Economics | Current Economic Trends

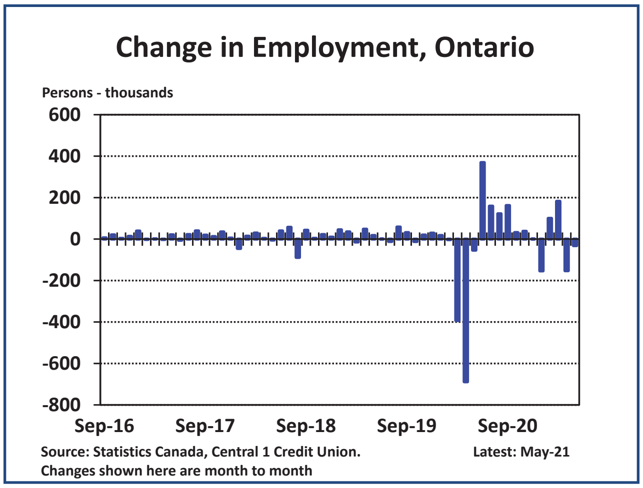
Ontario Economic Briefing

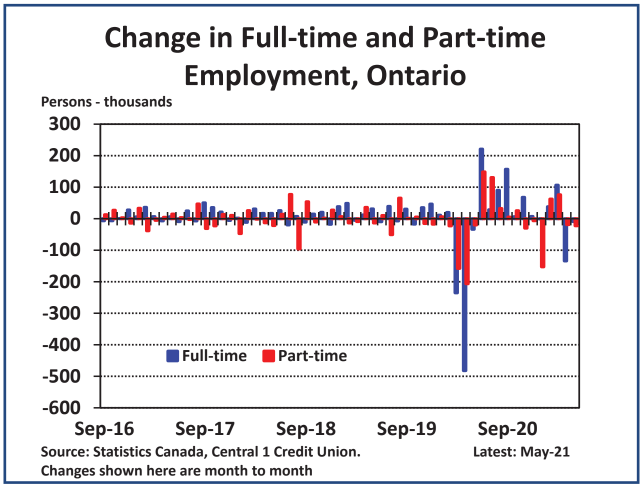
Volume 27 • Issue 22 • Week of May 31 - June 4 2021 | ISSN: 1981-355

central 1 Economics

Highlights

- Ontario unemployment rate up 0.3 per cent in May to 9.3 per cent;
- Continued public health restrictions adversely affect Ontario's labour market;
- Strong commercial and institutional building permit volume gains support growth in April;
- Toronto's resale home market continues to slow but still very bullish compared to last year;
- Canadian industry GDP increased an additional 1.1 per cent in March;
- Economic activity likely to stall in April as increased public health restrictions still necessary.





Ontario's unemployment rate moves up to 9.3 per cent in May

COVID-19 public health restrictions in Ontario continued to eat away at the labour market with May's monthly Labour Force Survey revealing that the province shed an additional 31,600 jobs in May, adding to the 152,700 jobs shed in April. Continued public health measures are discouraging job seekers therefore an additional 15,400 potential workers were lost from the labour force in April, adding to large losses in March.

Ontario's unemployment rate increased 0.3 per cent to 9.3 per cent in May.

Compared to pre-pandemic levels, the labour force has over 9,000 fewer workers and over 307,000 workers are still out of a job, with nearly 60 per cent of those previously employed having held full-time employment.

All the jobs' losses in May occurred in the private sector as employers had to let go nearly 45,000 workers. These loses were somewhat tempered by employment gains in the public sector (up 11,000 employees) and those self-employed (up 2,100 entrepreneurs).

Both the goods (down 23,700 workers) and the services sector (down 7,900 workers) posted deep losses in May with several large industries posting the lion's share of losses. There were some segments that bucked the trend and hired more workers. For example, as noted above, public sector hiring increased substantially in areas such as public administration (up 1,100 workers), education (up 5,000 workers) and health care and social assistance (up 5,600 workers).

Increased hiring in transportation and warehousing (up 12,200 workers) supported by greater use of e-commerce and rehiring at airlines and airports.

Ontario's vaccination campaign continues to roll on with a substantial share of Ontarians now having at least partial protection from the virus. As of the preparation of this report, the province is expected to start loosening restrictions on June 14th. Should the relaxation of restrictions begin mid-June, the labour market can begin to rebound as economic activity gradually ramps up again.

Non-residential building permits increased by 14.6 per cent in April.

Non-residential building permit volumes increased by 14.6 per cent in April to $1.4 billion, more than offsetting the 11.9 per cent contraction in March. Growth in April was supported by strong gains to commercial building permit volumes (up 45.8 per cent) and institutional building permit volumes (up 7.1 per cent). Industrial building permit volumes fell 36.5 per cent.

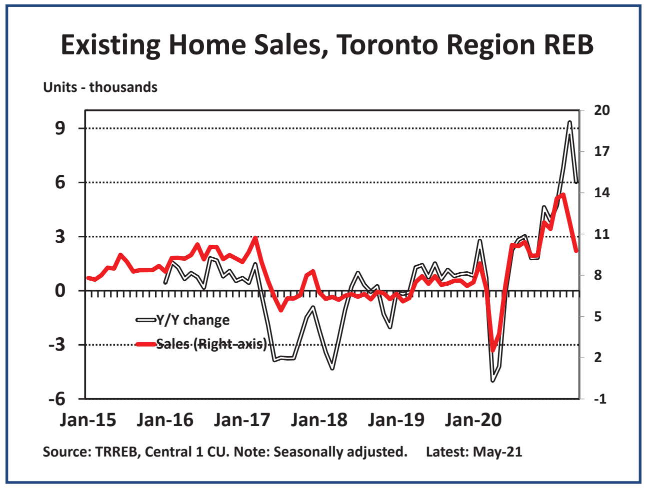
Over the first four months of 2021, non-residential building permit volumes are tracking ahead of last year's pace, up 5.8 per cent due to very strong growth year-over-year in February (up 6.4 per cent) and now April (up 50.2 per cent). Industrial (up 21.6 per cent) and institutional (up 29.9 per cent) building permits are significantly ahead of last year's pace thus far. Commercial building permit volumes are down 6.3 per cent from last year.

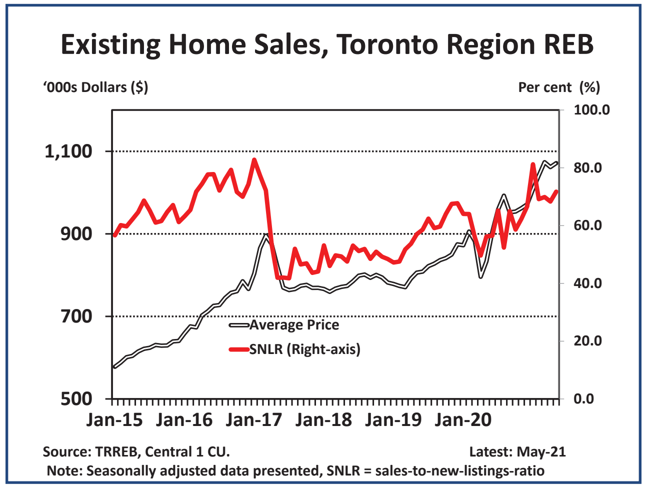
The issuance of a couple of large building permits such as the Hospital for Sick Kids Hospital's patient support centre in Toronto ($97 million) and a warehouse in Pickering ($43 million) helped lifted non-residential building permit volumes in Ontario.

In metro areas non-residential building permits increased 11.8 per cent to $1.1 billion. The Toronto metro area accounted for most of the gains in April (up 63.4 per cent growth), followed by Ottawa-Gatineau (up 9.5 per cent), Kitchener-Cambridge-Waterloo (up 5.6 per cent), and Hamilton (up 55.4 per cent). Overall, ten of 16 metro areas posted increased non-residential building permit volumes. Over the first four months of 2021, non-residential building permit volumes in metro areas are lagging last year's pace by 2.2 per cent despite the strong gains posted in April.

Toronto's resale homes market continues to slow but remains a long way ahead of last year's pace.

After a very hectic period of activity during the first quarter of 2021, the Toronto resale market continues to slow down in the second quarter. The Toronto Region Real Estate Board (TRREB) released new data for May showing sales and new listings fell by 17.6 per cent and 21.5 per cent respectively month-over-month. Despite the fall to both metrics, a stronger relative contraction to new listings means competition for homes remains very cut-throat as buyers are chasing ever fewer new listings. Intense competition especially for low-rise housing options such as single-detached homes and townhomes means bidding wars continue to be the staple of this pandemic era market even with the recent moderation over the last two months.

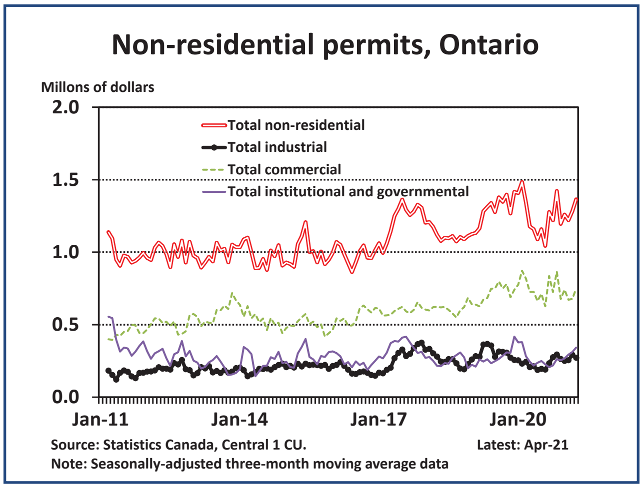




Average home prices climbed an additional 0.9 per cent in May to $1.071 million. In May, the sales-to-new-listings-ratio (SNLR) came in at 71.7 per cent up from 68.3 per cent in April. The market remains very tight and firmly planted in sellers' market territory. Moreover, the average days on the market for a resale home in Toronto remain quite low in May (11 days) compared 10 days in April. At the same period last May the average days on the market was 24 days.

Even with the strong moderation in activity, the market remained well above 2020 levels. Compared to year-ago levels sales (up 162.0 per cent), new listings (up 105.4 per cent), and average price (up 28.5 per cent) continue to post rarely seen growth supported by several factors such as: need for more space, low mortgage rates, and a substantial cohort of people between 25 to 40 years of age rushing to the market due to fears of missing out on the opportunity to enter now. Immigration, a strong driver of housing demand, has been cut off due to the pandemic. Had immigration not been severely hampered due to the pandemic housing metrics now compared to a year ago would only be higher. So, the market has slowed down but it is still a very bullish market all things considered.

Year-to-date, sales (up 104.0 per cent), new listings (up 69.5 per cent) and price (up 20.4 per cent) are all well ahead of last year's pace.



The constant quality housing price index (HPI) continued to decelerate in May moving up 1.3 per cent after posting 1.8 per cent growth in April. This marked three consecutive months that the HPI in Toronto for all home types has decelerated. The HPI for single-detached homes and townhomes has either decelerated or decreased causing much of the general deceleration to the topline HPI. As expected, as affordability becomes an ever-increasing issue, the condo apartment market continues to reawaken as buyers unable to compete for a low-rise option have to substitute to multi-family. The condo apartment HPI moved up 2.8 per cent in May up from 2.3 per cent in April and this metric has now moved up for five consecutive months.

The moderation in the market thus far this quarter should continue into June as the pool of willing and able buyers continues to dwindle, especially with nearly no immigrants coming to Toronto this year, and to a lesser extent the new mortgage loan stress test by OSFI (in effect from June 1st, 2021) eats away anywhere between 5 and 10 per cent of pre-stress test purchasing power.

Canadian GDP rebound continued in March.

Real Canadian Gross Domestic Product (GDP) at seasonally adjusted annual rate (SAAR) expanded for the eleventh consecutive month, up 1.1 per cent in March which helped to further chip away at the steep drop to economic activity left from the onset of the pandemic in Canada in March and April 2020. Despite this strong run of growth, the Canadian economy has not yet fully recovered from the effects of the pandemic and output in March 2021 is still about 1.0 per cent below where it was a year ago in February 2020. First quarter industry GDP growth came in at 6.6 per cent while expenditure GDP growth came in at 5.6 per cent. Deviations between expenditure and industry GDP are not uncommon and linked to sampling and rounding.

In March, of 20 sectors surveyed only two sectors posted decreased economic activity: utilities (down 1.0 per cent) and management of companies and enterprises (down 0.4 per cent). Utilities fell as electric power generation, transmission and distribution and natural gas distribution decreased in March. The fall in output coming from management of companies and enterprises likely stems from public health restrictions keeping many offices closed and employees continuing to work remotely.

The latest industry GDP numbers showed further recovery from the second wave of the pandemic with retail trade up 3.7 per cent which added to a 5.9 per cent increase in February, accommodations/foodservices expanded 5.0 per cent, and arts/entertainment/recreation expanded 2.1 per cent. Construction increased a strong 2.1 per cent month-over-month, while professional/services/technical services rose one per cent.

Goods and services sectors both contributed significantly to the growth posted in March both recording month-over-month growth of 1.1 per cent. With durable goods manufacturing growing at 1.4 per cent in March this offset the non-durable goods manufacturing shortfall (down 0.6 per cent). Manufacturing activity in Canada increased 0.5 per cent in March.

Transportation equipment manufacturing increased 2.0 per cent in March supported by very strong growth in motor vehicle and parts manufacturing, up 4.8 per cent. In March with more auto plants coming back online production was able to increase. With global travel still largely restricted the aerospace sector continues to suffer. Aerospace product and parts manufacturing fell 0.3 per cent in March.

The gains posted in March will likely be short-lived given third wave restrictions. Statistics Canada's preliminary estimate of GDP growth in April in Canada indicates an 0.8 per cent decline in activity.

Post April, as COVID-19 vaccine supply chains improve, and massive inoculation campaigns ramp up more people will be partially protected, and the economy and society can look to a better summer and autumn seasons with fewer public health restrictions and more economic activity – global trade issues affecting some supply chains notwithstanding.

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