beneficiaries increased by 2.4 per cent. Moreover, relative to the long-term monthly average, applicants and renewals in February were 1.1 per cent above this trend. Again, the brunt of the COVID-19 storm was still far off in the horizon for Ontario but some weaknesses were starting to be seen very slightly as some supply chains were affected and those workers had to go on leave.

February manufacturing sales grow but pandemic impact will hit next month's data

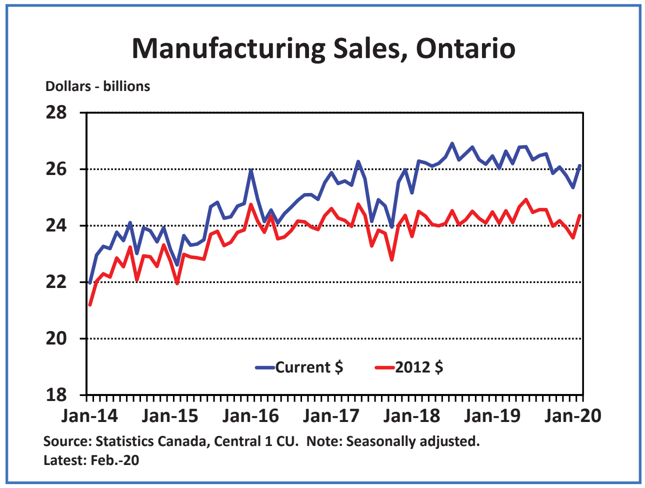
Rail blockades and some supply chain disruptions from COVID-19 affecting Asia started to dampen manufacturing sales in some subsectors in February but the full brunt of the pandemic will not be seen in the data until at least March's figures are released next month. Sufficiently strong sales occurred in durables (increased 5.2 per cent month-over-month) to offset some weaknesses in certain subsectors and lift overall manufacturing sales in February by three per cent. Non-durable goods sales remained relatively flat declining by 0.2 per cent.

Over the first two months of 2020 manufacturing sales durable sales remained 3.9 per cent off last year's pace weighing on overall sales (down 1.9 per cent) even though non-durables remained 1.2 per cent above pace. Unfortunately, because of the bigger size of durable sales in Ontario (over 60 per cent of sales) growth in non-durable sales would have to be extraordinary to offset that decline.

The growth recorded in manufacturing sales in February came from strong transportation equipment sales (up 8.1 per cent), primary metals (up 2.4 per cent), fabricated metals (6.2 per cent), machinery (up 4.7 per cent), and plastics and rubber products (up 4.7 per cent).

In Ottawa-Gatineau and Hamilton manufacturing sales fell by 1.7 per cent and 1.8 per cent respectively in February. Strong sales numbers from Toronto (up 4.2 per cent) and all of Ontario excluding these three metro areas (up 2.2 per cent) lifted sales.

The strong growth in sales in the Toronto metro area came mostly from higher sales of motor vehicles.



Edgard Navarrete
Regional Economist
Central 1 Credit Union
enavarrete@central1.com / P **905 282 8501**
www.central1.com