Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Unemployment rate inched up to 5.3 per cent in July
- Export growth declined in June stalling four consecutive months of growth
- Average home price valuations gained during the pandemic continue to evaporate
- Tighter monetary policy forcing even more buyers to the sidelines
- Permit dollar volumes reach record highs, led by single residentials

Ontario's labour market continued to shrink in July

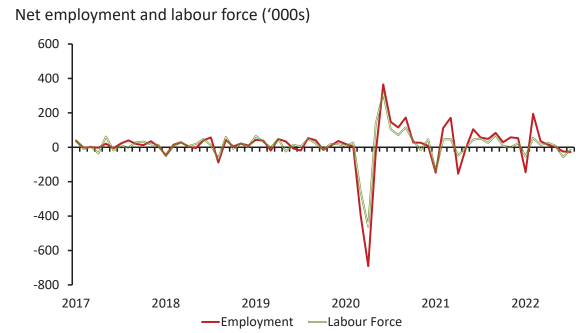
Edgard Navarrete, Regional Economist

Ontario's labour market continued to shrink in July. The province shed 27,400 net jobs while at the same time, the labour force shrank 15,500 net workers. With that, the unemployment rate moved up to 5.3 per cent in July from 5.1 per cent in June. While part-time work increased by 30,100 net workers (up 2.2 per cent m/m), employers shed 57,600 net workers (down 0.9 per cent m/m). Worth noting — some of this shrinking could be attributed to a weaker month in female hiring in July and lots of retirements as well.

Despite the recent two-month slide, compared to pre-pandemic activity, the labour force (up 184,900 net workers) and employment (up 192,400 net workers) have completely rebounded. Full-time employment is up 171,000 net workers and part-time employment is up 21,300 net workers.

By sector, most of the losses came from the services sector (down 45,900 net workers) with the goods sector shedding jobs in a few areas, but overall still posting job growth in July (up 18,600 net workers). Most of the hiring in the goods sector came from agriculture and related areas (up 7,800 net workers) and manufacturing (up 13,400 net workers).

Unemployment rate inched up 5.3 per cent



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

Of all the sectors surveyed in services, only transportation and warehousing (up 2,600 net workers) and finance, insurance, real estate and leasing (up 9,800 net workers) increased hiring. All other areas shed jobs with significant job losses coming from wholesale and retail trade (down 14,200 net jobs), education (down 11,400 net jobs), accommodation and food services (down 6,500 net jobs) and information, culture, and recreation (down 9,600 net jobs).

By class of worker, all job losses in July came from the private sector (down 35,500 net workers) and the public sector (down 29,600 net workers). Self-employed workers increased by 37,700 net workers but not enough to offset the losses in those other areas.

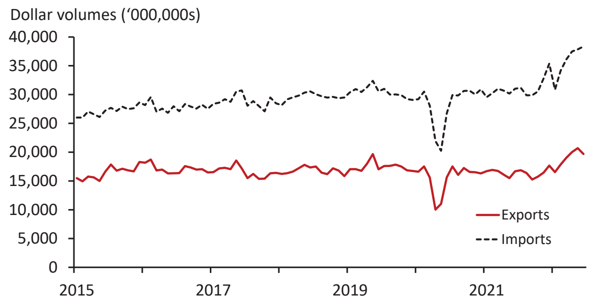
As the cost of living increases, consumers are likely tightening belts and concentrating their spending on necessary goods at the sacrifice of many areas in the services-producing sector.

Exports fell sharply in June

Edgard Navarrete, Regional Economist

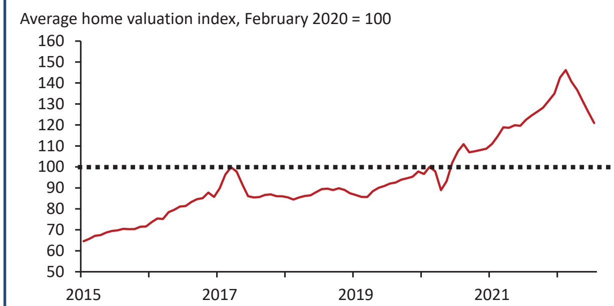
After four consecutive months of growth, Ontario exports fell 4.8 per cent in June to $19.6 billion while imports climbed an additional 1.3 per cent to $38.3 billion. Even with June's decline in exports, overall exports continue to track higher than 2020 and remained 15.4 per cent higher year-to-date. Similarly, imports are also continuing to track higher than 2020 and year-to-date remained 17.6 per cent higher.

Exports down in June as many sectors reported weaker activity



Source: Statistics Canada, Central 1 latest: Jun/22

On-paper home equity gains earned during the pandemic are evaporating



Source: TRREB, Central 1 latest: Jul/22

By sector, exports fell in several areas in June. Of the 11 categories surveyed each month, exports fell in seven led by motor vehicle and parts exports (down 17.4 per cent m/m) and metal and non-metallic mineral products (down 1.0 per cent m/m) which together account for close to half of all exports (46.7 per cent). Consumer goods (up 9.1 per cent m/m) and energy products (up 16.1 per cent m/m) offset some of the losses in other areas. Consumer goods exports increased on higher sales of pharmaceutical products.

Supply chain issues and some cooling consumer demand, as cost of living goes up, may continue to affect Ontario exports over the next few months.

Toronto's resale homes market remains barely balanced, but for how long?

Edgard Navarrete, Regional Economist

Being one of the most expensive markets in which to buy a resale home, the Toronto housing market unsurprisingly continues to tumble largely on reduced affordability. With interest rates on the upward path, inflation eating away at spending power, and some uncertainty in the air when it comes to the economy's path forward in the short-run, many buyers are stepping to the sidelines or are being forced the sidelines as they do not qualify for a mortgage to their liking. Moreover, some smaller investors are likely feeling the crunch of higher interest rates, with more to come later this year, and are divesting even if they take some losses on a sale. This is particularly the case as some analysis of sales data shows anecdotally some homes purchased at the apex of the frenzy (February 2022) being sold in the spring and summer months at heavy losses. While this is not the whole market, enough examples are there to show the market is clearly changed.

In July, Toronto's home sales, new listings, and average sold price all continued to tumble, falling 16.1 per cent, 16.1 per cent, and 4.0 per cent m/m respectively. Moreover, for the first time since May 2018, the average sold price also tumbled y/y.

Sales have now plummeted to levels below 2019, prior to the pandemic and as expected with a cooling market, home sellers still keen to sell their home are waiting longer. The average days on the market jumped to 19 days in July up from 15 days in June and up 4 days y/y. The SNLR also points to a sustained cool down in this market as this metric came in at 43.4 per cent in July, unchanged from June and still signaling a balanced market — but barely.

To note how strong and swift this correction has been, since February 2020, the average home valuation reached $895,064 and by February 2022, the average valuation was 46.1 per cent higher (at $1,308,125). By July, the average home valuation is still higher than pre-pandemic but now only 20.9 per cent higher. Pandemic-era gains have evaporated and continue to do so quickly.

Year-to-date, sales and new listings are down significantly: 34.0 per cent and 6.8 per cent respectively while prices continue to remain up by 15.2 per cent.

The Toronto Region Real Estate Board (TRREB) releases a monthly constant quality housing price index (HPI). In July, the overall HPI fell 2.6 per cent m/m due to all home types reporting lower HPIs m/m. The HPIs for single-detached homes and condo apartments fell 3.8 per cent and 4.5 per cent m/m respectively while the HPI for townhomes/rows fell 2.6 per cent m/m.

In prior months as the costs of entry increased buyers, investors and non-investors switched to more affordable high-density options — but now that mortgage rates are the highest they have been in some time, all segments are cooling off.

Toronto's housing market will continue to cool through 2022 as the Bank of Canada's policy rate will continue to rise until inflation is under control. The region is seeing a shift away from homeownership to rental as people try to minimize expenses during this turbulent economic time. Expect the Toronto housing market to reach a buyers' point at some point in 2022.

Building permit volumes up 11.6 per cent in June

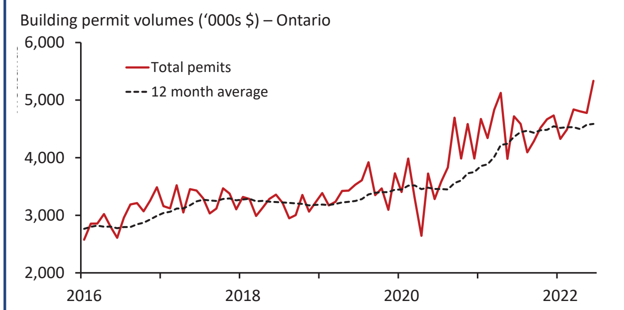
Alan Chow, Business Economist

Total dollar permit volumes jumped 11.6 per cent to $5.3 billion for June. That represents the biggest increase in over a year and the total dollar volumes exceeds the previous all-time high of $5.1 billion seen in April 2021. Both residential and non-residential permits saw double-digit increases of 12.2 per cent and 10.5 per cent, respectively.

Multi-family units were the main factor for the large increase on the residential side. June saw a 24.8 per cent increase over the previous month. Single-family homes only managed a 2.1 per cent increase, however it follows a 15 per cent increase in May and represents the highest volume ever seen within the last 5 years. Overall, the trend for both multi-family permits and single-home permits continues to be upward and both exceed their 12-month average by double digits (13.9 per cent for multi, 18.2 for single).

Leading the way for non-residential permits was commercial units, up 37.5 per cent over the previous month. The value reached over $940 million, which is the most seen since November 2020. Industrial permits were essentially flat, down 0.15 per cent while institutional and public permits were a drag, down 28.5 per cent.

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



Source: Statistics Canada, Central 1 latest: May/22

In the metropolitan areas, nine out of the 16 recognized metro areas saw increases in permit volumes. Toronto, the largest metro in Ontario, saw volumes increase 31.8 per cent. Ottawa only saw a minor increase of 2.1 per cent. Other notable increases include Guelph, up 332 per cent and Brantford, up 145 per cent. At the other end, St. Catharines saw a 59.3 per cent decrease, followed by Belleville with a 56.7 per cent decrease.

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