Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Ontario hiring strengthens in October but unemployment rate edges up
- Building permits retrench
- GTA housing market slowdown deepens
- Majority of the industrial sectors reported slowdown in both exports and imports, however, trade volume remained above 2021 level

Ontario employment increases for the first time since May

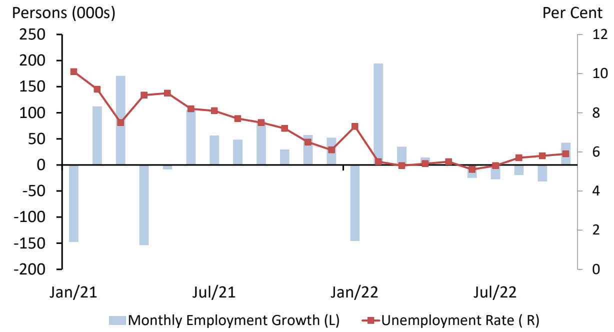
Bryan Yu, Chief Economist

Following four months of contraction, Ontario's labour market gained traction in October as both employment and labour force participation increased. Matching the national gain, total employment in Ontario rose 0.6 per cent (or 42,700 persons) from September to mark the highest level since July. This latest increase pushed employment above pre-pandemic 2020 by 2.5 per cent, but still lagged performance of most other provinces. Nationally, employment was up 2.7 per cent over the same period. Despite the increase in hiring, the unemployment rate edged up to 5.9 per cent as labour force participation increased.

While headline employment figures were positive, patterns were mixed under the hood. Net employment growth was almost entirely driven by part-time work which rose 2.8 per cent or 37,400 persons, while full- time hiring was up a scant 0.1 per cent or 5,300 individuals. Higher labour force participation rates could be partially attributed to an increase in voluntary part-time worker as strong wage growth and flexibility attract more individuals to paid positions. Strong population growth may also be meeting the needs of employment demand in services sectors. That said, the increase in unemployment rates suggests conditions may be weakening.

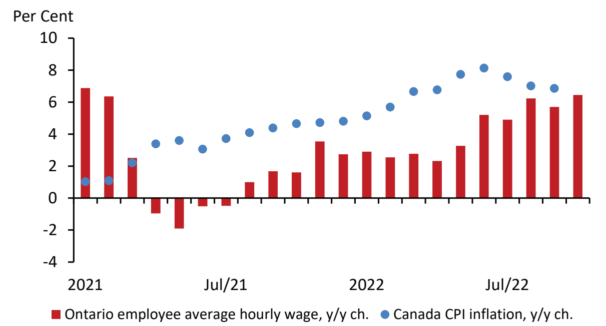
On an industry basis, October gains were led by services-producing sectors. Specifically, professional/scientific/technical services rose by 11,700 persons (1.5 per cent), while accommodations/foodservices (up 12,900 persons or 3.3 per cent) and educational services (up 11,700 persons or 1.5 per cent) were key drivers. Notable offsets included wholesale and retail trade (down 12,200 persons or 1.1 per cent). Goods-producing sector employment rose 0.3 per cent with a lift from manufacturing. With services leading the way, growth was led by the Toronto Census Metropolitan Area which recorded a 31,200 person (or 0.9 per cent) increase in employment.

Ontario employment rebounds, unemployment rate trends higher



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

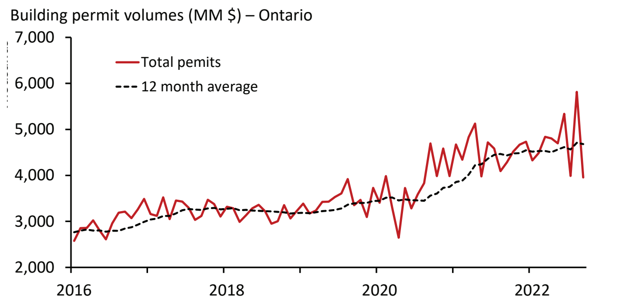
Average hourly wage growth accelerates



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

Coupled with job vacancy rate data, the latest figures suggest labour demand remains strong. Wage growth is still robust with average hourly wages climbing to 6.5 per cent year-over-year. While job composition plays a role, employees are looking to offset inflation and the labour shortage has increased their bargaining power. That said, the economy will likely decelerate sharply in early 2023 as higher interest rates and slowing global economy temper growth, impacting both domestic demand and exports. This will slow demand for labour and is anticipated to push unemployment rates to near 6.4 per cent.

Ontario's building permit volumes retrench after August surge



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

Permit volumes down across the board

Alan Chow, Business Economist

Total permit volumes in Ontario retrenched in September after recording a sharp August spike. Activity fell 32 per cent to $3.9 billion, bringing the level back down back to a volume seen in July and 16 per cent down from the average over the previous 12-months. Residential permits volumes fell 26.1 per cent while non-residential permit volumes were down 43.7 per cent. Both are down compared to their previous 12-month average by 11.5 per cent and 25.7 per cent, respectively, and the total permit volume was 16.0 per cent lower by the same measure.

The decrease in residential permits was the result of lower multi-family permits volumes, which was down 39.6 per cent, bringing it closer to the volume seen in July. Single-family homes were also down but by only 7.0 per cent. Both are lower than the 12-month trailing average, with single-family homes down 6.6 per cent and multi-family homes down 16.3 per cent. Housing market activity has broadly deteriorated, likely weighing on construction.

Non-residential permit volumes saw significant declines across the board. Public permit volumes were down the most at 59.3 per cent followed by industrial permits volumes, down 38.8 per cent. Commercial permit volumes weren't far behind, down 35.9 per cent. All were below the trailing 12-month average with industrial permits volumes down 27.8 per cent, commercial permit volumes down 27.4 per cent and public permit volumes down 18.6 per cent.

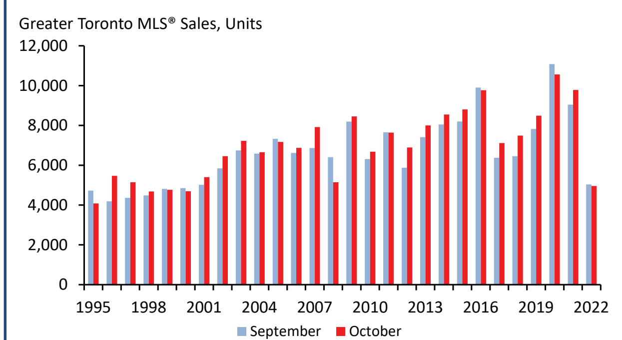
Looking at only the metropolitan areas in Ontario, total permit volumes fell 37.3 per cent over the previous month. Of the 17 metro areas listed, only 5 showed increases. Fluctuations varied significantly with Toronto seeing permit volumes decrease 42.4 per cent compared to Ottawa's 2.7 decrease whereas Guelph recorded an increase of 534 per cent as a permit for a large multi-family project was granted.

GTA housing market deterioration deepens in October

Bryan Yu, Chief Economist

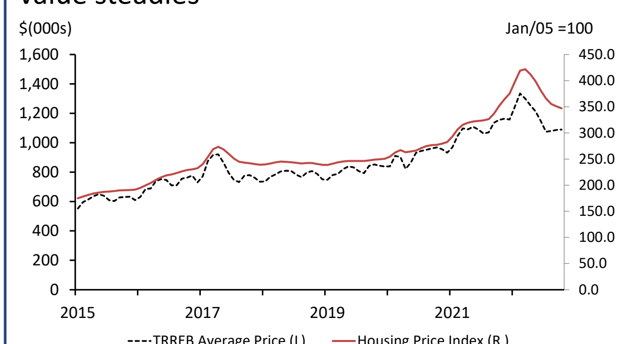
Toronto's housing market came under further pressure through October as higher interest rates and weakening buyer sentiment reduced both sales and home values. Based on data from the Toronto Regional Real Estate Board, Greater Toronto home sales fell 49.3 per cent from a year ago to 4,961 units. While this partly reflects the outsized performance during the pandemic, sales are down nearly 40 per cent from same-month 2019 and the 10-year October average from 2010-2019. Declining home values have yet to incentivize many buyers to return to the market, while

GTA home sales trend continues to slump



Source: TRREB, CREA, Central 1 latest: Oct/22

Benchmark price erodes further while average value steadies



Source: TRREB, CREA, Central 1 latest: Oct/22 higher and rising interest rates are pushing even more buyers to the sidelines. Adjusted for normal seasonal variation, we calculate a 3.0 per cent monthly decline in sales. Annual sales are tracking about 75,000 units for 2022 which would mark a 38 per cent decline from 2021, comparable to 2008 and 2018 levels.

Declining home sales and weak market conditions reflect a demand shock from higher interest rates, but home sellers have yet to panic. Rather than flooding the market, new listings have moved lower and active listings, while rising, remain at historically moderate levels. Homeowners have seen the summit of pricing earlier this year and are loathe to reduce prices unless they are required to sell. A tight labour market and strong rental market conditions for investment properties are pushing against a wave of new listings.

Nevertheless, market conditions are weak. Sales-to-new listings ratios are at 45 per cent and sales-to-active listings ratio are trending near 2018 levels after surging during the pandemic. The average price at $1.089 million was unchanged from September but was down 19 per cent from peak. That said, benchmark indices continued to trend lower pointing to underlying erosion of prices. The composite price fell 1.1 per cent from September and 18 per cent from peak. The latter decline has been led by detached homes (19 per cent) with townhomes and apartments down by about 10 per cent. Further erosion in price trend is anticipated given the combination of further interest rate hikes and weakening economic conditions.

Ontario exports nudge higher in September

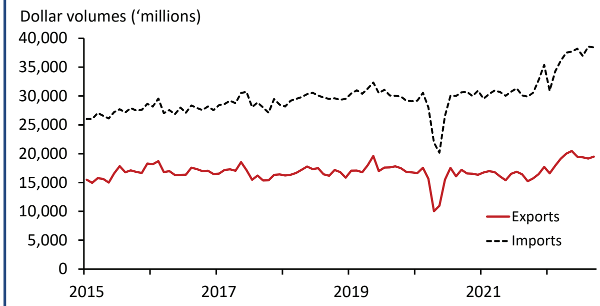
Ivy Ruan, Economic Analyst

Canadian merchandise exports rose 1.3 per cent in September from the previous month to recover lost momentum in August. The trade surplus widened to $1.1 billion from $550 million in August.

In Ontario, our calculations point to a seasonally-adjusted monthly gain of 0.7 per cent, with unadjusted year-over-year growth of more than 25 per cent marking an acceleration from August. On an unadjusted-basis, export sales reached $19.5 billion. That said the trend has been choppy and broadly lower than the May peak.

Year-over-year growth in exports of motor vehicles and parts regained momentum with sales up 62.9 per cent to $5.1 billion following August's 19.1 per cent gain. The steady return-to-normal of global supply chains have supported motor vehicle and parts exports'

Ontario trade slowed down from August, yet remained elevated from a year ago



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

growth, although a slowing economy could temper this trend. The export of metallic and non-metallic mineral products (up 25.9 per cent y/y) were another main contributor to Ontario total exports in September. Consumer goods' exports also reported another steady gain of 7.4 per cent compared to the same month last year.

National imports were up 0.4 per cent in September from the previous month. Our calculation for seasonally- adjusted Ontario imports showed a 2.0 per cent monthly gain. September's total imports came in at $38.4 billion in Ontario, up 27.8 per cent compared to last year. Consumer goods continued to lead the yearly growth in imports, reporting a 30.1 per cent year-over-year increase to $9.2 billion, followed by large gains in industrial machinery (up 26.3 per cent y/y) and motor vehicle and parts (up 30.3 per cent y/y). Inflation pressure and a weaker Canadian dollar is boosting dollar-volume activity. However, most of the industrial sectors saw little change or declines on a seasonally-adjusted monthly basis despite the yearly gain, led by motor vehicles and parts (down 4.7 per cent m/m), and industrial machinery, equipment, and parts (down 0.4 per cent m/m).

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