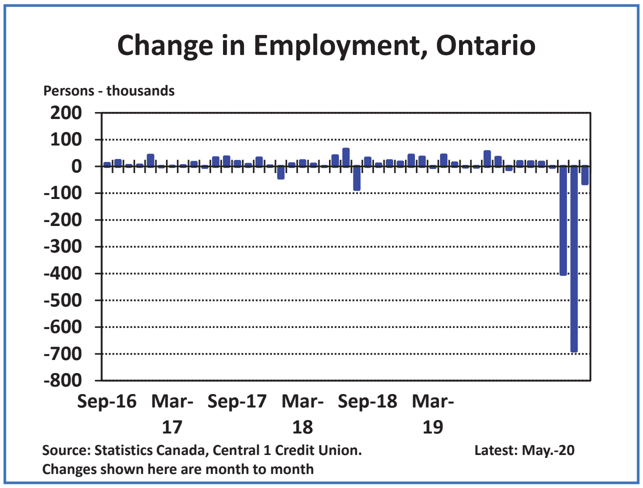
Ontario Economic Briefing

Volume 26 • Issue 22• Week of June 1 - 5 2020 | ISSN: 1981-355

Highlights:

- Highest month-over-month unemployment rate in the province since 1976
- Pandemic shuts down global trade, especially with U.S., exports fell nearly 40 per cent
- Toronto's hosing market showed some life in May but for how long?



Ontario's unemployment reached a new monthly record

Ontario's unemployment rate continued to climb due to more jobs being lost and the labour force increasing for the first time in two months as more people re-gained confidence and started looking for work again. May's unemployment rate reached 13.6 per cent, up from 11.3 per cent in April as a further 64,500 net jobs were shed - 91 per cent of which were full-time. May's unemployment rate marks a new monthly record for the highest unemployment rate in the province since the data was first collected in March 1976. For context, during the last recession from 2008 to 2009 the unemployment reached its apex at 9.6 per cent in June 2009. The labour force moved up 1.6 per cent in May (116,500 net new entrants) the first time the labour force increased after two months of steep declines. With Ontario's economy slowly opening up people that were temporarily laid off are slowly being called back to work in certain areas.

Despite more people starting to look for work over a million Ontarians remained unemployed as many businesses are nowhere near reaching full utilization. Many of those now looking for work again were between the ages of 15 to 54 with a significant concentration in youth between 15 to 24 years of age. With post-secondary institutions either shut down or going completely online in the Fall many students are likely deferring enrollment and looking for work while the economic shock from this pandemic passes. Moreover, one of the stipulations for students being given financial supports during the crisis is for them to be actively looking for work. This likely added to the number of youth re-entering the labour market in May.

By sector, services continues to shed jobs (79,800 net jobs shed) while the goods sector has started to recall employees (15,300 net jobs). Areas of the goods sector that hired or rehired employees included construction (3,100 net jobs), manufacturing (13,700 net jobs), and forestry, fishing, mining, quarrying, oil and gas (2,300 net jobs). Services continued to bleed jobs, with very few exceptions, as some client facing businesses had to further cut payrolls to stay afloat or close its doors completely.

Due to the face-to-face interaction of many jobs in services and the phased approach to reopening the economy many of those businesses have remained closed and owners have had to cut further jobs. Only services jobs that can be done remotely have been able to remain largely insulated from mass layoffs. Finance, insurance, real estate, and leasing gained 5,800 net jobs and public administration gained 4,600 net jobs. One area in services that cannot be done entirely remotely but reported increased hiring was trade (wholesale and retail) which gained 3,800 net jobs. Household demand for essentials like food and growth in e-commerce has lifted hiring in trade.

Ontario exports fell 38.2 per cent in April

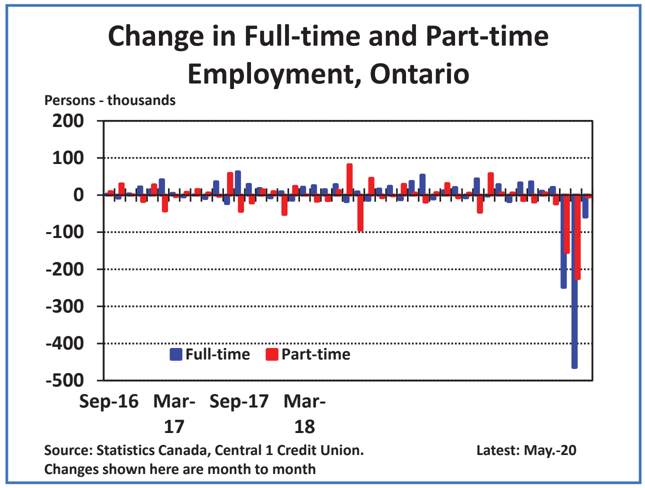
As expected, with global trade and production dampened further due to the pandemic, April trade volumes fell off dramatically. Exports fell 38.2 per cent in April to $9.7 billion while imports fell by 22.4 per cent to $21.6 billion. By April, both Canada and the U.S. were deep into the battle to flatten the curve and trade between both nations has suffered a substantial blow. Ontario exports to the U.S. fell nearly half (down 46.7 per cent) while trade to the rest of the world excluding the U.S. fell 1.6 per cent. Over 99 per cent of Ontario's export decline in April was due to fewer goods trade between the province and the U.S..

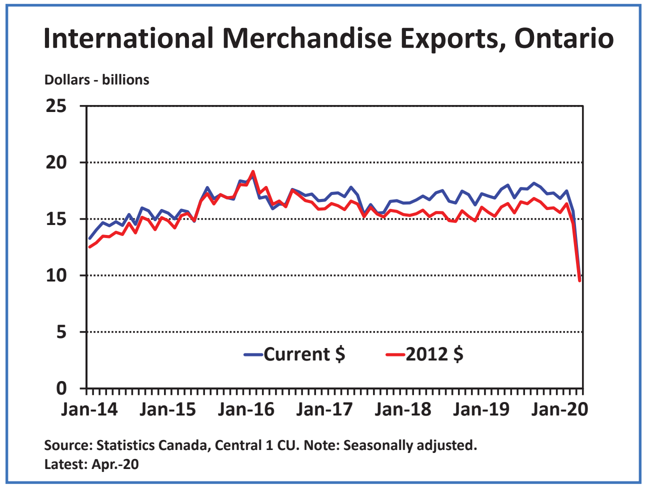
Year-to-date, exports are down 13.3 per cent and imports are down 10.8 per cent off last year's pace.

It is unlikely that exports and imports will make up the significant margin required to return to 2019 totals. For example, from January to April, exports typically would account for 33 to 34 per cent of the yearly total. If Ontario exports were to return to last year's total, current pace from January to April would account for 29 per cent of the yearly total. In the space of 1.5 months, Ontario has lost nearly five export points from where it would be. The latest forecast for Ontario exports in 2020 calls for a 12.8 per cent drop and an 11.6 per cent drop for imports.

Nearly all sectors posted fewer exports except energy products (up 8.2 per cent in April) and farm, fishing, and intermediate food products (up 8.6 per cent in April). Consumer goods (down 5.6 per cent in April), motor vehicle and parts (down 90.9 per cent in April), and, metal and non-metallic mineral ore exports (down 19.2 per cent in April) all posted steep falls in sales.

The refocus on essential purchases and a move away from non-essential purchases by most households supported demand for food and related exports.





Toronto's existing homes market posted a rebound in activity in May

After a very dismal month for the Toronto housing market in April, fortunes seem to be gradually turning with sales, listings, and average price all moving up. The recent turn around in market fortunes could be a result of either of two things: the market has in fact bottomed out and is slowly recovering, or potential buyers relatively unscathed from the economic shock are returning to the market at its lowest point, taking advantage of attractively low mortgage rates and seeking deals. It is too early to tell which way the market will go. This move up in activity could be a blip especially if COVID-19 caseloads continue to climb (as they have been recently in the Greater Toronto Area (GTA)) and the GTA remains largely closed for business while the rest of the province experiments with a regional phasing in of economic activity.

Existing home sales in the Toronto Regional Real Estate Board (TRREB) moved up in May by 50.7 per cent to 3,565 units and new listings moved up 31.1 per cent month-over-month to 6,226 units. According to the sales-to-new-listings ratio (SNLR) the market tightened due to greater sales growth relative to supply growth. The SNLR moved up from 49.8 per cent in April to 57.3 per cent in May (an increase of 7.5 per cent). Despite the increase, Toronto remained a balanced market. Average price increased 5.4 per cent in May to $828,335 after giving back over 10 per cent of growth in April.

Despite a rebound in activity in May the market is nowhere near it was before the pandemic. Looking at monthly averages from January 2014 to May 2020 sales and listings in April are sharply down lagging the monthly average activity by 53.9 per cent and 52.3 per cent, respectively. Average price has held up, staying 14 per cent above trend.

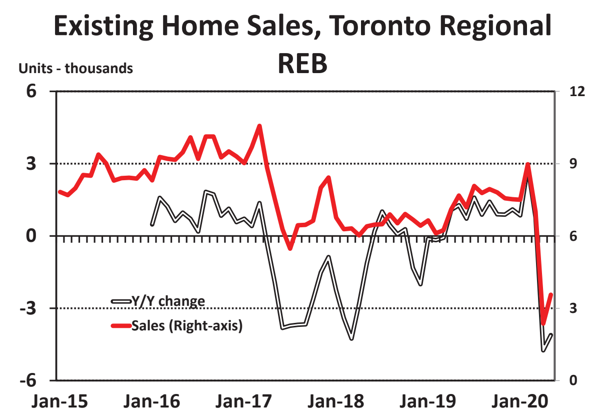
Year-to-date, sales and listings are lagging last year's pace by 12.9 per cent and 25.1 per cent respectively while average price has maintained its value, remaining 11.4 per cent ahead of last year's pace.

According to the TRREB constant quality housing price index (HPI) single-detached homes (down 0.8 per cent in May) and condo apartments (down 0.5 per cent in May) dragged the overall index down by 0.5 per cent in May. Large gains in value were observed in townhomes (up 0.4 per cent in May). Increased values for townhomes gives some credence to the hypothesis that a smaller pool of active buyers are looking for deals particularly in the townhome market which provides a sweet spot between high and low density housing while providing some value savings not possible when purchasing a single-detached home or some condo apartments in attractive areas of the region.

Recent changes by the Canada Mortgage and Housing Corporation (CMHC) to tighten its mortgage default insurance will undoubtedly slow down demand for housing in an already weakened market in the months to come and affect the extent of the market recovery once the economy fully emerges from this hibernation caused by the pandemic.

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

Source: Statistics Canada, Central 1 CU. Note: Seasonally adjusted.
Latest: Apr.-20



Source: TRREB, Central 1 CU. Note: Seasonally adjusted. Latest: May-20