Economics | Current Economic Trends

# Ontario Economic Briefing

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## Highlights

- Non-farm payroll hiring up 1.1 per cent in December
- Small-business confidence posted strongest performance in both short-term and long-term outlooks
- Ontario's purpose-built rental market monthly rents' rate of growth slowed down in 2021 as fewer people entered rental

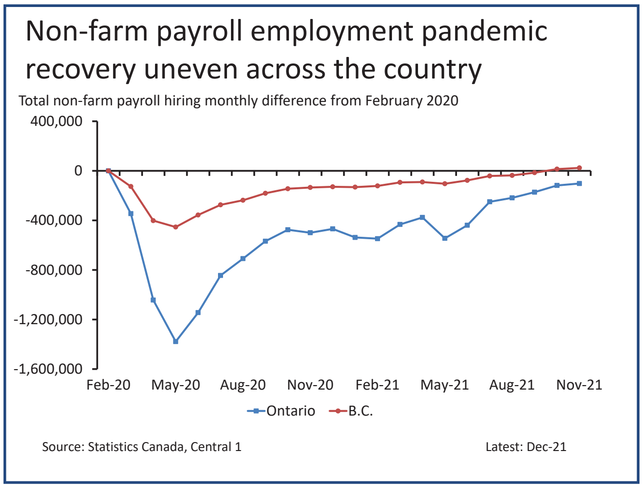
## Increased public health restrictions not yet evident in non-farm payroll employment data

*Edgard Navarrete, Regional Economist*

Non-farm payroll employment data for December 2021 was released this week by Statistics Canada. Much like the Labour Force Survey data for December, the Survey of Employment and Payroll Hours (SEPH) in December also did not capture the effects of increased public health restrictions in Ontario. The effect of these measures will appear in future data. In the available LFS data, January and February data shows a real effect on employment.

According to the latest release, non-farm payroll hiring increased in Ontario by 1.1 per cent or 70,136 net workers in December with over 80 per cent of the new hires in the month occurring for workers in the services sector. With the holiday season approaching, many service sector employers ramped up hiring to meet the demand for one of the busiest times of the year although cut short by late-month restrictions that hammered hospitality sectors.

December marked a seventh consecutive month of hiring growth. Unfortunately, a large chunk of hiring gains will recoil once January data is available, but the good news is that this will likely be a short-lived blip as Ontario is set to open its economy again come March 2022.




In 2021, non-farm payroll employment increased 5.1 per cent with slightly stronger growth in the goods sector (up 5.7 per cent) relative to the services sector (up 5.0 per cent). Client-facing services have been hardest hit by the effects of the pandemic due to rolling restrictions.

Non payroll hiring from pre-pandemic activity remains 32,107 down due exclusively to the ongoing lag in the services sector (down 38,389) which has been partially offset by stronger hiring in the goods sector (up 2,869).

Among the largest sectors in Ontario, hiring increased for construction (up 2.3 per cent), manufacturing (up 0.6 per cent), retail and wholesale trade (up 0.6 per cent), education (up 1.8 per cent), and health care and social services (up 0.9 per cent).

Accommodation and food services hiring fell 0.7 per cent in December, the second consecutive month of decreased hiring in this area. Up to December 2021, even with fewer restrictions and increased international travel domestic and international tourism, rebound has been quite muted affecting all tourism related areas.

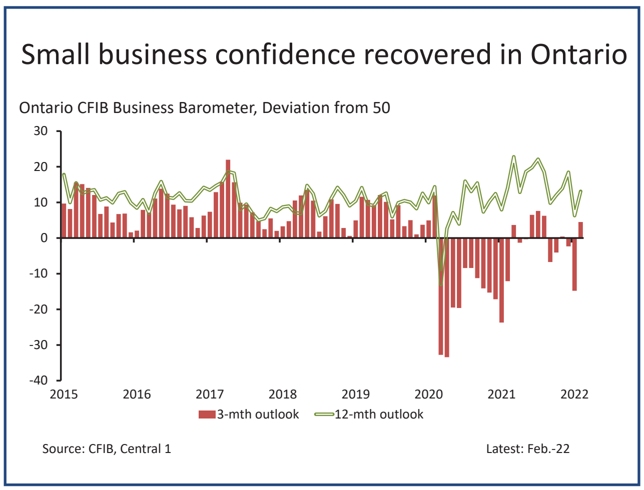
The largest hiring gain occurred in real estate, rental, and leasing (up 2.5 per cent). Ontario's housing market has been quite hot during 2021 and now the rental market is also starting to heat up, necessitating increased hiring in this space to meet demand.

Average weekly earnings are up 0.4 per cent in December to $1127.68. Fixed-weight index average weekly earnings increased 2.2 per cent month-over-month, and year-over-year increased 3.2 per cent. Both month-over-month and year-over-year increased substantially in December. Vacancies in highly skilled areas is driving wage growth.

## SME confidence levels recovered in Ontario from last month's dramatic declines

*Ivy Ruan, Economics Research Associate*

The provincial small business confidence outlook over the short-term recovered in almost all provinces in February and it made a major jump upwards in Ontario (19 points) to 54.5 points. The long-term outlook (12 months) was up to 68 points from 63.1 points in January, strongest improvements in 12-month expectations as well. Both short-term and long-term outlooks recovered from last month's double-digit declines, showing resumed confidence in dealing with the spread of Omicron.




The index is measured on a zero to 100 scale and any reading over 50 points means most SMEs are expecting their business' performance to be stronger in the coming year. This is certainly true of the long-term outlook that, Ontario SMEs remained relatively positive in the long term. As expected, many SMEs anticipate stronger business performance once the warmer weather arrives, economic and social activity rebounds when most restrictions are lifted, and the worst of this pandemic will be behind them. That said, the impacts of convoy protest in February on Ontario's SMEs are a short-term headwind. Russia's invasion of Ukraine in late February 2022 also brings uncertainties to international economies, which may shift business owners' perspective in the coming months.

Ontario has started to remove strict public health restrictions like the rest of the provinces so average capacity utilization rates have seen a sharp increase in February to 69 per cent, following 59 per cent in January.

## Ontario's purpose-built rental market vacancy rate continued to climb in 2021

*Edgard Navarrete, Regional Economist*

The Canada Mortgage and Housing Corporation (CMHC) released its latest purpose-built rental market report data. According to the latest data, the vacancy rate in Ontario continued to climb for purpose-built townhome and apartment rental units. In October 2021, the vacancy rate moved up to 3.4 per cent up from 3.2 per cent in 2020 marking Ontario's highest vacancy rate since October 2009.

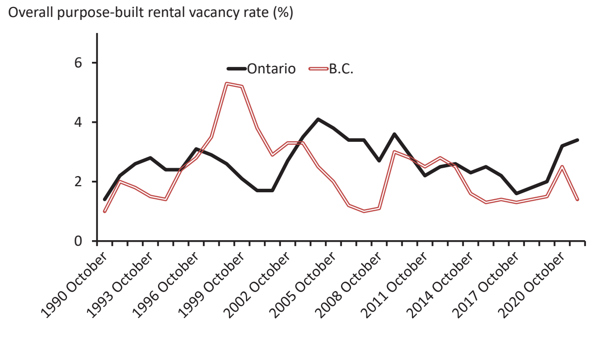
The monthly rent  increased 2.8 per cent in October 2021, a much slower rate of growth than the 4.9 per cent recorded in October 2020.

The higher vacancy rate in Ontario reported in this latest data release can be explained by two factors: increased rental supply and a significant move out of rental. Moreover, as tenants leave rental, fewer new tenants actively look for rental units.

The rental universe in October 2021 increased to 709,341 units, up 0.8 per cent from October 2020. The reintroduction of renovated units and new units is part of the reason for the increased vacancy. The other has been a move out of rental by renters looking to buy housing or other renters leaving rental and moving back to the family home after facing difficulties during the pandemic. The purpose-built townhome and apartment turnover rate in Ontario increased to 15.4 per cent in October 2021 up from 11.9 per cent in October 2020.

Of the sixteen metro areas in Ontario, the vacancy rates for purpose-built townhome and apartment rental units declined in October 2021 from October 2020 in all but three: KCW (unchanged), Oshawa (unchanged) and Toronto (up 1.1 per cent). The Toronto metro area has a significant share of the purpose-built rental stock in Ontario and with a desire for more space and homeownership, many Torontonians left purpose-built units in large numbers. In 2021, according to Statistics Canada population data, the Toronto region lost upwards of 60,000 residents. Others that could not purchase either left for rental in adjacent markets or moved to the private rental market.

B.C.'s rental market tightens while Ontario loss people to other regions in 2021




Source: CMHC, Central 1 Latest: Oct-21

With the economy set to continue to grow in 2022 due to fewer or no public health restrictions and immigration, the purpose-built rental market vacancy rate is likely to come down in 2022 and rents are likely to climb as new tenants become willing to pay higher market rents given increased demand.

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