Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights:

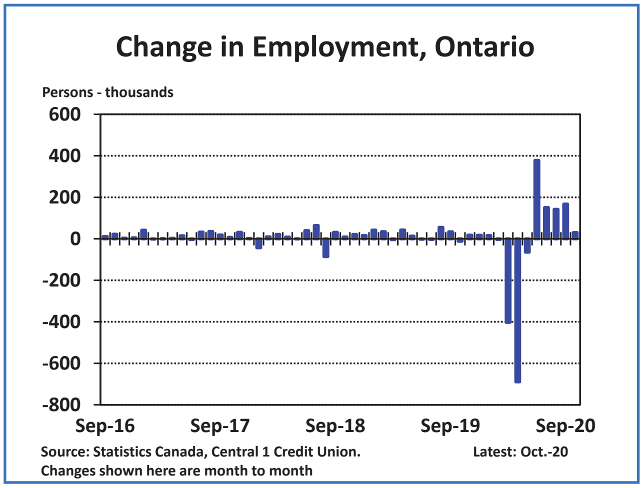
- Ontario unemployment rate edges up to 9.6 per cent
- Exports up 7.8 per cent driven by stronger exports of motor vehicles and parts
- Toronto resale market slows after five-month rush - 905 area code attracting many buyers from the city
- Non-residential building permit volumes up 86.4 per cent

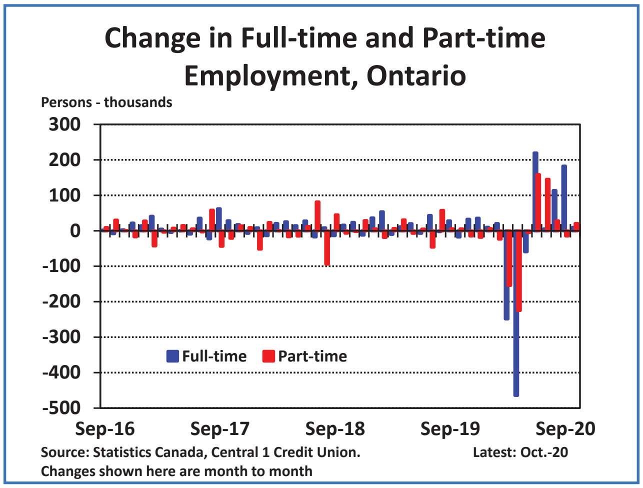
Ontario job market has weakest showing since May's restart

The labour market recovery may be starting to peter out now that Ontario is facing a growing second wave of COVID-19 infections. October's jobs report was the weakest since the restart in May. The unemployment rate edged up to 9.6 per cent in October up from 9.5 per cent in September, largely from more people looking for work (41,300 net new entrants) than those finding employment (30,600 net new hires). Moreover, with employers facing significant uncertainty over the next few months, much of the hiring came from part-time workers (20,800 new part-time hires or 67.9 per cent of the month's total hires).

Since March, the labour force has fully recovered and now 41,300 more entrants are actively looking than at the start of the pandemic. Employment has not fully recovered and with the 30,600 net new hires in October, Ontario is still missing 287,900 net jobs of which nearly 84 per cent are full-time jobs. Again, given the significant uncertainty ahead and a weaker demand environment in general, part-time jobs have recovered much quicker as employers do not want to overextend themselves by carrying large payrolls heavily skewed to full-time workers. The participation rate continued to climb in October and it now stands at 65 per cent and nearly equal to pre-pandemic levels from January and February.

Of the 30,600 net new hires in October, 19,700 net hires (or 64.4 per cent of total net hires) occurred in the private sector and 11,600 people became self-employed. The public sector shed 700 net jobs in October. The jump in people starting their own businesses is likely a symptom of this pandemic. With many jobs lost, some people may be pivoting to other career paths until the economy returns to full capacity. October's jump in self-employed is the largest since January 2020.





The goods sector hired 4,100 new workers in October, the lowest tally since the start of the recovery, while services hired 26,600 net new workers. In the goods sector, most of the month's hiring occurred in construction, forestry, fishing, and mining. Some job loss occurred in manufacturing. Strong exports of lumber and metals has supported hiring in forestry and mining while the need for skilled labour to complete the backlog of residential, renovation, and non-residential construction has increased hiring in construction.

Several areas in the service sector shed jobs, particularly accommodation and food services (shed

8,600 net jobs), other services (shed 4,900 net jobs), educational services (shed 7,200 net jobs), and business building and other support services (shed 2,000 net jobs). These jobs losses were offset by gains to trade (hired 45,700 net workers), professional services (hired 22,500 net workers), and health care and social assistance (hired 4,400 net workers).

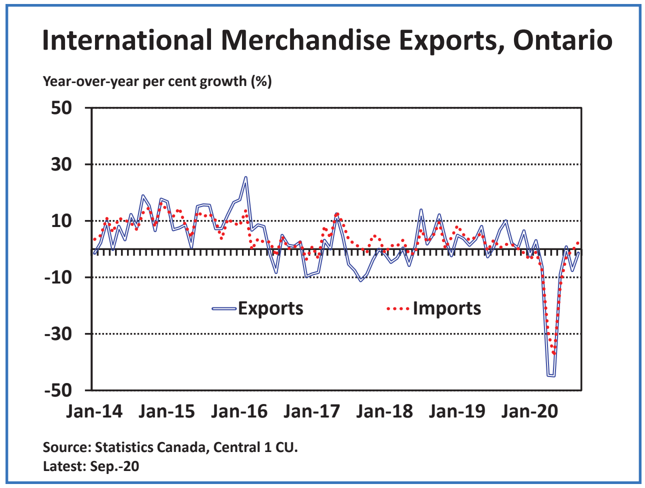
Increased restrictions in COVID-19 hotspots such as the City of Toronto, Peel region, York region, and Ottawa region hit bars and restaurants and client facing jobs such as gyms. Educational services shed some jobs as some parents are removing their children from certain school boards and choosing to either home school or enroll them in private schools' online programs. Greater uptake of online shopping has increased hiring in trade and the need for health workers such as personal support workers and therapists has supported growth in those areas.

Exports up 7.8 per cent driven by stronger exports of motor vehicles and parts

Ontario's exports rebounded in September moving up 7.8 per cent to $17.6 billion after sliding 8.7 per cent in August. Imports also rebounded moving up 3.9 per cent in September to $30.7 billion. The rebound in exports was broad-based with strong recovery of sales to the U.S. (up 8.7 per cent) and the rest of the world excluding the U.S. (up 4.6 per cent). During the first nine months of 2020, exports are still trailing last year's total by 13.1 per cent while imports are down 10.8 per cent. Despite strong trade activity since the restart in May, the damage done to supply lines and spending in general from mid-March to the end of April has been difficult to offset. With the possibility of a strong second wave of infections on the horizon over the fall and winter, hard earned gains are at risk of being snuffed out if several regions have to go into modified closures under Ontario's new tiered system of pandemic response[1].

Most sectors posted stronger export dollar volumes in September. Of the three largest, consumer goods fell 2.4 per cent while the other two – motor vehicle and parts (up 13.5 per cent) and metal and non-metallic mineral products (up 8.4 per cent) – posted greater sales. Furthermore, besides consumer goods only two other sectors posted weaker sales in September: aircraft and other transportation equipment and parts (down 4.1 per cent), metal ores and non-metallic minerals (down 13.6 per cent).

[1] https://nationalpost.com/pmn/news-pmn/canada-news-pmn/highlights-of-ontarios-new-system-for-determining-covid-19-measures



Forestry products and building and packaging materials posted strong growth of 11.9 per cent in September. Higher prices for packaging and lumber products led to the increased dollar volumes. A surge in construction work and home renovations has led to more demand of lumber. It's likely that continued strength in e-commerce has led to increased demand for packaging products.

Exports of motor vehicles and parts increased mainly because of higher exports of passenger cars and light trucks while continued weakness in the travel industry has dampened demand for aircraft and other transportation equipment and parts.

Consumer goods fell largely from weaker exports of pharmaceuticals.

Over the first nine months of 2020, nearly all sectors lag last year's pace with two exceptions: consumer goods (up 6.0 per cent) and farm, fishing, and intermediate food products (up 0.3 per cent).

Home sales fell 13.4 per cent in September, largest drop since the start of the pandemic

The Toronto Region Real Estate Board (TRREB) released October market data this week. While all year-over-year metrics are up significantly, by double digits, the month-over-month trend paints a different picture. It shows a market that could be slowing down significantly after the summer frenzy fueled by pent up demand and low mortgage rates. After increasing 5.4 per cent in September sales in October declined by 13.4 per cent to 9,385 seasonally adjusted units (all metrics discussed in this section are seasonally adjusted unless otherwise noted.). October's contraction in sales was the biggest contraction since April and moreover putting an end to a five-month run of sales growth.

On the flip side, supply continues to be an issue. Last month new listings fall 16.0 per cent and in October came in nearly unchanged sliding down a tad (0.2 per cent). In October, the sales-to-new-listings-ratio (SNLR) a relative measure of market tightness slid down to 57.2 per cent from 66.3 per cent in September. A reading of the SNLR between 40 and 60 per cent typically signifies that a market is balanced. With significantly fewer sales average price growth was very modest coming in at 0.2 per cent to $957,348.

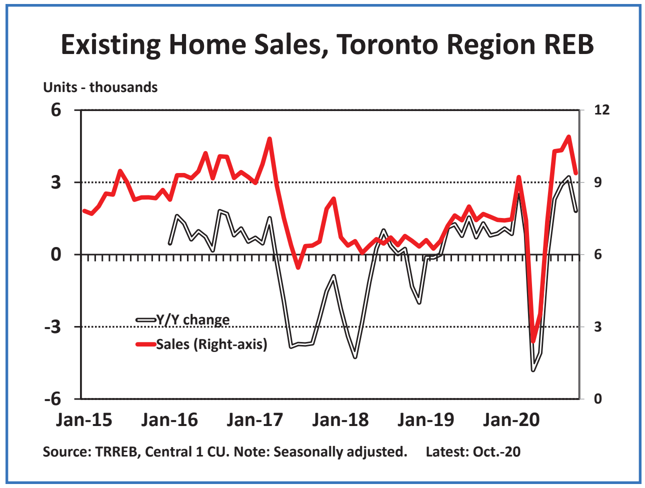
Over the first ten months of 2020, sales (up 4.3 per cent) and average price (up 13.6 per cent) remained strongly in front of last year's pace. Supply continues to lag and new listings are down 1.1 per cent from last year's total by October.

In October, sales in the 905-area code accounted for nearly 67 per cent of total sales with sales skewing heavily towards low-rise housing. Average home prices tend to be lower in the 905 area code which is attracting many buyers from the city, but more than that, the low interest rates and the desire to have greater space and lower density has been a calling card for many buyers since the start of the pandemic.

The constant-quality housing price index from TRREB decelerated in October from 1.4 per cent growth in September to 0.4 per cent this month. Index prices decelerated for single-detached homes (0.8 per cent growth in October from 2.0 per cent growth in September) and townhomes (0.8 per cent growth in October from 1.2 per cent growth in September). The index for condo apartments declined with prices falling 0.5 per cent in October after increasing 0.3 per cent in September.

The condo apartment segment continues to be battered during this pandemic. Fewer immigrants, foreign students, and young workers coming into dense urban areas like Toronto has depressed demand and value for condo apartments. Many investors are facing the spectre of significant losses even if they sell units before the end of the year in the downtown core[2]. On the other hand, the low-rise market continues to thrive, particularly in the suburbs. Perhaps greater options to work remotely for many on a long-term or permanent basis, the need for greater space to accommodate household members studying and/or working at home all day, affordable home prices, and greater risk of virus contagion (i.e., high virus positivity rates in parts of Toronto) in the city are pulling buyers to the 905 area code.

2 https://globalnews.ca/news/7440669/toronto-downtown-condo-investments-pandemic/



Granted, taking a wide view 2020 has significantly outperformed last year thus far and year-over-year sales in October are up 24 per cent but the strong dip in sales month-over-month noted in this report needs to be followed closely. Just how it could be a blip it could be the start of a new trend. Perhaps sufficiently enough people have entered that market that activity will be muted in the resale market for the rest of the year. Another notion is that home prices have appreciated so much during the summer that even with attractive mortgage rates the price is offsetting affordability gains. Thus, keeping some people now on the sidelines rather than entering the market and overextending their personal finances during such an uncertain time in the labour market as noted above in the labour report section.

With one of the few bright spots since the restart showing potential weakness this is a significant risk to the rest of the region's economy especially since some tough months may be ahead traversing this second wave of infections for a few other sectors.

Non-residential building permit volumes up 86.4 per cent

Ontario's non-residential building permit volumes increased by 86.4 per cent in September to $1.7 billion after dropping off 19.8 per cent in August. Building permits can be quite erratic from month-to-month given the lag between when projects get filled and approved by municipalities. Adding to this unevenness from month to month is the underlying uncertainty during this pandemic. Volumes increased from a surge across all three non-residential categories industrial (up 38.8 per cent to $287.2 million), commercial (up 107.1 per cent to $1.2 billion), and institutional (up 74.6 per cent to $278.1 million). While commercial and institutional permit volumes have been quite erratic, industrial permits increased in September for the third consecutive month.

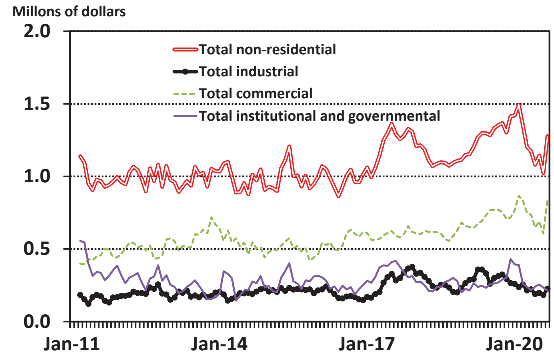
Over the first nine months of 2020 total non-residential building permits are still lagging last year's total by 3.7 per cent but such was the surge in future building intentions in September, largely from commercial projects, that the year-to-date gap was shaved from over eight per cent in August to 3.7 per cent in September. Commercial future building intentions remained 8.1 per cent ahead of last year's pace while industrial (down 28.4 per cent), and institutional (down 6.7 per cent) lag last year's totals significantly.

In metro areas non-residential building permit volumes increased 80 per cent in September to $1.3 billion with metro areas accounting for 76 per cent of all non-residential building permit volumes in Ontario. Moreover, Toronto accounted for 59.5 per cent of all non-residential building permit volumes in metro areas and moved up 65 per cent to $789.4 million. Excluding Toronto, non-residential building permits in all other metro areas increased by 107.7 per cent to $537.5 million. Volumes increased in the following large metro areas significantly in September:

- Ottawa-Gatineau (up 127.5 per cent)
- Kitchener-Cambridge-Waterloo (up 131.3 per cent)
- Hamilton (up 28.1 per cent)
- London (up 141.5 per cent)
- St. Catharines-Niagara (up 161.9 per cent)
- Oshawa (up 261.4 per cent)

The Amazon project in Ottawa-Gatineau continues to take shape and contribute largely to the strong growth in commercial permit volumes in September. The Breithaupt Block office building in the City of Kitchener also contributed significantly to commercial volumes. Several permits issued for the new construction of nursing homes and senior citizen homes in Ontario contributed to the increase to institutional permit volumes in September. Industrial permit growth in September likely linked to low interest rates enticing some business owners to expand operations particularly if they have pivoted to online sales and demand is up.

Non-residential permits, Ontario



Source: Statistics Canada, Central 1 CU. Latest: Sep.-20
Note: Seasonally-adjusted three-month moving average data

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