Economics | Current Economic Trends

Ontario Economic Briefing

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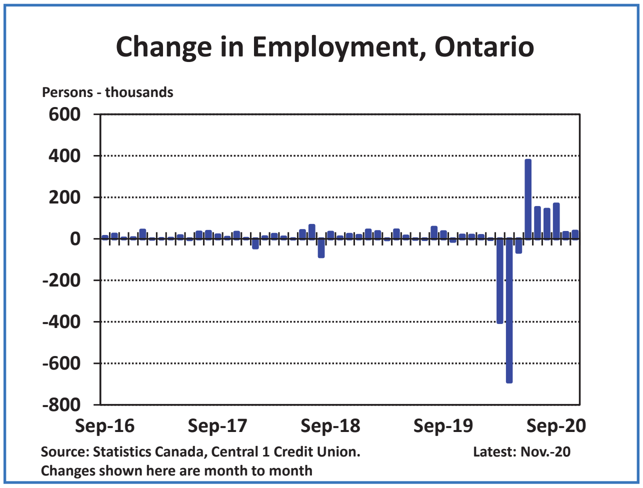
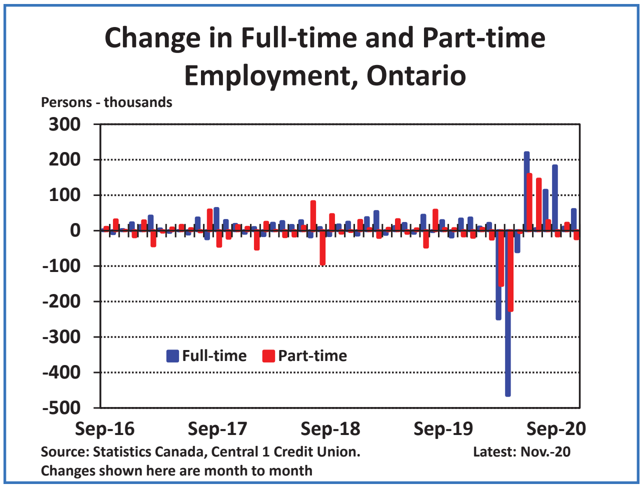
central 1 Economics

Highlights:

- Ontario continues to create jobs but at a slower pace
- Ontario exports moderate in October following very strong growth in September
- Toronto home sales slide; condo market faces strong headwinds
- Permit volumes to moderate as investors remain on the sidelines until economy improves.





Unemployment rate continues to slide

Ontario's average unemployment rate continued to slide down in November coming in at 9.1 per cent from 9.6 per cent in October. The province created 36,600 net new jobs in November largely from increased full-time work (up 59,300 net jobs) relative to the lost in part-time work (22,700 net jobs lost) which offset gains to the labour force (up 2,300 net new potential workers). The employment recovery seems to be slowing; a potential sign of structural unemployment issues.

Since the start of the pandemic the labour force has fully recovered and now stands above pre-pandemic levels (up 46,000 net new potential workers). Employment on the other hand has not fully recovered and just over 251,000 jobs remain unfilled. In full-time work, 72 per cent of jobs remain vacant.

Interestingly, the province created 36,600 net new jobs as outlined above with nearly all that job creation occurring among self-employed workers (up 35,300 net new jobs) and to a lesser extent job creation in the private sector (up 4,200 net new jobs). The public sector shed more jobs in November (2,900 net jobs lost) adding to the 700 net jobs shed in October. Self employed work has grown significantly in October and November perhaps a symptom of this pandemic as mentioned in last month's brief when discussing Labour Force Survey results. With many jobs still lost to the pandemic people continue to pivot and create new enterprises perhaps leveraging technology and creating on-line businesses to survive the pandemic until it is likely brought under control via vaccines in late 2021.

By subsector, most of the job gains in November occurred in the goods sector which created 30,700 net new jobs – mostly in construction (up 28,400 net new jobs) and manufacturing (1,700 net new jobs). Strong demand for residential and some non-residential construction has supported growth in the construction sector since the restart in May. Manufacturing continues to play catch up on the backlog of orders left unfilled in the pandemic's first wave, thus increasing hiring to meet demand. A big reason for growth in manufacturing has been growth in sales of new autos and auto parts in Ontario.

The services sector created 5,900 net jobs which shows much weaker job creation than the 26,600 net jobs created in October. Several areas shed workers, including: accommodation and food services (down 15,300 net jobs), educational services (down 3,800 net jobs), and information, culture, and recreation (down 4,100 net jobs). With lockdowns in the City of Toronto and Peel Region and other areas like York Region moving to increased restrictions, many client-facing sectors such as restaurants, shops, and bars have had to make tough choices and lay off workers again.

Since the start of the pandemic the services sector still has over 240,000 net jobs to fill while the goods sector has 10,600 net jobs unfilled. A few areas have actually hired back workers lost during the spring and increased further, among them: manufacturing (up 13,200 net jobs), finance, insurance, and real estate (up 21,100 net jobs), and professional and scientific services (up 18,800 net jobs). Strong surge in home-ownership demand has increased demand for finance workers while investments in areas like intellectual properties, artificial intelligence, and technology has supported gains in professional services.

Ontario exports fell by 2.8 per cent in October

Ontario exports fell in October by 2.8 per cent to $16.8 billion following very strong growth of 6.1 per cent in September. Imports continued to grow moving up 1.7 per cent to $31.3 billion on top of the 4.2 per cent growth in October. With increased imports and weaker exports net exports trended down further.

Ontario exports to the U.S. fell 5.9 per cent which pulled down overall Ontario trade numbers in October despite exports to the rest of the world excluding the U.S. moving up 9.5 per cent.

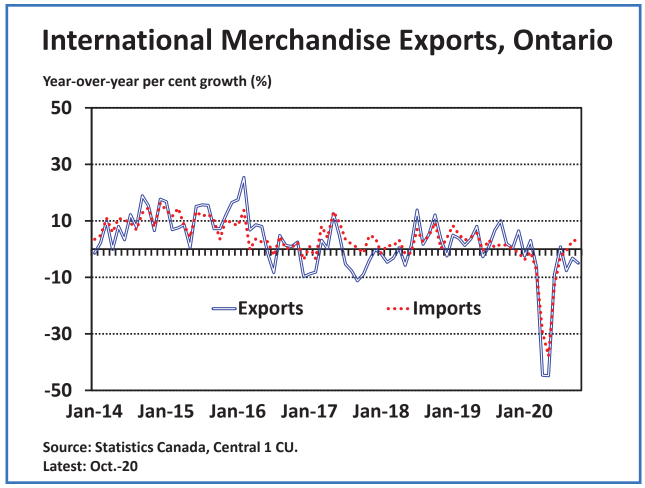
Over the first ten months of the year exports are lagging last year's pace by 12.2 per cent and imports are also lagging last year's pace by 9.1 per cent.

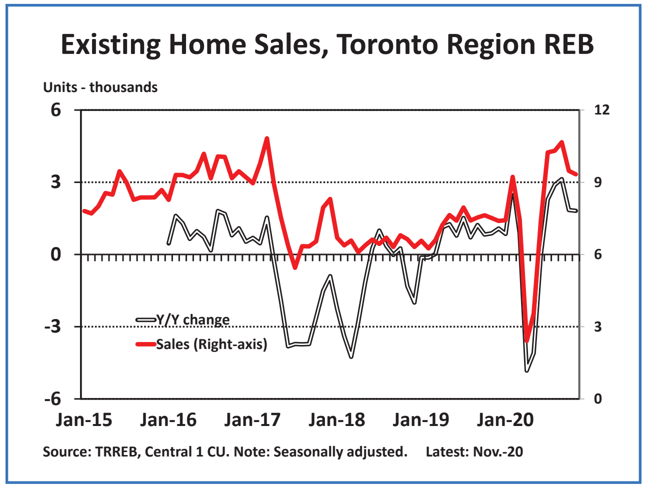
While metal and non-metallic mineral products exports, a large export sector in Ontario, increased 1.6 per cent in October other large sectors such as motor vehicle and parts (down 9.2 per cent), and consumer goods (down 0.7 per cent) saw exports volumes fall.

With several areas of the world facing growing COVID-19 case counts and stricter measures put in place to control the spread of the virus, necessary supply chains for some Ontario exporters are slower likely affecting trade.

Sales continued to slide in Toronto's resale market

The Toronto Region Real Estate Board (TRREB) released November market data this week. Sales have continued to slide in November moving down an additional 1.5 per cent, adding to the 11.2 per cent





slide in October. Year-to-date sales are up 9.7 per cent, benefitting from the strong surge in sales activity over the summer months.

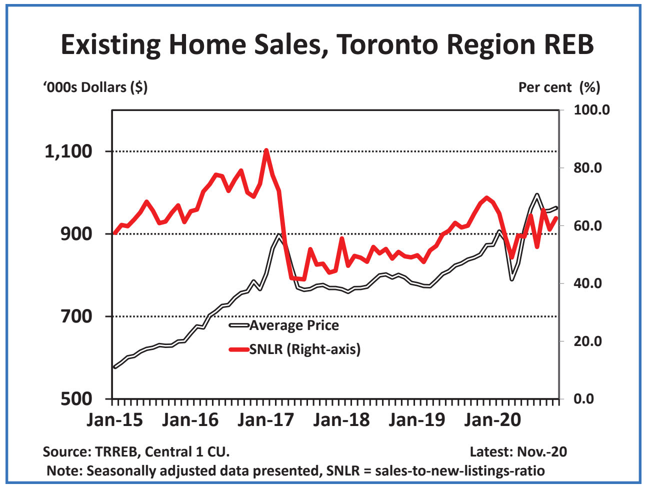
Supply has also continued to slide. New listings fell an additional 7.7 per cent in November now marking three consecutive months that slides have fallen. November's sales-to-new-listings-ratio (SNLR) moved up to 62.6 per cent on a larger net drop in new listings relative to the net drop in sales from 58.7 per cent in October. A reading above 60 per cent signifies a market that is a sellers' market. Year-to-date new listings are up 4.2 per cent ahead of last year's pace.

The average home price in Toronto moved up 0.7 per cent in November to $962,911. Average price growth over the last three months has averaged -1.0 per cent. From May to August average price growth averaged 5.9 per cent. Recent price moderation could signify a compositional shift by buyers purchasing a greater number of homes in the 905-area code and cheaper homes even if single-detached homes are purchased.

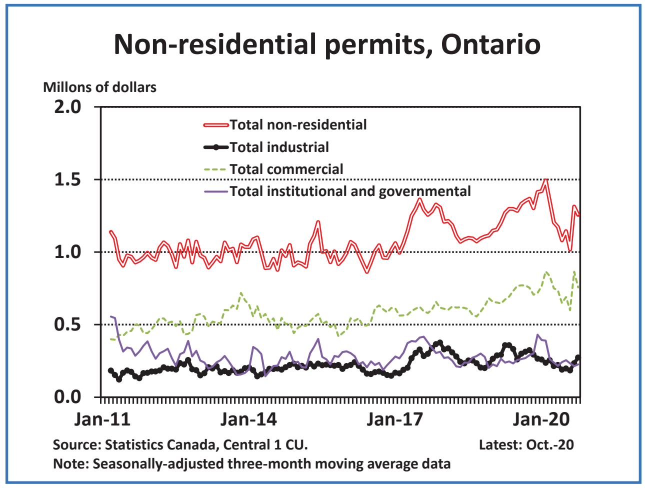
The constant-quality housing price index from TRREB moved up 0.8 per cent in November up from 0.5 per cent in October largely from growth to single-detached home prices (1.3 per cent in November up from 0.9 per cent in October) and townhomes (up 0.9 per cent in November up from 0.8 per cent in October). The condo apartment segment continues to face strong headwinds. The price index for condos fell an additional 0.3 per cent in November adding to the 0.5 per cent drop in October.

Low interest rates continue to support some activity in the market, but it is evident the strongest months' activity is in the rear-view mirror. With lockdowns in the City of Toronto and uncertainty about the coming year, even with COVID-19 vaccines on the cusp of approval, the market will traverse the winter months modestly.

There is a lot of talk in media and by other experts that immigration and economic growth will rebound in 2021 and this will help the housing market. While this is true, it will be a gradual move towards a post-pandemic new world not an instantaneous light-switch. Likely not until the second half of 2021 will economic activity really take off again once consumer and business confidence has really recovered.



Non-residential building permit volumes remain erratic, fell 46.7 per cent in October



Non-residential building intentions moderated significantly in October. Permit volumes fell 46.7 per cent from a significant contraction in commercial (down 64.4 per cent) and institutional (down 15.5 per cent). Industrial permit volumes also fell 1.8 per cent in October.

Year-to-date, non-residential building permit volumes remained 5.6 per cent behind last year's pace with industrial and institutional permit volumes down 24.8 per cent and 9.5 per cent, respectively. Commercial permit volumes remained ahead of last year's pace by 4.1 per cent.

Since the start of the pandemic non-residential building permit volumes have been up year-over-year only two of the last eight months. As noted in last month's brief that talked about permits even in non-recessionary times permits can be quite erratic due to the nature of moving a project through all the processes from conception to groundbreaking. This pandemic has added another level of extraordinary uncertainty as investors and business owners cautiously traverse this period until the economy gets to the other side.

In all metro areas of Ontario non-residential building permit volumes fell 42 per cent in October. Only six metro areas posted an increase in volumes. Many large metro areas such as Toronto (down 45.5 per cent), Ottawa-Gatineau (down 39.8 per cent), Kitchener-Cambridge-Waterloo (down 71.1 per cent) and Hamilton (down 39.7 per cent) recorded significantly weaker activity. Excluding Toronto, the rest of Ontario's non-residential building permit volumes fell 37.3 per cent.

The value of commercial permits in Ontario fell by a large margin following a record set in September due to the high-value permits issued for Project Python in Ottawa (Amazon Canada) and the Breithaupt Block office buildings in Kitchener.

With parts of Ontario in lockdown or facing greater restrictions to control the spread of COVID-19 until vaccines start rolling out in 2021 it is very likely that permit volumes will continue to moderate for the rest of 2020 as a greater number of investors remain on the sidelines until the horizon clears up.

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