Economics | Current Economic Trends

Ontario Economic Briefing

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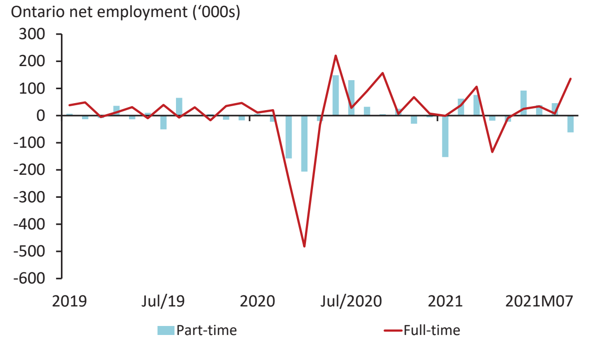
Economics

Highlights

- Ontario's unemployment rate falls to 7.3 per cent in September as the economy firms up
- Exports slide 2.3 per cent in August putting an end to a two-month run of increased sales
- Small business confidence see large drop in September
- Total Permit volumes slide, but still up for the year
- Toronto home sale price at highest ever level

Employment in Ontario supported by strong surge in full-time



Source: Statistics Canada, Central 1 latest: Sep/21

September's job reports quite positive

Edgard Navarrete, Regional Economist

Statistics Canada released the latest Labour Force Survey results for September this week and the jobs picture continues to firm up in Ontario as economic and social life continues to ramp up. Ontario's unemployment rate slid further to 7.3 per cent in September from 7.6 per cent in August as hiring increased by 73,600 net new workers. Moreover, full-time hiring was quite robust with 135,500 net new workers offsetting the loss of 61,900 part time workers. Many of these workers probably transitioned from part-time work to full-time work.

With September data now available, the only area that has not fully recovered from pre-pandemic (February 2020) is part-time work. Close to 20,000 part-time jobs remain unfilled. Likely many of these jobs are in the client-facing services. Some anecdotal evidence points to a large exodus of workers from these sectors as they return to school and retrain for other roles.

For the second consecutive month, both private and public sector hiring was quite strong. In September the public and private sectors hired an additional 53,100 and 24,400 net workers. Self-employed workers fell for the second consecutive month by 3,900 net workers. With the economy firming up and hiring up, it is likely that many workers who had to take on gig economy jobs or other types of "survival" work are not returning to the conventional job market.

Compared to February 2020, private and public sector hiring has fully recovered with private hiring up 15,200 net workers from that time and public hiring up 93,500 net jobs. Self-employed workers are down 100,000 net workers as many have either returned to the private or public sector.

By sector, services hiring (up 84,000 net workers) offset losses in the goods-sector (down 10,400 net workers). Of the four areas surveyed in the goods-sector monthly only forestry and related industries posted job gains (up 1,600 net workers) while agriculture (down 6,000 net workers) and manufacturing (down 5,300 net workers) reported significant losses. With the fall and winter seasons quickly approaching the agriculture sector is likely shedding temporary workers while manufacturing continues to face well documented supply chain issues that is forcing some organizations to lay off workers if there is not enough work to be done.

In the services-sector the picture looked much better with nearly all areas posting hiring growth with a few exceptions such as accommodation and food services (down 15,200 net workers) and retail and wholesale trade (down 5,500 net workers). Significant sectors with strong hiring numbers in September included:

- Finance, insurance, real estate, and leasing (up 20,100 net workers)
- Professional, scientific, and technical services (up 18,200 net workers)
- Education (up 4,400 net workers)
- Health care and social assistance (up 9,100 net workers)

Strong demand in the housing market continues to drive hiring in finance and insurance while strong demand for highly skilled STEM workers is driving hiring in professional services.

In the Toronto census metropolitan area (CMA), employment increased by 39,000 net workers (up 1.1 per cent) or over 52 per cent of all the net new hiring in the province.

Despite all the good news in the survey this month some issues persist which could hamper the pace of the recovery. For example, slack remains significant in many sectors as they continue to work at less than optimum capacity due to supply chain issues and skilled labour shortages persist. Moreover, some sectors such as accommodation and food services and retail may have a tougher time attracting workers back even with the announced increase to the province's minimum wage recently. Rather than waiting for things to improve in these areas many workers relocated or retrained in a new career over the course of the pandemic.

Exports decline in August by 2.3 per cent as some large sectors face continued turbulence on the rebound

Edgard Navarrete, Regional Economist

Statistics Canada released August merchandise trade estimates which showed that both exports and imports fall by 2.3 per cent and 4.4 per cent respectively after two months of growth.

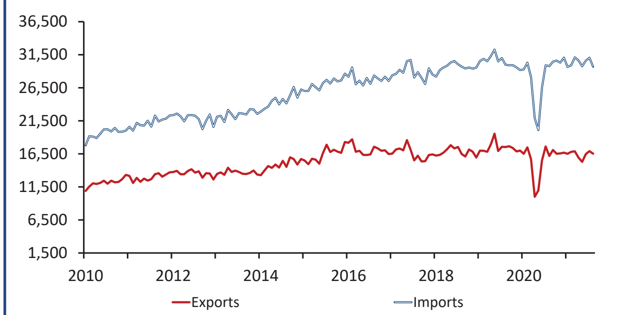
In August, exports (down 5.4 per cent) and imports (down 2.0 per cent) remain below their respective pre-pandemic volumes from February 2020. Despite increased economic activity supported by easing public health restrictions supply chain and labour shortage issues continue to keep Ontario exporters from reaching full capacity.

Despite the recent slowdown in trade activity, both exports (up 9.5 per cent) and imports (up 12.3 per cent) remain significantly ahead of last year's pace given base year effects between 2020 and 2021 during the first wave of the pandemic.

Exports were pulled down in August due to weaker sales in large export sectors such as forestry products and building and packaging materials (down 4.7 per cent), industrial machinery, equipment and parts (down 3.2 per cent), and motor vehicle and parts (down 10.2 per cent). These losses were partially offset by strong gains in exports of consumer goods (up 5.1 per cent),

Ontario international trade volumes fall in August

Ontario international goods imports and exports, $ (millions)



Source: Statistics Canada, Central 1 seasonal adjustment latest: Aug/21

farm fish and other food products (up 7.9 per cent), and aircraft and other transportation equipment and parts (up 2.4 per cent)

Supply chain issues for inputs continues to force auto markers to limit production. Lower sales volumes in this area are exacerbated by dampening new car demand for large clients such as those in the U.S.. Export volumes of forestry and related products fell in August due to lower prices for these goods.

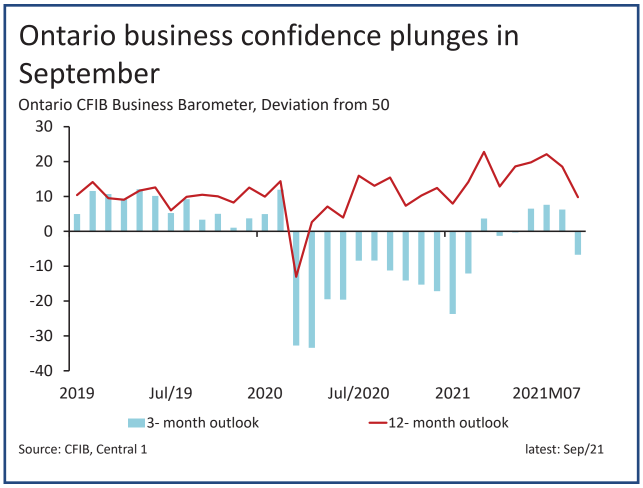
Increased retail trade activity is supportive of consumer good exports while increased demand from the accommodation and food services sector is lifting demand for food-related exports. Moreover, as global travel gradually continues to rebound, demand for aircraft and other transportation equipment and parts increases as airlines and cruise lines ready their fleets for increased tourism activity.

Consumer confidence slumps in September on Delta variant

Bryan Yu, Chief Economist

Confidence eroded in Canada's small and medium sized enterprises in September as the rise of the Delta variant likely stoked fears of renewed restrictions or delayed re-openings, while businesses grappled with uncertainties of vaccine passports, and inflationary pressures. The latest CFIB Business Barometer showed a steep decline in both short and medium-term expectations for business conditions during the month.

The national three month outlook index came in at 43.2 points in September from 55.9 points in August marking the lowest level since February as firms' expectations soured for the last quarter of 2021 amidst Delta challenges. Twelve month optimism remained on net, positive, with an index value at 57.8 points in



September but still marked a near 10 point drop from August expectations tempered. An index value above 50 means the number of firms expecting improved conditions outnumbers those expecting weaker conditions. Nevertheless, this was the lowest level since November 2020. While firms are generally positive, more firms expect a status quo environment to emerge over the coming year.

Short and medium-term confidence fell in all provinces, and most sectors. Ontario was no different where the three month index fell 13 points to 43.3 points and the 12 month index fell 8.7 points to 59.8 points. The former was the lowest among provinces, with the latter third lowest among provinces.

Small businesses are also being challenged by rising costs. Specifically, higher energy costs were cited by nearly 50 per cent of Canadian firms surveyed as causing difficulty, compared to less than 30 per cent a year ago. Roughly 55 per cent noted wage costs as a headwind, with expected wage growth running at 2.6 per cent which was the highest since 2018 as skilled labour remains in short supply.

Ontario hiring conditions also deteriorated according to the survey as the 20 per cent of firms looking hire was offset by those looking to reduce head counts over the next few months.

Total permit volumes down 10 per cent in August with declines in residential building

Alan Chow, Business Economist

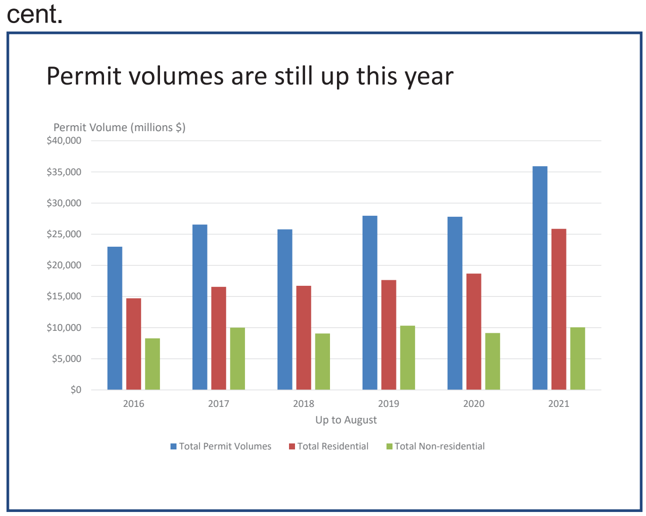
Total building permit volumes, residential and non-residential, in Ontario declined 9.8 per cent in August, marking two consecutive months of decline. Residential permit volumes are down 13.6 per cent as multi-units saw another decrease, down 24.3 per cent from the previous month. Single units also declined slightly, down 2.6 per cent. Non-residential permit volumes also fell slightly, down 1.1 per cent. Industrial and government sector activity both saw sharp drops, down 23.8 per cent and 31.2 per cent respectively. The lone bright spot was commercial volumes, which rose 21.5 per cent over the previous month.

Future residential building intentions continue to moderate due to the ongoing skilled labour shortage, increased costs for land and materials and a large backlog of residential projects still to be completed. Many residential projects still under construction are multi-family projects such as condo apartments that can take many years to complete.

Decreased public health restrictions and a brighter economic long-term outlook continues to lift investor confidence especially in the commercial space. As public investments recede, allowing more private investments to take its place during the ongoing recovery, institutional projects are declining.

The numbers for the year are moderating but are still strong. Compared to a year ago, year to date total building permit volumes are up 29.1 per cent, with residential permit volumes levels up 38.5 per cent. The single-unit market is up 57.4 per cent due to the strong demand for larger spaces generated by the pandemic. But multi-unit permits are also up 23.9 per cent year to date.

Recent slowdown in future building intentions over the last two months has dampened slightly the year-to-date pace compared to a year ago. Overall, year to date building permit volumes has slowed to 29.1 per cent. Residential permits have also retreated a little, now only up 38.5 per cent. Non-residential building permits on the other hand, are up 10 per cent year to date, compared to July, when it was only up 5.1 per cent.



Supply issues continue to drive up home prices Toronto

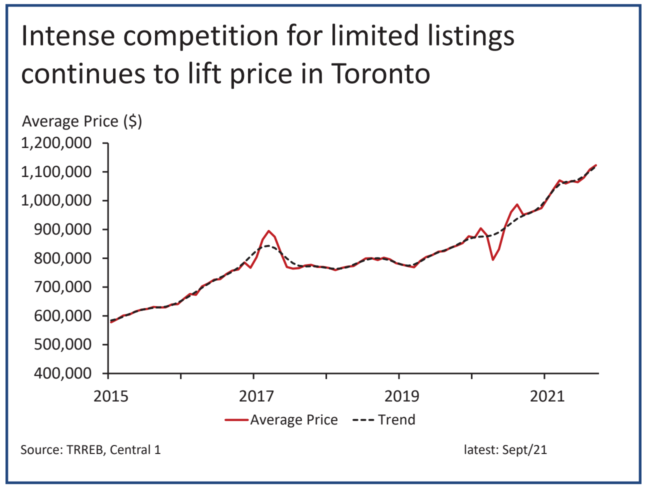
Edgard Navarrete, Regional Economist

The Toronto Region Real Estate Board (TRREB) released market data for September. According to the latest figures the region's resale homes market remains constrained by the ongoing issue faced by buyers, not enough supply and whatever supply is brought to market is quickly snapped up (i.e. 14 days on the market compared to 16 days on the market a year ago) in intense bidding wars for many times over asking.

In September, new listings slid a further 6.4 per cent month-over-month marking six consecutive months of consecutive declines in new listings. Sales on the other hand increased 1.0 per cent in September putting an end to the five-month skid in sales. With declining new listings and increased sales, the sales-to-new-listings-ratio (SNLR) moved up further ending the month averaging 79.5 per cent up from 73.7 per cent in August. Any reading above 60 per cent signals a sellers' market and points to how tight the market is where buyers are increasingly trying to get into the market now before mortgage rates climb and immigration fully rebounds and then they are priced out of the market. With the latest reading the SNLR is now at the highest it has ever been since the pandemic started.

Limited supply is a result of the following:

- Potential sellers are weighing the benefits of selling their homes at a premium but running the risk of being unable to secure another home, so many are deciding to stay where they are.
- Even before the run up in market activity during this pandemic many buyers likely entered the market in very tight conditions, to sell their current home and then look for a replacement the new more stringent stress test may mean some current homebuyers would not qualify therefore some potential sellers are remaining on the sidelines
- Even with high vaccination rates, variants of concern are likely keeping some potential sellers from listing their homes given increased economic uncertainty.



Over the first three quarters of 2021 sales and new listings are nearly 42 per cent and 15 per cent ahead of last year's pace, respectively.

With fewer options in the market, buyers are intensely competing for any supply that becomes available and bidding up prices even for typically more affordable housing options such as townhomes and condo apartments. The average home price increased 1.3 per cent in September to $1.112,988, the highest average price ever in the region. Over the first three quarters of 2021, the average price remains 15.9 per cent ahead of last year's pace.

A strong desire to enter homeownership before potentially being priced out for at least the short-term once the economic and social life returns to normal is lifting prices for all housing types in Toronto. According to its composite housing price index (HPI) for all housing types, prices moved up 2.4 per cent in September up from 0.7 per cent in August. Even the previously challenged condo apartment segment saw strong surge in its composite HPI in September as buyers keep substituting away from housing options, they are priced out of towards more relatively affordable options such as condo apartments.

Lack of supply may become an endemic issue in the Toronto market as it is now a very expensive market and people lucky enough to enter may decide to stay put rather than risk themselves being priced out or not qualify for a mortgage loan, even with substantial equity, due to very demanding new stress test rules even for buyers putting more than a 20 per cent downpayment.

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