# Ontario Economic Briefing

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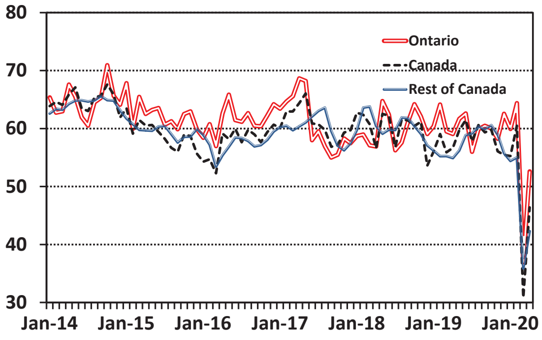
## Highlights:

- Small-business confidence in Ontario moves up from near record lows in March
- Domestic and international supply-chain disruptions affected non-farm payroll hiring in February, COVID-19 still not a direct hit on hiring
- Canadian seasonally adjusted at annual rate GDP increased by 0.03 per cent in February
- Existing homes market activity in Toronto slowed down significantly over the first half of April




## Unprecedented government support during crisis may be starting to lift small-business confidence

The Canadian Federation of Independent Business (CFIB) released its month-end small-business confidence index and the picture is improving slightly in Ontario. April's index finished the month at 52.6 points, up 11 points from the first half of April and up 15.6 points from the end of March, when the economy and society went into lockdown. Moreover, April's final small-business confidence reading was the highest among all regions in Canada. Year-over-year, Ontario small-business confidence in April was 6.5 points down which is quite an improvement from the 18.1 points down in the first half of the month.

With an index value over 50 points there is some light at the end of the tunnel; the higher the value, the greater the optimism.

Over the next three months, 49 per cent of employers expect full-time hiring to decrease (down from 61 per cent in the first half of April) and 61 per cent of respondents feel the general state of business in the province is bad (very slightly down from 63 per cent in the first half of April).

Average capacity utilization in the province remained below optimum (35.7 per cent) but increased slightly from the last reading at the start of the month (up three points). With many businesses shuttered to prevent the virus spreading, only essential businesses remain open. Three per cent of businesses are at full capacity utilization, unchanged from earlier in the month. Just over half of respondents reported 34 per cent capacity utilization or lower (down slightly from 58 per cent).

While still early to claim a recovery, it seems the unprecedented measures by government to keep households and employers afloat may be having the intended effect of propping up confidence. One caveat here - government support cannot be perpetual because financial realities will not allow for that. The quicker Ontario can flatten the epi-curve and get on the other side of this viral wave, the quicker the economy can begin to open up slowly and responsibly. In late April the government of Ontario outlined a three-phase plan to open the economy, which is a glimmer of hope for small-businesses. Moving from one phase to the other would depend on the effective control of the virus to contain outbreaks and each stage could last up to a month each or three months in total if all goes well. Assuming the economy can be opened by June 1st the province would be close to fully open by the end of August.

## Non-farm payroll hiring eroded by over 14,000 net jobs in February

Non-farm and payroll hiring declined in February by over 14,000 net jobs (down 0.2 per cent) as rail blockades affected domestic supply chains and COVID-19 affected partner countries' supply chains in Asia and Europe. At the time of this survey, Ontario had not yet faced the wrath of the virus but some headwinds started to emerge. In fact, COVID-19 was not categorized as a worldwide pandemic until Mid-March at which point the whole Canadian economy went into lockdown and then the dominoes really began to tumble as evidenced by recent Labour Force Survey (LFS) data for March. It is expected that March's survey results of non-farm payroll employment and earnings will start to shed some light into the shedding of jobs due to this pandemic from the employers' side.

Back to February's data, both goods and services shed jobs with the following key sectors shedding significant numbers of workers:

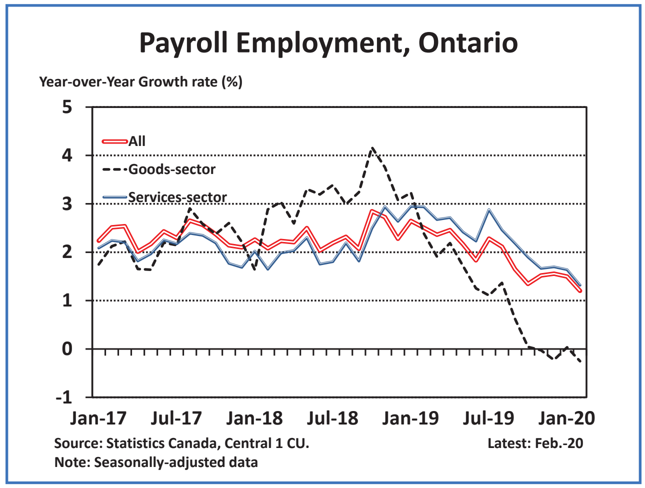
- Utilities (down 488 workers)
- Manufacturing (down 2,063 workers)
- Wholesale trade (down 2,372 workers)
- Transportation and warehousing (down 770 workers)
- Accommodation and food services (down 2,121 workers)
- Education (down 1,422 workers)
- Professional, scientific and technical services (down 2,475 workers)

In February, one of the largest month-to-month declines was observed in wholesale trade. This may reflect shortages of raw materials and finished products resulting from the impacts of COVID-19 in China in February. In addition, a series of railway blockades in February resulted in supply chain disruptions and backlogs for a number of companies. Fewer tourists, especially from China, drove down employment in accommodation and food services. Transportation and warehousing shed jobs, mostly attributable to decreases in truck transportation and in couriers and messengers.

Average weekly earnings declined in February by 0.1 per cent entirely driven by a 1.3 per cent drop in earnings in the goods-sector that offset nearly unchanged service-sector earnings (up only 0.2 per cent). Year-over-year, average weekly earnings remained 3.4 per cent above last year's pace, goods and service sector wages remained 2.8 per cent and 3.6 per cent above last year's pace.

## Transportation equipment manufacturing flourished in February, March expected to be a completely different story

Canadian seasonally adjusted at annual rate (SAAR)




gross domestic product (GDP) increased by 0.03 per cent month-over-month in February from 0.09 per cent goods-sector growth and 0.01 per cent growth in services.

Overall, manufacturing contracted in February losing 0.2 per cent growth from January on less production of non-durable goods such as chemical products and food as rail blockades hindered the arrival of key inputs into these sectors' production chains.

While non-durable goods slipped in February, durable goods production increased particularly from very strong growth in transportation equipment manufacturing (up 3.5 per cent month over month). Higher production at assembly plants that were affected by extended shutdowns in January contributed to notable increases in motor vehicle (up 9.4 per cent) and motor vehicle parts (up 2.9 per cent) manufacturing.

With nearly no net economic activity in March from the COVID-19 lockdown (i.e., economy locked down in the second half of the month) many sectors, especially transportation and equipment manufacturing will begin to report deep losses at near record levels due to less orders and employers cutting their workforces.

## Toronto's housing market activity fell off dramatically as the economy went into lockdown

The Toronto Region Real Estate Board (TRREB) made the unprecedented move to release mid-month data results to give stakeholders a snapshot of the effects of COVID-19 on the region's housing market.

As expected, with the economy effectively frozen since mid-March both supply and demand fell off dramatically over the first two weeks of April 2020 compared to the same period in 2019. Sales in the region fell by 69 per cent to 1,654 units and new listings fell by 63.7

per cent to 3,843 listings. As expected, average price fell as the market slacked considerably but only by 1.5 per cent to $819,665.

With the deep year-over-year fall in demand and supply the sales-to-new-listings-ratio (SNLR) in Toronto stood at 43 per cent, just above the threshold between a balanced market (between 40 and 60 per cent) and a buyers' market (below 40 per cent).

Below is a table with year-over-year data for the overall TRREB region and in the City of Toronto and the rest of the Greater Toronto Area (GTA). Sales fell off most in the City of Toronto as well as prices. Prices held up in areas outside of the City of Toronto.

In the City of Toronto, the higher-end single-detached home market, homes priced over $2 million or more, fell off supporting a steeper average price drop. Condo apartments, which attract many first-time buyers and budget conscious buyers, also fell off in the City of Toronto and all other parts of the region. In times of uncertainty many first-time buyers put their purchase decisions on hold. Moreover, physical distancing measures have also stagnated the market as a moratorium on home showings was put in place to control the spread of the virus.

As many experts have said, curving this epi-curve is a marathon not a sprint, so a quick return to normal activity is a pipe dream. It is expected the economy will be in lockdown well into May and perhaps June so expect real estate market activity to continue to fall off a cliff in Toronto as buyers and sellers retreat. The federal government's mortgage deferral for up to six months will help many potential buyers who may be in tenuous financial situations from panic selling their homes and eroding values significantly.

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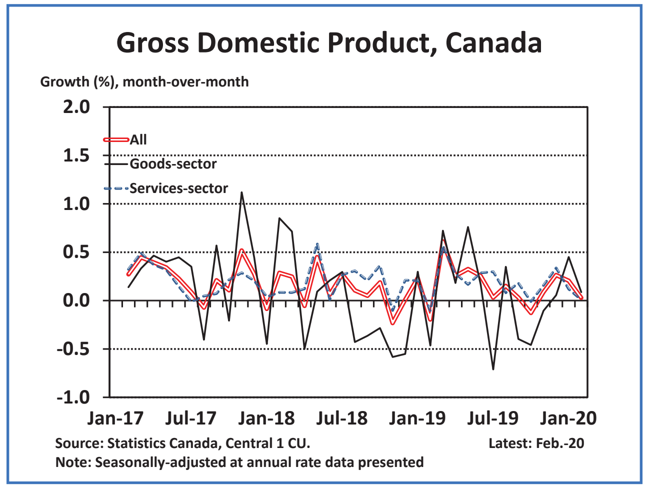


| | Sales | Change (%) | New Listings | Change (%) | Average Price | Change (%) | SNLR (%) | |
|---|---|---|---|---|---|---|---|---|
| City of Toronto ("416") | 588 | -69.7 | 1,381 | -60.1 | $885,371 | -3.7 | 42.6 | -13.5 |
| Rest of GTA ("905) | 1,066 | -68.7 | 2,462 | -65.5 | $783,422 | 0.1 | 43.3 | -4.4 |
| All TRREB | 1,654 | -69.0 | 3,843 | -63.7 | $819,665 | -1.5 | 43.0 | -7.4 |

Source: TRREB, Central 1 CU