Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Unemployment rate remains below pre-pandemic levels
- Increased uncertainty and higher costs compelling employers to rethink hiring needs
- Recovery in motor vehicle and parts sales lead Ontario's total exports growth
- Inflation a key driver to increase in trade dollar volumes
- Toronto home sales fall by 20.4 per cent in April
- Market now firmly balanced as the SNLR comes in at 47.8 per cent
- Further rate cuts may take more wind out of the market and the possibility of reaching a buyers' market is possible

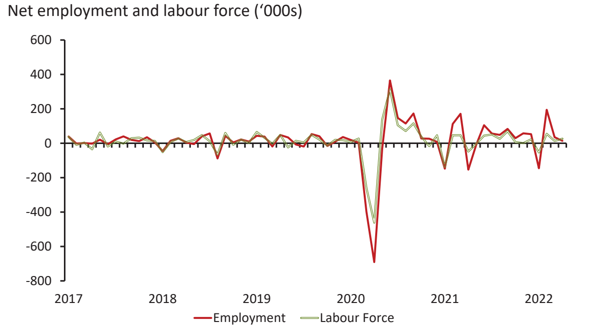
Part-time hiring growth offsets full-time hiring contraction in April

Edgard Navarrete, Regional Economist

Ontario's April jobs report was released this week. According to the April Labour Force Survey data, the unemployment rate in Ontario came in at 5.4 per cent, slightly higher than the 5.3 per cent posted in March but still below pre-pandemic levels from February 2020 (5.5 per cent). This is to be expected as the economy and social life in general have continued to rebound as public health restrictions are removed. More people are starting to re-enter the labour market actively looking for work and this is increasing the unemployment rate slightly until most of these additional people find work.

New job creation falls 0n the downside of this month's report. According to the latest data, part-time employment increased 2.2 per cent m/m (or 30,000 net new part-time workers), while full-time employment contracted by 0.2 per cent m/m (or 15,700 fewer net full-time workers). Increased overall costs, labour, parts, etc. could be compelling employers to move workers from full-time to part-time as employers try to navigate this difficult time for planning. Some of this can be

Unemployment rate inched up to 5.4 per cent in April as more people were actively looking



Source: Statistics Canada, Central 1 latest: Apr- 22

gleamed from average hours worked by employees. In April 2022, average hours worked across all sectors fell 7.8 per cent from a year ago with all sectors shaving hours from workers except for accommodation and food services which increased 0.7 per cent y/y.

Moreover, the average number of unemployed weeks for potential workers has also edged up m/m from 21.7 weeks in March 2022 to 22.1 weeks in April 2022. Facing some difficult headwinds to get back to full output, employers are hiring albeit at a diminished capacity. Many workers are actively working, but many are likely to be underutilized as employers take a cautious approach.

Compared to pre-pandemic levels, workers remained unemployed on average 6.1 weeks more in April 2022 compared to February 2020 and are working two fewer hours per week than before.

By sector, most of the new hiring came from the goods sector for the second consecutive month. In April, the goods sector hired 9,800 net new workers while the services sector hired 4,400 net new workers. Net new hiring growth in the goods sector in April accounted for nearly 70 per cent of all new net hires. Inflationary pressures are starting to tighten consumers' belts, and many are eschewing non-necessities such as some services. Employers in the services sector aware of this shift are therefore cutting back on hours and more likely to hire workers part-time rather than full-time to start.

By sub-sector, hiring increased robustly in manufacturing (up 9,400 net new workers), utilities (up 2,400 net new workers), agriculture and related areas (up 2,000 net new workers), education (up 15,000 net new workers), transportation and warehousing (up 6,200 net new workers) and professional, scientific and technical services (up 8,200 net new workers). Hiring contracted in finance, insurance, and real estate (down 6,900 net new workers), wholesale and retail trade (down 21,900 net new workers) and business, building and other support services (down 8,800 net new workers).

Nearly all the hiring in April occurred in the private sector which took on 56,000 net new workers while the public sector took on an additional 600 net new workers. Self-employed workers contracted by 42,200 net workers.

Compared to pre-pandemic February 2020, the private sector has accounted for 106 per cent of all the net new hiring in Ontario.

With increased uncertainty, the shift away from self-employment to working in the private sector could be a result of workers trying to insulate somewhat from all the headwinds in the economy via the increased security of working for someone and a steady paycheque.

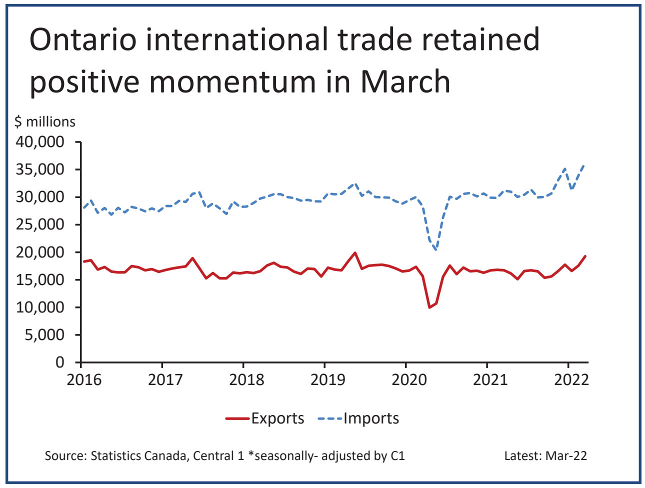
Exports continued to grow in March, imports rose faster

Ivy Ruan, Economics Research Associate

Ontario exports reached $20.8 billion in March, up 15.4 per cent year-over-year, following last month's uptick in export volumes. On a seasonally adjusted basis, March export sales were 9.7 per cent higher m/m.

Strong recovery in the motor vehicle and parts sector (16.6 per cent y/y) lifted overall exports. This gain was consistent with the national picture, which reported a widespread growth in automaking activities in March. North American automakers seemed to have a brief hiatus from supply chain disruptions and semiconductor shortages that have significantly hindered their production in the past. Meanwhile, metallic and non-metallic mineral products were another key driver to the overall growth in exports, reporting a 16.3 per cent increase compared to March 2021. Consumer goods also had a strong gain of year-over-year 21.0 per cent.

Consistent with the national trend, imports in Ontario saw increases in all sectors in March. Total import volumes totaled $39.2 billion, up 16.3 per cent compared to March 2021. Consumer goods were the key contributor to the growth, seeing a 19.9 per cent year-over-year increase to $8.7 billion. Motor vehicle and parts gained 4.8 per cent year-over-year to $8.3 billion, while electronic, electrical equipment and parts were up 10.7 per cent to $5.2 billion. Ongoing recovery from the pandemic's latest wave stimulated strong consumer spending via "revenge spending" despite inflationary prices, bringing a progressive growth in consumer goods imports since the beginning of 2022.



During the first quarter of 2022, total exports were up 6.2 per cent and total imports grew by 11.5 per cent in Ontario. For both exports and imports, inflation was a key factor contributing to the gains in dollar volumes. Meanwhile, despite its small share in Ontario's total trade volume, hyperinflation in energy prices added to production/transportation costs that eventually were passed on to end users and consumers in various sectors.

Toronto's housing market continues to correct

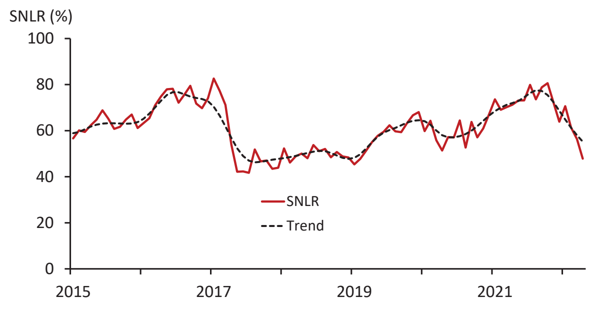
Edgard Navarrete, Regional Economist

The air is starting to come out of the Toronto housing market as the March softening only intensified in April. Higher mortgage rates, both variable and fixed rates, are making it more difficult for more potential homebuyers still actively considering a purchase to enter as their budgets are reduced due to a tougher stress test threshold and higher monthly mortgage payments.

Sales in April slid by 20.4 per cent m/m, the biggest drop to sales activity in Toronto since May 2021. Sales are also down 40.4 per cent compared to a year ago.

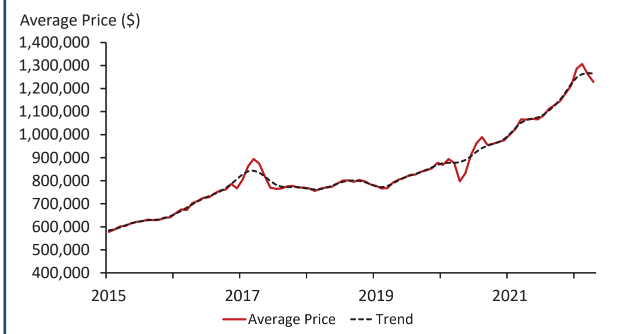
The effects on supply have been swift as demand has cooled. New listings have continued to fall, albeit at a slower rate than sales, as many potential buyers are not listing or, in some cases, delisting their home from the market rather than taking anything less than their expected reservation price. New listings in April fell an additional 6.2 per cent m/m and 11.3 per cent from a year ago.

Toronto's resale homes market now balanced as higher carrying costs cools the market



Source: TRREB, Central 1 latest: Apr/22

As Toronto market rebalances price growth is starting to dip



Source: TRREB, Central 1 latest: Apr/22

With sharply lower sales and new listings, the market continues to rebalance. April's sales-to-new-listings-ratio (SNLR), a simple metric to get a sense of market conditions, came in at 47.8 per cent, down from 56.4 per cent in March and down from 71.3 per cent a year ago. The SNLR has not been this low since February 2019. With increased cost of living coupled with tighter monetary policy, the Toronto housing market is now officially balanced with more rate hikes expected. When all is said and done, the market could be a buyers' market but only time and data will provide that answer.

More slack in the market has also pushed down price growth. Average price in Toronto came in at $1,228,710 in April, down 2.6 per cent from March and adding to the 3.4 per cent drop from February. As stated earlier, the current strong demand contraction is compelling sellers to lower prices to try and move their unit or risk sitting idle for weeks.

Over the first four months of 2022, sales and new listings are down 28.3 per cent and 11.1 per cent respectively compared to the same period in 2021. Despite the recent downward correction over the last two months in price year-to-date, average price in Toronto remained 21.1 per cent higher than the same period last year.

As expected, with higher costs of entry to homeownership, more buyers are pivoting away from low-rise housing to high-rise housing to enter homeownership. Year-over-year sales in Toronto of single-detached homes are down 44.5 per cent while sales of town homes (down 43.5 per cent) and condo apartments (down 33.8 per cent) while down have fallen at a slightly slower rate.

Year-over-year sales of condo apartments in the 905 area code have fallen at a slower rate than in the 416 area code and average price in the 905 area code is higher (up 18.0 per cent) than in the 416 area code (up 12.8 per cent) likely as people looking for affordable housing are flocking to condos in the suburbs at a faster clip, and bidding wars remain intense for condo apartments in the 905 as first time buyers and investors converge in those regions. Moreover, given the relatively newer condo apartment stock in the suburbs, these units tend to command higher prices at times than some units in the 416 area code.

The Toronto Region Real Estate Board (TRREB) publishes a constant quality housing price index (HPI) monthly for the overall market and for each of single-detached, rows, and condo apartments. According to the latest data, the overall HPI fell by 1.5 per cent m/m, the first contraction since May 2020. While the HPIs fell for single-detached homes (down 1.6 per cent m/m), row homes (down 1.0 per cent m/m) the HPI for condo apartments has maintained its value inching up 0.3 per cent m/m.

With variable rates expected to move sharply higher and fixed rate remaining elevated, we are currently calling for a sizeable rebalancing and cooling of the market in 2022 with home sales falling by 20 per cent and price growth to decelerate considerably, moving up 8.0 per cent down from high-double digit growth in each of 2020 and 2021.

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