Economics | Current Economic Trends

Ontario Economic Briefing

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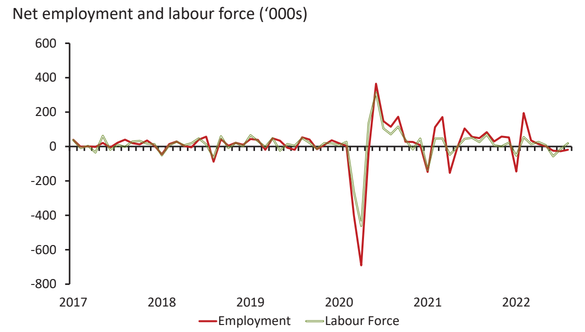
Economics

Highlights

- Part-time employment loss led the employment contraction in August
- Unemployment rate rose to 5.7 per cent, highest since February 2022
- Over half of export sectors reported lower sales volumes in July
- Market activity rebounds in Toronto, a blip or the start of a new trend?

Ontario Unemployment rate rose to 5.7 per cent



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

Ontario's labour market continued to shrink in August

Ivy Ruan, Economic Analyst

Ontario's labour market softened again in August to extend recent months trends. Employment fell by 19,200 persons while at the same time, the labour force increased 18,500 net workers. With that, the unemployment rate moved up to 5.7 per cent in August from 5.3 per cent in July. Both full-time and part-time employment reported declines, with full-time work down by 1,300 net workers and part-time employment shrinking by 17,900 net workers. The end of summer school break could be the reason for the large loss in part-time employment, with students going back to classes.

Ontario labour force (up 203,400 net workers) and employment (up 173,200 net workers) remained above the pre-pandemic level in February 2020 despite the recent declines. Full-time employment is up 169,700 net workers and part-time employment is up 3,400 net workers. However, in August, Ontario's unemployment rate (5.7 per cent) rose above the February 2020 level (5.5 per cent), its highest reading since February 2022.

By sector, readings from both services and goods-producing sectors softened. Most of the losses came from the services sector (down 13,100 net workers) with the goods sector shedding jobs by 6,200 persons. Despite job losses seen in most goods sectors, there was hiring growth reported in utilities (up 5,100 net workers) and manufacturing (up 600 net workers) sectors.

Of all the sectors surveyed in services, job loss in educational services (19,300 net workers) was the key driver to August's pullback. A similar fluctuation due to seasonality was also reported in information, culture and recreation sector (down 11,700 net workers) and accommodation and food services sector (down 5,600 net workers). That said, there was steady job growth among the remaining services sectors, with wholesale and retail trade (up 8,600 net workers) and other services (excluding public administration; up 7,300 net workers) seeing the largest increases.

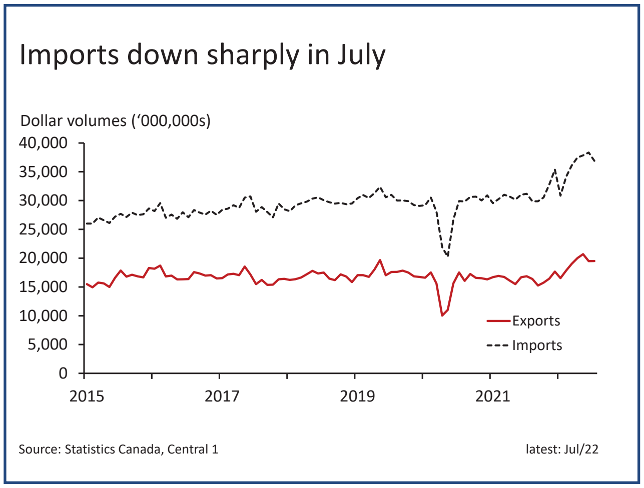
By class of worker, the job losses from the public sector (down 19,200 net workers) and self-employed workers (down 1,700 net workers) were partially offset by the job gain from the private sector (up 1,700 net workers) in Ontario.

While August's labour market performance could be influenced by the timing of school year on part-time employment and educational services sector, a slower employment growth is expected to continue in the coming months. Further interest rate hikes signaled by the Bank of Canada will bring further slowdown to the housing market, and impact business optimism and domestic labour demand.

Exports relatively unchanged in July

Edgard Navarrete, Regional Economist

New merchandise trade numbers came out this week and exports remained relatively flat in July moving up only 0.1 per cent m/m to $19.5 billion. While exports



remained flat, this is quite the turnaround from June where exports contracted 4.9 per cent m/m. While exports barely moved, imports fell sharply (down 3.5 per cent m/m) to $36.9 billion. The slide in imports put an end to five consecutive months of growth.

Compared to prior to the pandemic, exports are up 11.3 per cent and imports are up 21.0 per cent. Part of this rebound is attributable to increased economic activity, but a large part of this rebound is inflationary pressures pushing dollar volumes up as businesses have to pay more for imports and pass the added costs to exports clients.

Year-to-date, exports remained 15.0 per cent up while imports remained 17.6 per cent up.

Of the 12 export sectors in Ontario surveyed each month, volumes fell in most (7 of 12) with significant dips in activity in the following large areas: industrial machinery, equipment and parts (down 0.5 per cent m/m), motor vehicle and parts (down 0.5 per cent m/m), consumer goods (down 18.9 per cent m/m), forestry products and building and packaging materials (down 7.2 per cent m/m) and basic and industrial chemical, plastic and rubber products (down 6.2 per cent m/m).

These losses were partially offset by gains in metal and non-metallic mineral products (up 4.5 per cent m/m), aircraft and other transportation equipment and parts (up 14.5 per cent m/m) and energy products (up 11.0 per cent m/m).

Weaker consumer demand for durable goods such as cars, new homes and unnecessary consumer goods is likely fueling and will continue to fuel weaker exports volumes.

Toronto home sales and average price growth climb back up in August

Edgard Navarrete, Regional Economist

New August data came out from the Toronto Region Real Estate Board (TRREB) and showed a reversal of fortunes for the market, albeit for how long? In August, sales climbed 6.5 per cent while price also climbed 2.5 per cent to $1,114,932. The growth in these two areas put an end to an extended run of m/m declines for five months since the market peaked in February 2022 and just before higher mortgage rates started biting.

Moreover, just like sales, new listings also reversed trend and climbed 2.0 per cent m/m in August, also putting an end to a five-month slide. A greater clip of sales growth relative to new listings growth tightened the market slightly and helped push prices up as some competition for listings returned to the market. According to the sales-to-new-listings-ratio (SNLR), this metric climbed to 46.3 per cent in August, up from 44.4 per cent in July. The market is still deep in balanced territory, but this month's activity could be a blip or the start of a new run up of activity, especially as immigration and flows from other parts Canada are returning to Ontario and looking for housing.

Investor activity is surely a part of the recent growth, but likely most of the activity is from buyers who had been patiently biding their time on the sidelines for the market to slow down before pouncing.

Over the first eight months of 2022, sales and new listings remained 32.9 per cent and 6.8 per cent lower while average price remained 14.6 per cent higher than the same time last year. Moreover, even with the recent slide in valuations since February 2022, the average home valuation in Ontario in August remained 24.9 per cent higher than where values stood on February 2020 before the start of the pandemic. Clearly, the market has not crashed but rather settled into a new lane.

New listings are still up year-to-date, but when compared to the long-term trend they are considerably lower in August (down 26.6 per cent). Supply remains an issue as many current homeowners are unwilling to list their homes either because they will not get the price they want for their home or once they sell their home, they will have to try an re-enter the same market and perhaps make downward concessions to remain in their preferred market. Rather than face either option, many homeowners are staying put.

TRREB releases monthly constant quality HPIs. The overall HPI continues to slide falling an additional 2.8 per cent m/m in August. Single-detached homes (down 3.2 per cent m/m) and row/townhomes (down 3.2 per cent) had the steepest falls in August. Condo apartment units fell 1.7 per cent.

Anecdotal evidence suggests that the condo apartment market in several markets is booming. Young people trying to plant a stake in the housing market are looking at condo apartments as a first and only option in many cases until they build enough equity down the road to consider a move. Even with recent changes in expectations by sellers lowering asking prices for low-rise homes, many potential buyers are staying away as the price of entry is too high — even more so when seeing what mortgage they can qualify for under higher interest rates.

This week the Bank of Canada (BOC) raised the policy rate once again and the signal coming this week is that they are not afraid to continue to raise rates to tame inflation down to neutrality. Should that happen, some loans may face strain and cause some growth in supply especially in expensive markets like Toronto. Even with increased supply, buyers will likely stay away for the most part as many will not qualify for the mortgages they want.

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