Ontario Economic Briefing

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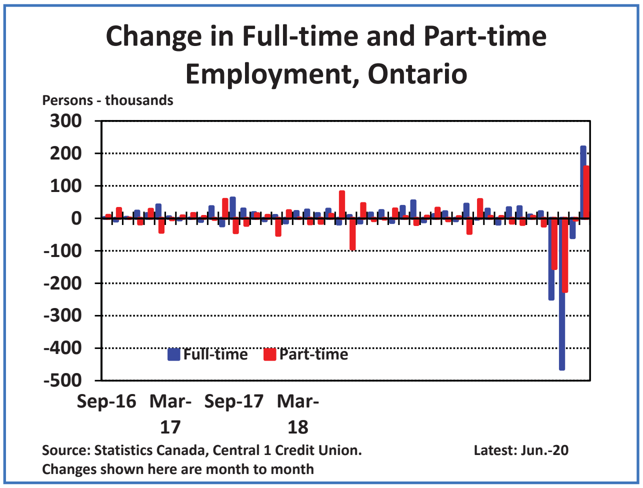
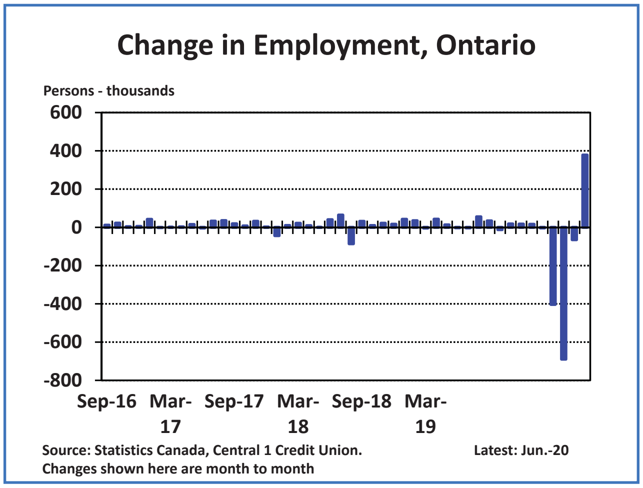
Highlights:

- One-third of jobs lost between March and May have returned;
- Ontario housing starts up 35.8 per cent in June;
- Toronto housing market comes to life in June: sales and prices both up 10 per cent.





Unemployment decreases in June to 12.2 per cent as hiring increased

Ontario's labour market is slowly coming back to life as its economy gradually re-opens as the province enters phase 2 amid the COVID-19 pandemic.

Almost 1.2 million jobs were shed in the province between March and May. June's statistics show that nearly a third of those jobs have returned (377,900 net jobs). The encouraging news this month is that the hiring occurred largely in full-time work (58 per cent of hiring) and, while both the goods and services sector hiring increased, most of the bounce-back occurred in services: 276,300 net jobs (73.1 per cent of net jobs created).

In June, the labour force increased by 317,800 net workers or 4.3 per cent. A stronger bounce back in employment growth relative to the labour force growth shaved 1.4 per cent from the unemployment rate, moving it down to 12.2 per cent.

All classes of worker started coming back to work in June with the largest gains in the private sector (up 8.1 per cent and making up nearly 85 per cent of all hiring). Public-sector hiring increased four per cent (up 50,600 net new workers) and self-employed work increased 0.6 per cent (6,500 net new workers).

In the goods-sector, large hiring gains occurred in construction (up 7.3 per cent) and manufacturing (10.3 per cent). The services sector reported strong surges in hiring: trade (up 12.1 per cent), information, culture, and recreation (up 14.3 per cent), accommodation and food services (up 17.1 per cent), educational services (up 6.1 per cent), and, business building (up 8.3 per cent).

The Statistics Canada data in this week's report was compiled during the week of June 14-20 by which time many parts of Ontario had entered phase two of its reopening plan therefore it is likely that much of the hiring is among workers that were laid off who are gradually being recalled back to work.

Employers continued to adapt workplaces to ensure the health and safety of workers, customers and the public. This retooling of businesses and workspaces will mean that future rehiring will occur gradually as employers open their doors only after they have the right measures in place to protect public health. Unfortunately, not all businesses will return, for example, a recent survey from the Canadian Federation of Independent Business (CFIB) found that 16 per cent of small and medium enterprises will never open their doors again. It is likely that many of the closures are focused in the services sector and client-facing businesses.

Central 1 economics expects the Ontario unemployment rate to settle at 10.1 per cent in 2020.

Ontario housing starts up 35.8 per cent in June

Ontario housing starts rebounded strongly in June moving up 35.8 per cent to 78,233 units at seasonally adjusted at annual rate (SAAR) after falling 39 per cent in May. Total Canadian new housing starts moved up 8.3 per cent to 211,681 units SAAR largely supported by gains in Ontario. Excluding Ontario, new housing starts in the rest of Canada dropped off 3.2 per cent in June.

Building sites were able to open in May in Ontario and since then homebuilders have been busy making up for lost time by chipping away at the backlog of housing starts still to break ground originating from before the COVID-19 pandemic. So far this year housing starts month-over-month growth was down only in March and May. Year-to-date, new housing starts in Ontario are still on pace to surpass last year's total by 13.5 per cent.

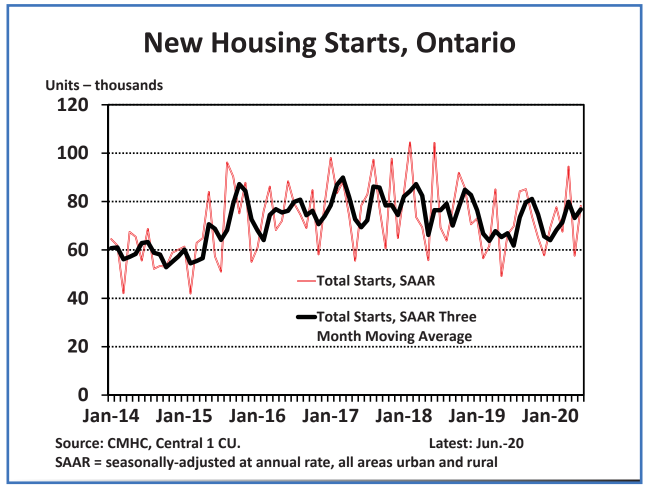
Pick-up in multi-family homes in large urban areas in or near the Greater Toronto Area (GTA) was largely responsible for the increase in Ontario housing starts in June. Urban areas accounted for nearly 98 per cent of all housing starts in Ontario and townhomes and condo apartment starts accounted for nearly 74 per cent of all housing starts in urban areas.

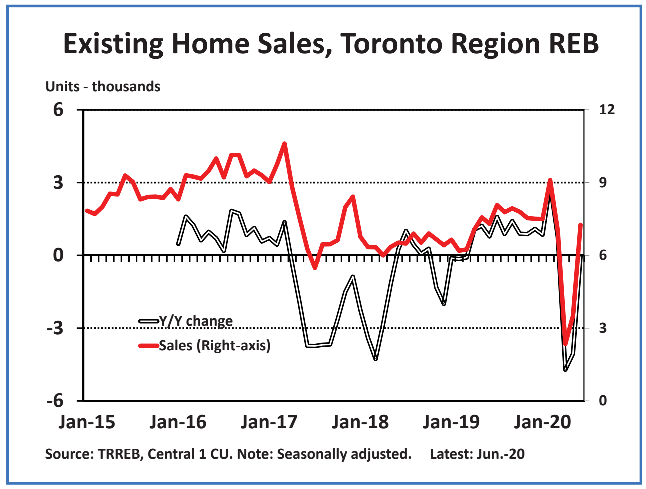
Five metro areas accounted for nearly 75 per cent of total housing starts in urban centres:

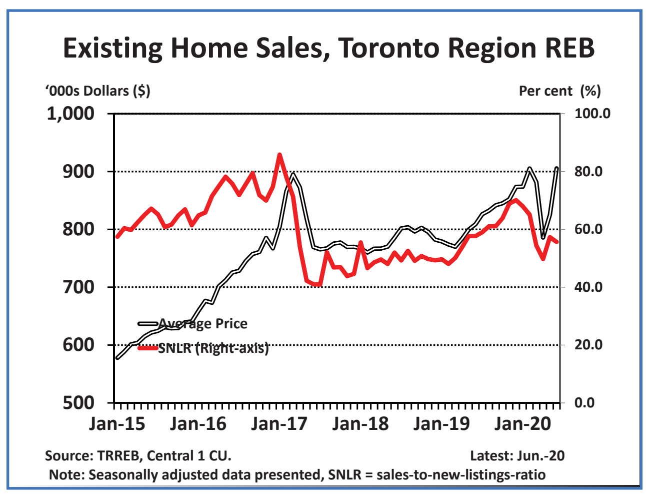
- Toronto (33.4 per cent increase)
- St. Catharines-Niagara (251.2 per cent increase)
- Barrie (188.7 per cent increase)
- Hamilton (124 per cent increase)
- Kitchener-Cambridge-Waterloo (361.3 per cent increase)

The average and median contract price for a new single-detached home increased 7.9 per cent and 5.4 per cent respectively in June. Year-over-year the average price increased 7.8 per cent while the median price increased 7.7 per cent.

The new housing starts activity currently is lagging the realities of the market going forward. The economic recovery will be very muted and gradual. Central 1 economics expects Ontario housing starts to trend lower in the near term as a result of the negative







impact of COVID-19 on economic and housing indicators. Moreover, new Canada Mortgage and Housing Corporation (CMHC) mortgage insurance criteria will temper new housing demand for many first-time buyers needing mortgage insurance in large urban centres for multi-family units which is the core of activity in centres like Toronto.

Central 1 economics is currently calling for a sizeable drop in new housing starts in 2020 that can range from 10 to 30 per cent of activity in 2019. The severity of the drop-in activity hinges on a whether COVID-19 re-emerges in the Fall and Winter of 2020 and how quickly consumer and business confidence can rebound and reignite a sputtering economy.

Toronto home sales rebound strongly in June as potential buyers try to avoid new CMHC mortgage insurance rules in July

Toronto's existing homes market really came to life in June with sales, new listings, and price all increasing by large margins. It is likely that much of the increased movement in the market in June stems partly from the pent-up demand during stay-at-home orders in March and April and residential mortgage insurance changes announced on June 4,th 2020 by the Canada Mortgage and Housing Corporation (CMHC) which took effect on July 1. These mortgage insurance changes, which included tighter restrictions around credit scores and the amount of debt a borrower can carry reduced purchasing capacity. Given cost constrains in Ontario's large urban centres many buyers enter the market in multi-family units and then gradually move up given economic and personal changes (i.e., marriage and/or family).

According to Central 1 economics' calculations we suggest a nearly doubling of seasonally adjusted sales in Toronto month-over-month in June to 7,257 units with new listings also moving up 113.2 per cent to 13,040 units. Despite the strong pick-up in June by both these metrics they still lagged their long-term monthly averages by 6.1 per cent and 0.2 per cent, respectively. Year-to-date, sales are still lagging last year's pace by 10.4 per cent notwithstanding a strong pick-up in the market in May and especially June. New listings remained 20.4 per cent behind last year's pace.

Even though supply increased at a stronger clip than sales allowing for a slight increase in slack in the market average, price growth still increased in June, moving up 9.7 per cent which was the largest month-over-month price jump to date in 2020, to $905,359. The jump to the average sale price is attributed to a greater number of single-detached and townhome sales especially in the periphery outside the City of Toronto. The increased supply in June notwithstanding average home price in Toronto remained 11.7 per cent ahead of last year's pace. Up until June, limited growth in supply had kept the market tight and led to increased buyer competition for a smaller pool of available homes.

According to the Toronto Region Real Estate Board's (TRREB) constant quality housing price index (HPI) overall home prices fell 0.4 per cent in June over May due mostly to a 1.4 per cent drop in condo apartment price and a 0.2 per cent drop to single-detached homes. Townhome price continued to move up by an additional 1.4 per cent. Townhomes are the only type of housing to increase in price for six consecutive months this year.

As mentioned last month, some buyers are looking for deals in that sweet spot in the market between high-density housing (condo apartments) and single-detached homes, hence with still attractively low interest rates and the old CMHC mortgage insurance rules still applicable in June many buyers did not mind driving longer distances to find that deal.

Despite the robust pick-up in activity in June the most important question on many minds centres around the next six months of 2020. Is this the start of a rebound or just a blip in the market as buyers move to get ahead of newer more prohibitive policies? That is still unknown, but this is certain: Ontario has still not fully emerged from the COVID-19 health crisis and economic weakness continues.

Just this week the Bank of Canada released its Summer *Business Outlook Survey*[1] and many businesses expect revenues to decline from weaker domestic and international sales. Consequently, businesses also expect to curtail investments and hiring as credit conditions remain tight and the economic outlook highly uncertain. All this will affect employment prospects in many sectors and wages which are key drivers of homeownership demand. Population growth, typically a driver of housing demand, is expected to slow to a trickle due to thicker borders and slower immigration processing times. This trend, coupled with increased job uncertainty will keep more people on the sidelines either in rental or living with family and friends, particularly many first-time buyers.

An existing home sales contraction in the minimum range of 10 to 20 per cent is likely for 2020.

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[1] https://www.bankofcanada.ca/2020/07/business-outlook-survey-summer-2020/