Ontario Economic Briefing

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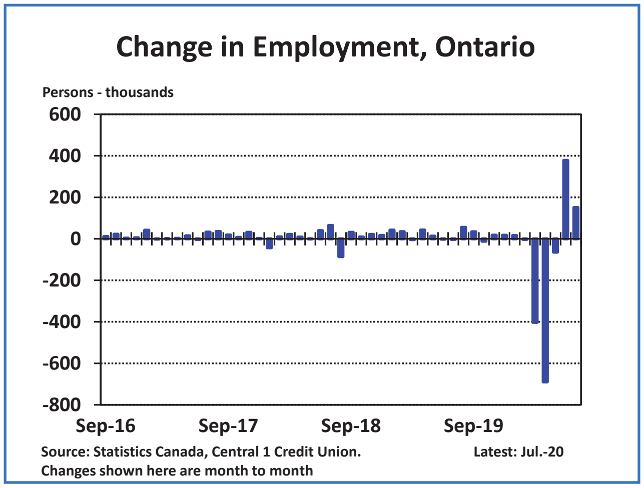
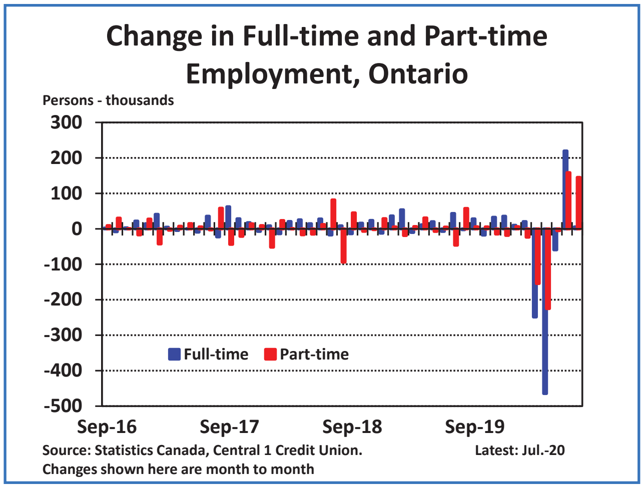
Highlights:

- Unemployment rate continued to slide, stood at 11.3 per cent in July
- Ontario exports increased 52.7 per cent from a largely broad-based rebound
- Toronto housing market red hot in July





Ontario created over 150,000 net new jobs in July but nearly all were part-time

Statistics Canada's latest Labour Force Survey (LFS) shows that unemployment in Ontario is decreasing as the economic restart is well underway in Ontario and businesses that have been able to survive the pandemic thus far are reopening[1] and recalling laid off employees.

In July the unemployment rate was back to the same level as April, standing at 11.3 per cent, down from 12.2 per cent in June.

Even though jobs continued to be filled during the ongoing restart most of these were part-time jobs, particularly in the services sector. In July, over 150,000 net jobs were filled (96.3 per cent part time) with nearly 130,000 net jobs filled in the services sector.

While the services-sector continued to rehire employees who had been laid off during the pandemic, the goods-sector also continued to rehire workers (over 20,000 net jobs filled) with most of those jobs coming from manufacturing (5,800 net jobs) and construction (13,400 net jobs). With global supply chains and trade slowly reopening and consumer demand also slowly awakening many plants started up again. Moreover, construction sites have reopened to chip away at the backlog of residential and non-residential projects left from March and April.

Despite the growth in service-sector hiring, the following areas continued to face headwinds in July and actually reduced staff: finance, insurance, and real estate and rental (1,400 net jobs lost); business building services (1,700 net jobs lost); educational services (7,200 net jobs lost) and information, culture and recreation services (1,500 net jobs lost).

With the rental market showing some slack from weaker immigration, fewer post-secondary students, and fewer young workers many in leasing and rental market lost jobs. Moreover, businesses looking to stay afloat in financial services are also cutting expenses where possible. With muted business investment expected for the foreseeable future, areas like busi-

[1] For analysis of business closures and openings during the pandemic consult our latest report which uses a new data set from Statistics Canada:

https://www.central1.com/wp-content/uploads/2020/08/ECON_COMMENTARY_business_closures jw.pdf ness building services will likely continue to feel the pinch from the pandemic. Along with less housing demand from students, the actual schools (especially post-secondary institutions) may cut costs by reducing non-tenured staff now that greater use of e-learning and fewer students on campus will be the new normal until the pandemic is firmly in our collective rear view mirrors.

Uncertainty about the recovery likely the reason for many employers rehiring on a part-time basis.

Finally, by class of worker, the gains in net job creation came entirely from the private-sector (over 170,000 net jobs created), both the public-sector (1,100 net jobs loss) and self-employed work (18,700 net jobs loss) reported job losses.

Exports continued to rebound in June moving up an additional 52.7 per cent

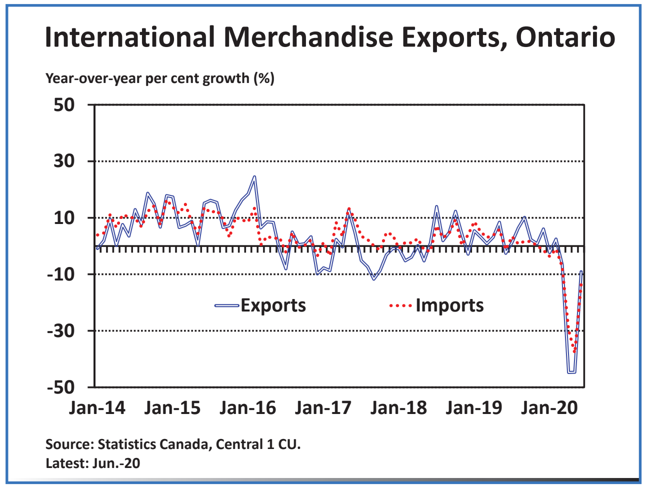
Merchandise trade volumes continued to rebound in June, moving up a robust 52.7 per cent to $15.4 billion dollars and adding to the 4.7 per cent jump in May. Clearly the phased economic restart in Ontario has benefited exports as businesses are opening and recalling laid off workers and filling the backlog of orders left from about mid-March to mid-May. Year-over-year exports are still down 9.1 per cent even with the massive growth posted in June.

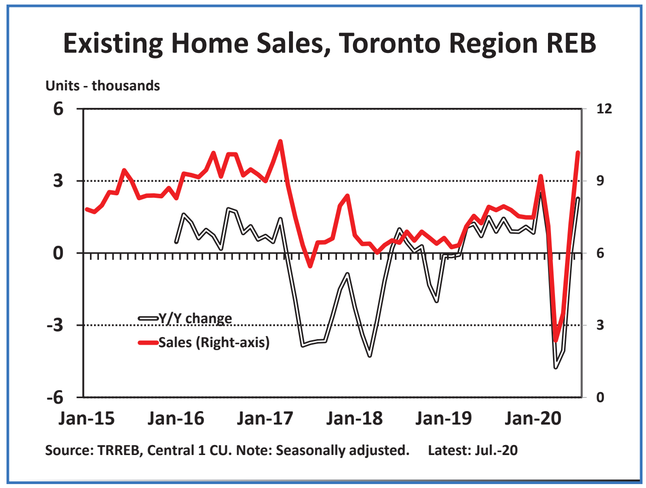
Several sectors contributed to this increase in trade sales, but among Ontario's large sectors, the heavy lifting was done by metals and non-metallic mineral products (up 43.8 per cent), motor vehicle and parts (up 395 per cent), and consumer goods (up 10.4 per cent). A few sectors posted lower sales: farm and food product sales (down 2.1 per cent) and energy product sales (down 23 per cent).

Export growth in June was broad based with strong pickup in orders fulfilled to U.S. clients (sales up 58.1 per cent in June) and non-U.S. clients (up 38.2 per cent).

Over the first half of 2020, non-essential business closures during the initial wave of the virus continued to weigh on total production as total exports remained 18.2 per cent behind last year's pace.

Imports also rebounded in June by 31 per cent to $25.3 billion, year-over-year imports remained 13.7 per cent down and over the first half of the year are still lagging last year's pace by 16.1 per cent. Imports increased on domestic consumption growth following the economic restart and supply chain imports as businesses get back to work.





Exports of passenger cars and light trucks drove the rebound in May and more so in June, which coincided with the resumption of activities in the automotive assembly industry in Canada in mid-May, with production continuing for the entire month of June. Exports of unwrought gold, silver, and platinum group metals which is mostly comprised of refined gold, led the increase in metal and non-metallic exports, with higher gold exports to the United Kingdom. Finally, with a gradual restart to the global economy underway, especially segments such as retail sales and food services, consumer good exports have started to rebound.

Toronto's housing market activity in July stuns

Since the economic restart in May, Toronto's housing market has been on a tear, fuelled by very low mortgage rates and perhaps a little bit of fear of missing out syndrome by those households unaffected by the job and wage losses.

July over June seasonally adjusted sales increased by an additional 41.9 per cent to 10,179 units (all figures in this section are seasonally adjusted by Central 1 economics unless otherwise noted) while new listings also moved up 32.9 per cent to 16,782 units.

Such has been the frothiness of the market that it seems there are not sufficient new listings in the market to satisfy this pent-up demand, especially given that there was no Springtime market and now Spring-time and Summertime buyers have been unleashed at once. Since May, number of listings per sale has been declining and currently it stands at 1.6 new listings per every sale. For context the long-term average is 1.7 new listings per every sale. Moreover, the sales-to-new-listings-ratio, another measure that allows us to see the relative frothiness of the market, has also moved up in July to 60.7 per cent from 56.8 per cent in June. A reading above 60 per cent typically signifies a sellers' market. From March to June the market was balanced and now has returned to a sellers' market the same territory it occupied in February before Ontario went into near lockdown with only essential businesses allowed to remain open.

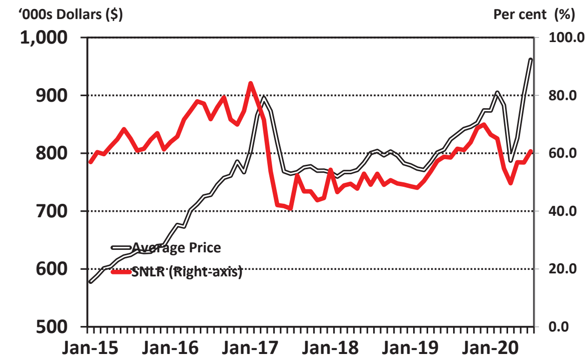
Average price growth has continued to benefit from the bidding wars and increased an additional 6.6 per cent month-over-month to $961,453.

Year-to-date sales are now only 4.1 per cent below last year's pace, with new listings lagging by 13.9 per cent. Average price remains 13.1 per cent above last year's pace.

The constant-quality housing price index from the Toronto Regional Real Estate Board (TRREB) in-creased an impressive 2.8 per cent in July up from 0.7 per cent down in June. The growth in the overall index was broad-based across all housing types but with larger contributions to the index growth coming from low-rise housing. The single-detached and townhome indices increased by 4.1 per cent and 1.8 per cent, respectively. Condo apartments posted a modest, in comparison, jump in price of one per cent in July up from 1.4 per cent down in June.

It seems with extremely low mortgage rates and the pandemic a compositional shift in demand is occur-ring in Toronto. More buyers are looking for low-rise options to have not only more space, a backyard but also a street-facing entrance. At a time when regular close contact with people is deemed dangerous potential buyers are likely eschewing multi-family housing such as condo apartments and are maxing out the mortgage loan, they can obtain on a low-rise housing option. Furthermore, TRREB has signaled that a greater proportion of sales are occurring in the "905" in lieu of the "416." With more firms allowing their workforces to work remotely full or part time some buyers may not feel tied down to the City of Toronto as generations before had due to their work.

Existing Home Sales, Toronto Region REB



Source: TRREB, Central 1 CU. Latest: Jul.-20
Note: Seasonally adjusted data presented, SNLR = sales-to-new-listings-ratio

While it is great to see Canada's largest housing market rebound as buyers step off the sidelines, the current market trends may not be sustainable for the rest of the year especially if there are additional waves of infections in the Fall and Winter as many experts keep suggesting. There are substantial downside risks to the economy still on the horizon affecting areas like employment, wage growth, and business investments. Buyers looking to purchase should be cautious not to bite more than they can chew even if faced with today's attractive mortgage rates.

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