Economics | Current Economic Trends

Ontario Economic Briefing

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Economics

Highlights

- Unemployment rate slides down to 5.1 per cent in June
- Shedding of jobs and potential workers leaving the labour market pulled down the unemployment rate
- Ontario merchandise export sales rose 2.6 per cent from last month while imports sales were up 0.6 per cent
- Strong growth in single-detached building permit volumes lifts total residential and non-residential building permit volumes
- Average home valuations now only 10 per cent higher from pre-pandemic activity

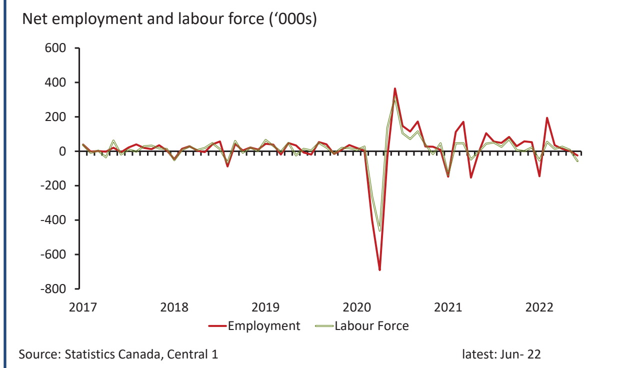
Economic uncertainty starting to affect the labour market

Edgard Navarrete, Regional Economist

Current pressures, particularly a higher cost of living via record inflation may be starting to affect Ontario's labour market indirectly. The unemployment rate fell further from May's 5.5 per cent to 5.1 per cent in June. Typically, this drop in the unemployment rate would be cause for celebration that the recovery is well under way, but it's due to dramatic falls in both the labour force and employment rates. In June, the labour force fell 57,300 net workers while employment fell 24,700 net workers. Moreover, both the participation rates (65.0 per cent, down 0.5 per cent m/m) and the employment rate (61.7 per cent, down 0.2 per cent m/m) fell as some employers shed jobs given increased uncertainty, and prospective employers left the labour force — likely discouraged by job prospects or pay or both.

Full-time employment increased (up 27,900 new workers) but not enough to offset losses in part-time work (down 52,900 workers). Workers in the goods sector fared much better than services in June whereskilled labour is badly needed in the goods sector. As employers try to tackle the work backlog in construction, manufacturing and agriculture, jobs are readily available for anyone willing and able. In June, the services sector shed 48,900 employees while the goods sector hired 24,200 employees.

Shedding of jobs and workers leaving labour force pulls unemployment rate down



Areas in goods that had strong hiring included: construction (up 19,000 employees), agriculture (up 1,500 employees) and forestry, fishing, mining, quarrying (up 1,200). Most areas surveyed in services shed jobs, especially client-facing services. Professional and scientific services fell for the first time in a while by 7,100 workers in June, and could signify businesses also tightening their belts as consulting dollars dry up during lean times. The only areas in services to post job gains in June were transportation and warehousing (up 100 net new employees), finance, insurance, real estate and leasing (up 6,200 net new employees) and public administration (up 7,500 net new employees).

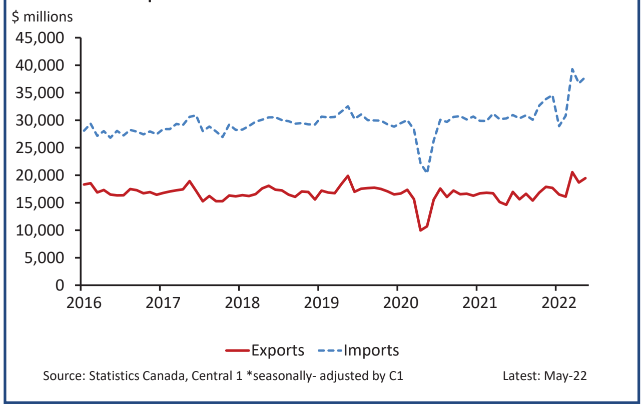
While employment was mixed and negative, the key story in Ontario remains a tight labour market which is increasingly driving higher wage pressures. Inflation pass-through will likely amplify this further as contracts renew. That said, there are signs that the economy is slowing, and rising interest rates and high prices will continue to pinch consumer demand, potentially taking the wind out of hiring plans.

Ontario trade sales resumed in May following last month's dip

Ivy Ruan, Economic Analyst

Canadian merchandise exports rose 4.1 per cent in May compared with April, a fifth consecutive monthly increase, and widened trade surplus to $5.3 billion — the largest since August 2008. Ontario posted steady gain in exported goods from last month as well, reporting 2.6 per cent month-to-month growth on a seasonally-adjusted basis, following April's 5.6 per cent gain. Compared to same month last year, Ontario's $19.5 billion exports value was 33.0 per cent higher than last May.

Ontario trade sales resumed in May following last month's dip



Exports of motor vehicles and parts remained the key driver to Ontario's export growth compared to last year, seeing 69.5 per cent higher sales than May 2021. That said, on a seasonally-adjusted basis, motor vehicles and parts sales were down 0.4 per cent from last month following two robust monthly gains. Metallic and non-metallic mineral products, another key component to the provincial export sales, also recorded 18.9 per cent higher sales than last May but showed signs of slowdown with 2.1 per cent slower monthly growth. Exports of consumer goods were the key driver to the monthly gain in Ontario, reporting 31.1 per cent year-over-year gain and 13.6 per cent monthly increase following the weak performance seen in April.

National imports were down 0.7 per cent from last month in May, while Ontario was calculated to have 0.6 per cent monthly expansion on a seasonally-adjusted basis. May's total imports came in at $37.8 billion in Ontario, up 24.8 per cent compared to last year. Consumer goods and motor vehicle and parts continued to lead the yearly growth in imports, reporting an 18.0 per cent and 28.4 per cent year-over-year increase, respectively. Having all industrial sectors' import sales elevated from last year, some started to see monthly declines on a seasonally-adjusted basis, including farm/fish/int food (down 1.9 per cent m/m), industrial machinery, equipment (down 0.7 per cent m/m), electronic and electrical equipment and parts (down 1.0 per cent m/m), aircraft and other transportation equipment (down 42.6 per cent) and consumer goods (down 3.3 per cent m/m). Several factors, including inflation, rising interest rates and supply chain issues had resulted in changes to consumer spending patterns and retailer import practices.

Steady import activities offset the export growth in Ontario, bringing the provincial trade deficit to $18.4 billion in May, 17.2 per cent higher than May 2021. That said, Consumer Price Index (CPI) reported a 7.7 per cent y/y increase in May. The upward movements in dollar-volume terms were therefore partially the consequence of higher prices.

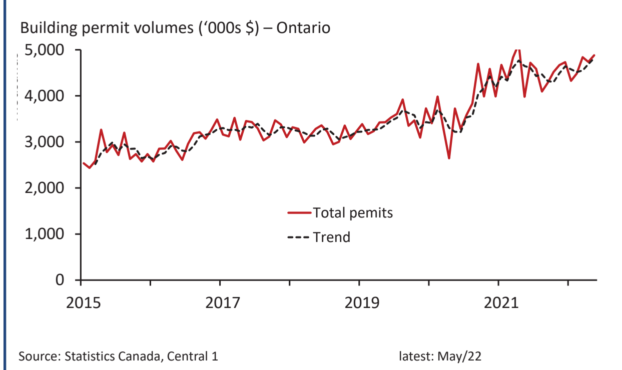
Building permit volumes up 3.0 per cent in May

Edgard Navarrete, Regional Economist

Total building permit volumes in Ontario increased 3.0 per cent m/m in May and 22.6 per cent y/y, largely from a boost in residential building permit volumes (up 9.9 per cent m/m and 22.1 per cent y/y) which offset losses in non-residential building permit volumes (down 9.4 per cent m/m but up 23.7 per cent y/y).

The gains in residential permit volumes came from a large boost to single-detached home permit volumes (up 19.4 per cent m/m and 18.3 per cent y/y) while multi-family building permit volumes remained relatively flat in May (down 0.3 per cent m/m but up 27.3 y/y). The growth in single-detached permit volumes marks three consecutive months of growth in this segment in Ontario. Not surprising, these permits represent market demand from many months back when the market was much tighter for low-rise housing. Going forward, increased supply costs, labour shortages and waning demand for housing will start to appear in the data as the year progresses.

Ontario's building permit volumes climb 3.0 per cent on strong residential investment



Non-residential building permits fell in May due to a drop in both industrial and institutional building permits which fell 23.0 per cent m/m and 8.1 per cent m/m, respectively. Commercial building permits (which are typically the largest component of future building intentions) remained flat, inching up 0.1 per cent m/m.

Over the first five months of 2022, total building permit volumes remained up 1.4 per cent as non-residential building permits are up 12.9 per cent while residential building permit volumes are down 3.2 per cent.

Total building permit volumes fell in seven metro areas including some larger ones like Toronto (down 3.4 per cent m/m), Oshawa (down 54.5 per cent m/m) and Greater Sudbury (down 6.7 per cent m/m) which growth modest across all metro areas (up 0.4 per cent m/m).

Pandemic-era price gains are evaporating in Toronto's resale homes market

Edgard Navarrete, Regional Economist

The Toronto resale home market continues to cool due to higher borrowing costs, a higher cost of living (due to inflationary pressures) and some economic uncertainty despite a tight labour market. Home valuations have slid dramatically from the February 2022 peak of nearly $1.3M (up 27.6 per cent from February 2020). By the latest estimate from June 2022, home valuations have slid to just 10.0 per cent higher than pre-pandemic levels to $1.1M.

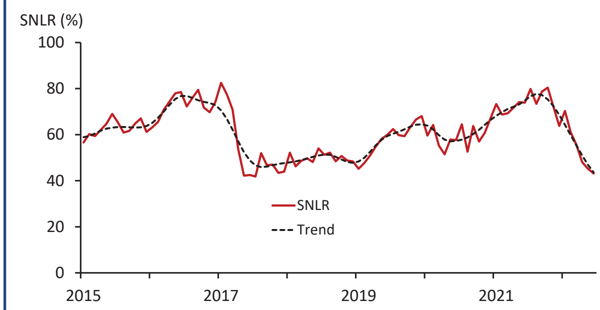
This comes as both sales and new listings slide for a fourth consecutive month. In June, sales fell an additional 8.2 per cent m/m and new listings fell 3.7 per cent m/m. The current slide in activity has rebalanced the market and the sales-to-new-listings-ratio (SNLR) came in at 43.1 per cent in June, down from 45.2 per cent in May. An SNLR reading between 40 and 60 per cent typically signifies a balanced market. Moreover, the last time the Toronto market experienced a similar run of three consecutive months with a SNLR below 50 per cent was November 2018 through to February 2019.

The recoil of potential buyers and tougher buyer negotiations with sale prices just in line with or lower than asking prices (depending on the home and location) has compelled new listings to shrink considerably. With many sellers unwilling to compromise on the purchase price, the market offerings are currently retreating and either removing listings or listing homes in the rental market instead.

Over the first half of the year, sales are down 32.2 per cent compared to the same period last year while new listings are down 7.1 per cent. The average home sale price is still up 17.0 per cent.

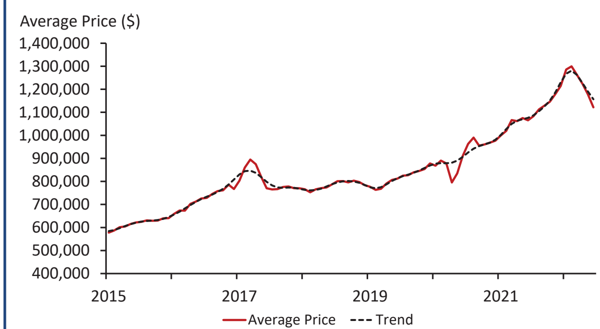
The Toronto Region Real Estate Board (TRREB) releases a monthly constant quality housing price index (HPI). According to the latest data, the headline HPI fell 3.5 per cent m/m with steeper drop in the HPI for single-detached homes relative to the drop in value for higher-density housing such as rows and condo apartments. As expected, given that many buyers are priced out by increased borrowing costs and still elevated home values for low-rise housing, demand for higher-density housing continues to hold up better than low-rise housing.

Toronto's resale homes market getting ever closer to a buyers' market



Source: TRREB, Central 1 latest: Jun/22

Recent slide has considerably eroded pandemic era valuations



Source: TRREB, Central 1 latest: Jun/22

Come July 13, the Bank of Canada is expected to continue its rate tightening path. The jump in the policy rate is forecast at 75 basis points. Toronto's resale homes market has proven quite sensitive to interest rate hikes, perhaps due to many households now being overextended after getting into housing in the 2020 to 2022 period. Further increases will eat away even more at market confidence and rebalance even further — perhaps even sliding into a buyers' market (a SNLR below 40 per cent). For buyers with strong balance sheets and liquidity, opportunities may be plentiful to scoop up relative deals in the market.

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