Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

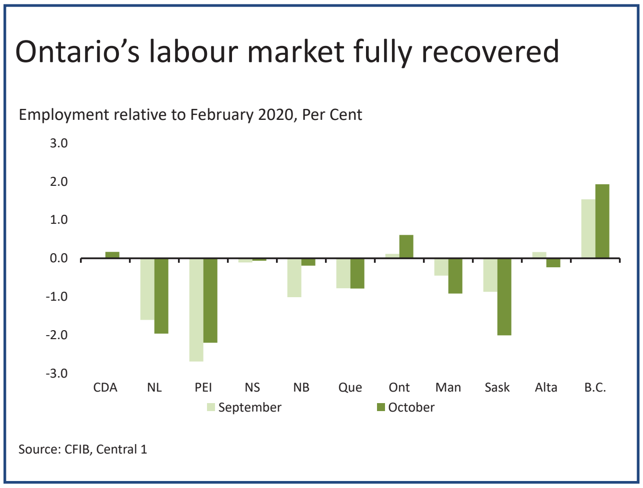
- Unemployment rate down to 7.0 per cent in October; remains 1.5 per cent above February 2020 rate.
- Labour force and employment rates have fully recovered.
- Building permits up; Expect a rotation towards business investment as the pandemic wanes.
- Toronto's resale homes market will remain strong, but growth is pared after robust 2021 performance and some headwinds from rising interest rates.
- Toronto average home price up 1.6 per cent to $1.142 million as demand outweighs supply.

Ontario's labour market now fully recovered

Edgard Navarrete, Regional Economist

Ontario's average unemployment rate dropped 0.3 per cent to seven per cent in October as 37,000 net new jobs were created, and the labour force expanded by 13,200 workers. Statistics Canada's latest Labour Force Survey results for October 2021 show that both employment and the labour force increased for the fifth consecutive month in October. The growth in hiring has outpaced the growth in the labour force over this period, steadily pushing the unemployment rate down.

Of the 37,000 net jobs created in October, part-time employment increased by 42,300 net jobs, while full-time employment decreased by 5,400 net jobs. All the job creation in October came from the private sector (up 84,900 net jobs) which offset losses in the public sector (down 24,400 net jobs) and the self-employed (down 23,500). The drop in self-employed workers is likely a result of the economy continuing to expand. Many gig workers are now returning to the private sector as opportunities open in that area.



The labour force (up 178,600 net potential workers) and employment (up 45,600 net new workers) have fully recovered compared to pre-pandemic activity in February 2020. Full-time employment (up 22,800 net new workers) and part-time employment (up 22,800 net new workers) have both fully recovered. The unemployment rate remains 1.5 per cent higher in October 2021 than in February 2020.

In October, the services sector accounted for over 62 per cent of the net new jobs created in the province. Strong hiring growth occurred in wholesale and retail trade (up 46,400 net new jobs); information, culture, and recreation (up 10,200 net new jobs); accommodation and food services (up 4,700 net new jobs) and finance, insurance, and real estate (up 4,300 net new jobs). Many of these sectors have directly benefitted from easing of public health restrictions and increased consumer spending drawing down their pandemic era savings. A still tight housing market is also drawing more people to the finance, insurance, and real estate sector.

Hiring in the goods sector increased by 13,900 net new jobs largely from broad-based growth with only construction losing workers (down 3,100 net workers).

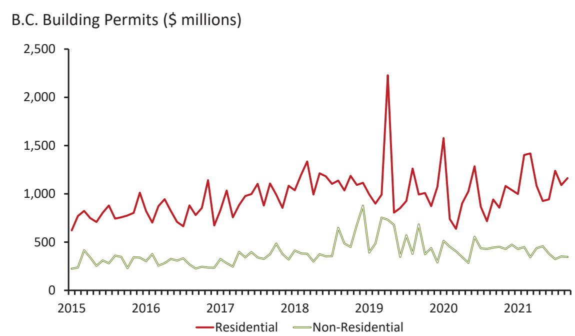
Looking ahead, Ontario removed indoor capacity limits at non-essential establishments such as restaurants and professional sporting events. Moreover, at the federal level some pandemic era programs such as the Canada Recovery Benefit also came to an end in late October. Both these events will likely draw more people back to the labour market as employers look to increase capacity.

Building permit volumes bounced back in September

Bryan Yu, Chief Economist

Ontario building permits regained some lost ground in September following two months of declines. Dollar volume permits increased 6.3 per cent to $4.26 billion after rolling back 11 per cent in August. Residential permits rebounded 16 per cent to $3.10 billion, while non- residential activity pulled back nearly 14 per cent to $1.16 billion.

Building permits rise but trend range-bound



Source: Statistics Canada, Central 1 latest: Sep 2021

Notwithstanding monthly volatility which is normal given that multi-family residential projects and non-residential projects can vary widely in scope and timing of construction throughout the year, residential construction trends remain robust. That's despite some moderation in recent trend aligning with strength in new home construction, although a slowdown in resale transactions may be constraining some activity. Year-over-year residential permits were up a modest 3.7 per cent in September but 34 per cent year-to-date, in part due to early pandemic restriction on construction. Single- family permits rose 48 per cent over the same period, with multi- family permits up 23 per cent.

Non-residential permits held range-bound and continued to be constrained by tempered business investment due to pandemic uncertainty, a period of constrained operations due to public health orders, and supply chain disruptions. Despite the monthly decline in non-residential permits, and a 33 per cent year-over-year drop, year-to-date permits were up 3.1 per cent. This was driven largely by growth in industrial (up 25 per cent) and government (up 15 per cent). Patterns were mixed with increases associated with investments in schools (up 56 per cent), factories (20 per cent), and related to utilities (up 45 per cent), and warehouses (22 per cent). In contrast, office related construction fell 30 per cent and was a key offset.

Inclusive of both residential and non-residential permits rose 24 per cent over the first nine months.

Going forward, we expect a rotation towards business investment as the pandemic wanes. Housing markets will remain strong, but growth is pared after robust 2021 performance and some headwinds from rising interest rates.

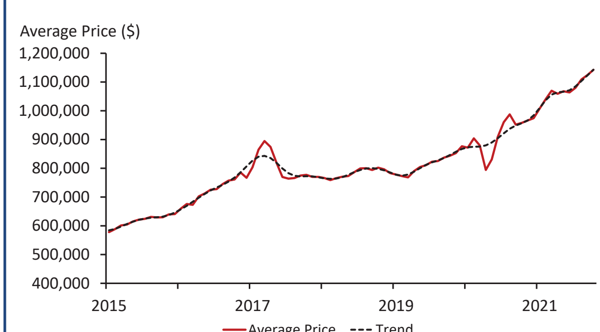
Toronto's resale homes market at its tightest since January 2017

Edgard Navarrete, Regional Economist

The Toronto Region Real Estate Board (TRREB) released October data this week. According to the latest results the resale homes market remains red hot as demand for homes continues to outstrip supply. Potential buyers are so keen still to enter homeownership that any new listings that arrive on the market are very quickly snapped many times over asking price after intense bidding wars.

Sales moved up 3.4 per cent in November to 8,672 units, a stronger pace of growth than the 1.1 per cent posted in October. The average home price moved up an additional 1.6 per cent to $1.142 million as more people were chasing fewer listings. New listings moved down 0.1 per cent. Not as many potential sellers are now listing their homes. Even if they sell at a premium that premium is quickly erased on their next home purchase. The latest sales-to-new-listings-ratio (SNLR) in November came in at 82.2 per cent up from 79.5 per cent in October. For context of how hot the market is now the SNLR has been this high only four previous times in the period from January 1995 to November 2021. The last time the SNLR was above 80 per cent was January 2017 (83 per cent) just before both the federal and provincial governments were forced to step in to cool the market via new mortgage lending regulations.

Toronto's average home price up 19.3 per cent from a year ago



Source: TRREB, Central 1 latest: Oct/21

Year-to-date, sales (up 33.9 per cent), new listings (up 7.1 per cent), and average price (up 16.0 per cent) are ahead of last year's pace. The SNLR stands at 73.9 per cent with strong lift over the last few months.

The Toronto market is so intensely competitive right now that not only low-rise housing is seeing very high prices. Even some condo apartment units in desirable parts of the city such as the downtown are commanding sales prices above $1.0 million. A strong lift in average sale price across the board is pushing the average price for the region higher above the $1.0 million mark. The constant quality housing price index (HPI) from the Toronto Region Real Estate Board (TRREB) moved up 4.6 per cent in November, the highest month-over-month jump in the HPI since January 2021. The HPI for all home types moved up over four per cent month-over-month including the condo apartment market which continues to heat up as potential buyers are priced out of low-rise housing in Toronto and settle for condo apartments if they do not wish to leave the region. Also, with population expected to growth next via immigration investors are lining up purchasing homes to put into the secondary rental market.

Toronto's resale homes market is extremely overheated

Source: TRREB, Central 1 latest: Oct/21

Higher mortgage rates are likely to crimp demand as affordability erodes, however this will curtail some sales, but prices will remain firm given low inventory. A rotation towards multi-family and apartment units will likely intensify.

For more information, contact economics@central1.com.