Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Ontario employment declines by 24,000 persons in May
- Home prices rebound as market tightens
- Permit volumes decline in April, residential downtrend continues
- Ontario exports grow year-over-year in April while imports fall

Ontario sheds jobs in May, population growth support labour market expansion

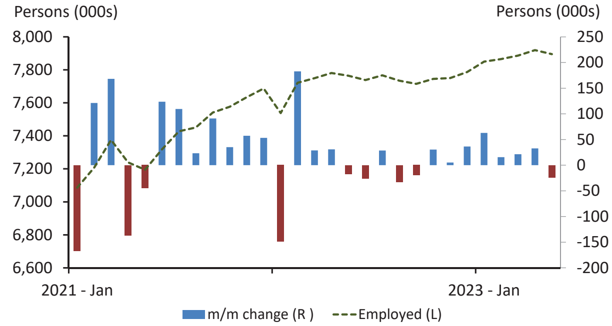
Bryan Yu, Chief Economist

Canada's labour market moderated in May with Ontario and to a lesser extent Atlantic Canada driving the slowdown. Ontario employment fell by 23,900 persons (0.3 per cent) in May which exceeded the national pullback of 17,300 persons (0.1 per cent). In a clear sign that labour shortages may be abating, the unemployment rate shot higher to 5.5 per cent from 4.9 per cent to mark the highest level since November and the largest single month increase since January 2022. Robust population growth has contributed to this increase by driving much-needed growth in the labour force. Average hourly wages slipped from a year-over-year pace of 5.5 per cent in April to 5.1 per cent in May.

Consistent with national patterns, Ontario's May employment losses were concentrated in the full-time sector where employment fell sharply by 46,000 persons or 0.7 per cent. This was the steepest monthly decline in more than two years and only partly offset by a 22k gain or 1.6 per cent gain in part-time employment. Full-and part-time employment trends have moved in opposite directions over the past three months, with the latter gaining traction. While the data can be noisy, hours worked in Ontario's economy have moderated with year-to-year growth of about 2.4 per cent pointing to a slowdown.

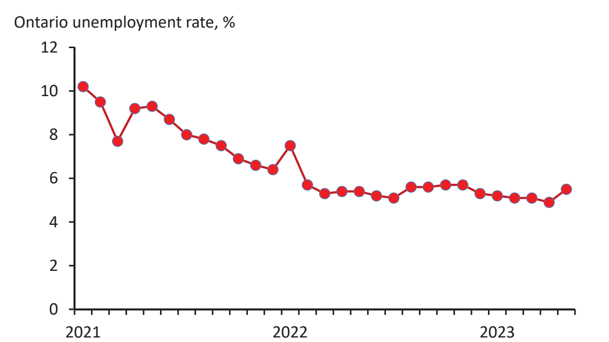
Weaknesses in May employment figures were driven by areas outside the Toronto Census Metropolitan Area which recorded a 20,000 person increase in employment (0.5 per cent). However, the unemployment rate shot up a full percentage to 6.5 per cent as driven by robust population gains and expansion in the labour force.

Ontario employment pulls back on full-time losses



Source: Statistics Canada, Central 1 latest: May/23

Unemployment rate ticks sharply higher



Source: Statistics Canada, Central 1 latest: May/23

Declines were broad amongst Ontario industries and point to some breadth in the slowdown. By industry, employment declines were led by the services-producing sector (-44,300k or 0.7 per cent) with a partial offset by the goods-sectors (+20,300k or 1.3 per cent). The latter was led by a pickup in manufacturing jobs which accounted for almost all of the gain. Among services, trends were broadly negative. Transportation/warehousing employment declined by 18,700k persons or 4.6 per cent, while declines were also observed in wholesale/retail trade (-13,800k or 1.2 per cent), professional/scientific/technical services (10,200 k or 1.3 per cent), and health care (-13,700 or 1.4 per cent). Offsets did include a strong gain in hospitality of 19,200 persons or 4.7 per cent.

Going forward, the labour market is anticipated to slow in response to the lagged effects of higher interest rates on both consumers and businesses. At the same time, the increase in population growth, which is curbing some labour market shortages, also acts as a source of consumer demand which should keep employment steady even as economic conditions slow.

Toronto housing activity picks up again, rate hikes likely to cut short momentum

Bryan Yu, Chief Economist

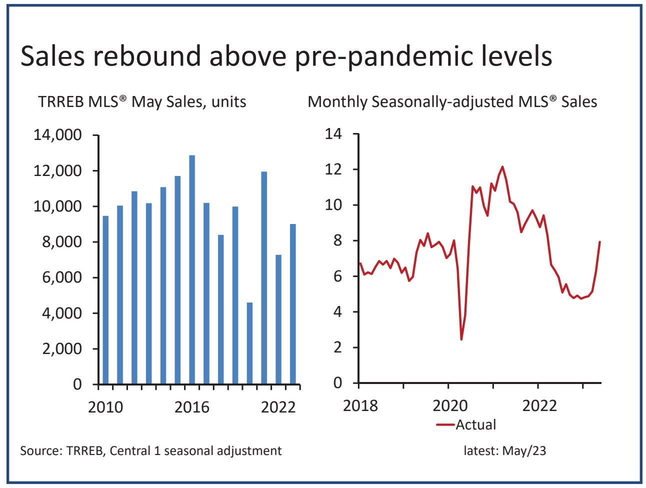
Like other metro areas, Toronto's housing market is riding the surprisingly strong real estate rebound of 2023. Buyers jumped headfirst back into the market despite elevated mortgage high rates and risks of an economic downturn. These factors have been overshadowed by growing latent demand as prospective buyers adjusted to higher rates while mass immigration boosted broader housing demand. Qualified buyers, impatient with waiting for prices to drop, have returned but with a severe shortage of listings are bidding up prices once again. It is unclear how buyers are absorbing the hit on carrying costs, but higher wages, wealth transfers and pandemic savings may be providing this leg up.

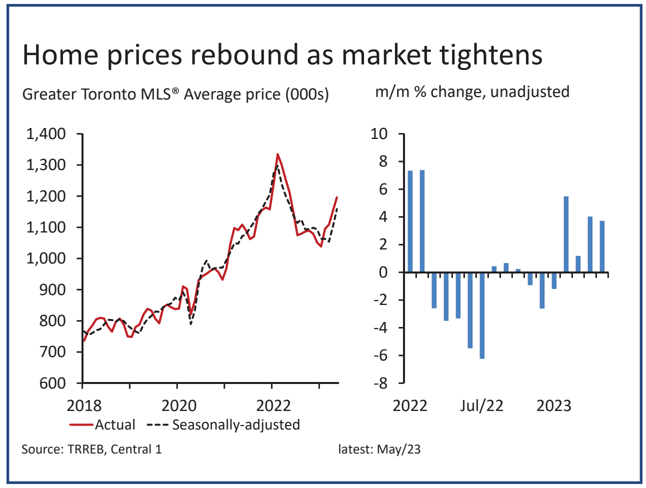
May real estate board numbers rebounded sharply. Total sales reported by the Toronto Regional Real Estate Board reached 9,012 units. This was 23.7 per cent higher than a year ago, due largely to the sharp retracement in 2022 following the impact of rate hikes. May sales were still down about 15 per cent from the same-month average observed from 2010-2019 but narrowed the gap of 25 per cent seen in April. On a seasonally-adjusted basis, we calculate a 26 per cent increase in monthly sales and a 60 per cent increase from December to return to the pre-pandemic trend.

Buyers have faced a severe shortage of listings, which has likely contributed to the renewed urgency in the market. New listings accelerated during the month as more sellers looked to take advantage of a stronger spring market. Nevertheless, new listings flow was 18 per cent lower than a year ago and the trend remains consistent with early 2000 levels. Active listings continued to move lower as sales drew down inventory.

This is putting renewed upward pressure on prices. The average price rose 3.7 per cent from April to $1.196 million and down 1.4 per cent from a year ago. Adjusting for seasonal factors, we calculated a near 5 per cent increase from April which has lifted prices to within 10 per cent of the all-time high, narrowing the gap from a near 20 per cent decline. Similarly, quality-adjusted home prices rose at a significant pace of 2.5 per cent, with similar increases across product types.

Whether this renewed sales and price vigour was the start of a new trend is up for debate, but this week's Bank of Canada rate hike and the high likelihood of another in July will likely cut momentum short. Higher variable and fixed rates are likely to slow the market, although low listings will likely support prices. Pressure from immigration is also undeniable and households





have a desire for homeownership which could continue to support demand. As rates are anticipated to decline in 2024, many buyers will likely absorb the short-term pain of high rates now in anticipation of rate relief going forward.

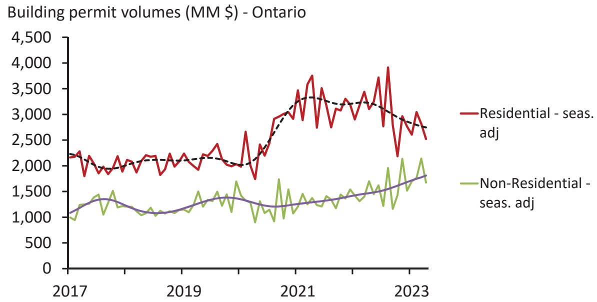
Ontario building permits recede in April

Bryan Yu, Chief Economist

Ontario building permits plunged in April pointing to a slowing of construction activity as households and businesses adapt to the high interest rate environment and anticipated economic slowdown. Total dollar-volume permits fell 15.4 per cent from March to reach a seasonally-adjusted $4.19 billion, which was 12.7 per cent lower than a year ago. While monthly data is noisy, this was near the lower end of the range observed over the past year.

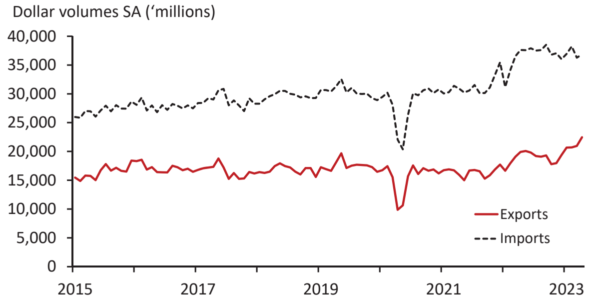
Building intentions slumped sharply in both the residential and non-residential sectors. Residential building permits continued to track sharply lower from a year ago and fell 10.5 per cent to $2.52 billion, after a 7.5 per cent decline in March. With permits down 19 per cent year-over-year, and 13 per cent year-to-date, it is apparent that the interest rate cycle and decline in existing home sales are dragging on construction

Permit volumes decline in April, residential downtrend continues



Source: Statistics Canada, Central 1 latest: Apr/23

Ontario exports on the rise in April



Source: Statistics Canada, Central 1 latest: Apr/23

intentions, both new-build and renovations. The latest pullback reflected a 14 per cent decline in multi-family activity while single-family activity fell five per cent. That said, the retrenchment over the past year has reflected single-family housing permits which adjusts more quickly to market conditions.

Meanwhile, non-residential permits reversed March gains with a 22 per cent monthly decline to $1.67 billion. This was led by declines in the industrial (-42 per cent) and commercial market (-25.6 per cent). That said, non-residential activity is still sharply ahead of last year by nearly 34 per cent fueled by major projects.

Among metro areas, permits were broadly lower. Monthly permits fell 17 per cent in Toronto, and 82 per cent in Windsor due to a drop in non-residential permits which was a key driver of the March increase. Permits also fell sharply in Kingston and Guelph but rose in Kitchener-Cambridge-Waterloo. Year-to-date patterns are mixed with permits up 20 per cent in Toronto, due largely to non-residential gains, and 68 per cent in Windsor. However, permits were down 34 per cent in Kitchener-Cambridge-Waterloo, 47 per cent in London and 58 per cent in Sudbury.

Going forward, the impact of higher interest rates is expected to slow construction activity and intentions further as developers pause on buildout and businesses become more cautious.

Ontario exports edge even higher in April

Eloho Ennah, Economic Analyst

The value of Ontario exports in April increased by 13.1 per cent year-over-year and was stated as $21.2 billion while the value of imports was $36.1 billion, a 1.9 per cent reduction compared to same month of 2022. According to Central 1's seasonally adjusted numbers, Ontario exports value increased by 7.2 per cent month-over-month in April, following March's increase of 1.2 per cent while the value of imports also rose 1.5 per cent.

Among the exports category, motor vehicle and parts exports value rose by 11.4 per cent to $6.0 billion year-over-year as supply-chain and transportation constraints began easing in early 2023. Metallic and non-metallic mineral products exports value rose by 22.3 per cent to $4.5 billion in the same period. Also recording larger value of exports was industrial machinery, equipment and parts with exports value up 20.1 per cent to $1.8 billion while electronic and electrical equipment and parts exports value grew 18.6 per cent to $1.1 billion. The exports value of aircraft and other transportation equipment and parts jumped 132.7 per cent to $706.6 million and that of metal ores and non-metallic minerals rose 70.8 per cent to $81.6 million. Balancing these increases was a decline in the exports value of energy, which fell by 58.4 per cent on a yearly basis, down to $158.6 million and a reduction of 11.2 per cent in the dollar value of exports of forestry and building and packaging materials, down to $980.5 million.

Within the imports category, the imports value of motor vehicle and parts increased 11.0 per cent to $8.7 billion in April 2023 compared to same month in 2022. Industrial machinery, equipment and parts imports value rose 1.1 per cent to $3.8 billion in the same period. Balancing these increases was a decline in energy imports value, which plunged 35.5 per cent to $659.7 million on a yearly basis. Consumer goods imports value also fell by 7.7 per cent to $7.5 billion. Electronic and electrical equipment and parts saw a 5.9 per cent drop in imports value, falling to $4.2 billion. Basic and industrial chemical, plastic and rubber products imports value was down 10.8 per cent to $2.7 billion while that of metallic and non-metallic mineral products fell 7.2 per cent to $2.9 billion. The imports value of forestry products and building and packaging materials reduced by 8.4 per cent to $1.6 billion. Farm, fishing and intermediate food products imports value fell 3.3 per cent to $1.2 billion.

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