# Sectoral Profile

Finance, Insurance, Real Estate, Rental and Leasing

Ontario

2017-2019

Sectoral Profiles provide an overview of recent labour market developments and outlooks for some of the key industries in various regions of the country.

## CONTINUED GROWTH AMID MOUNTING RISK AND UNCERTAINTY

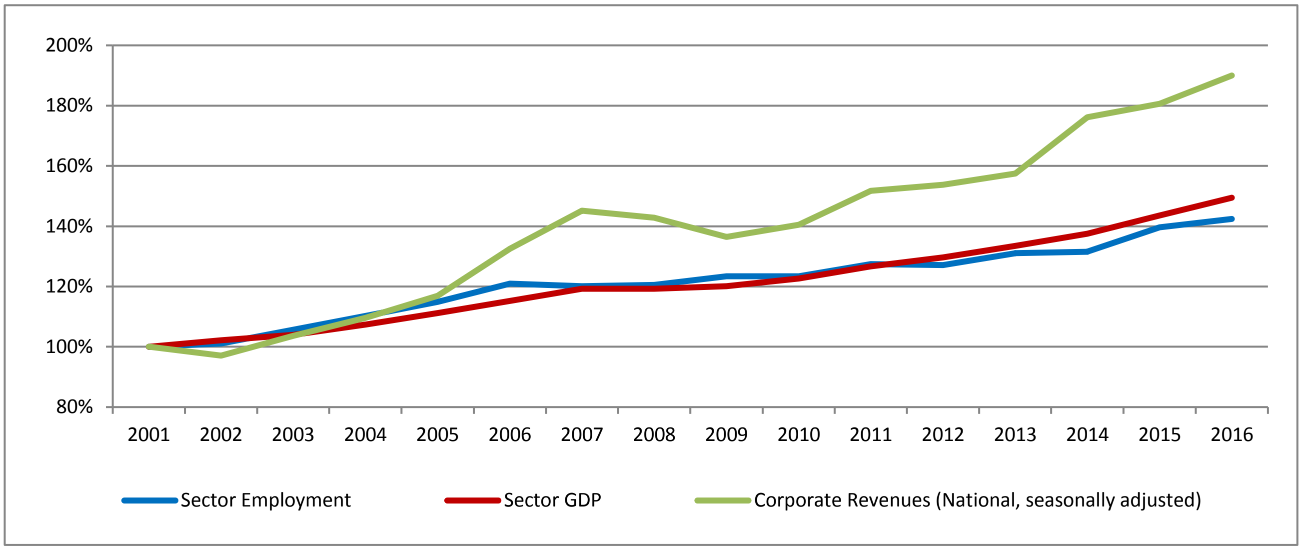
- Employment growth in the finance, insurance, real estate, rental and leasing sector has historically been strong, and has continued to grow in recent years
- This sector's profitability is closely tied to interest rates, household and business credit use, returns on investments and overall economic stability
- In recent years, households and businesses have taken on more debt, exposing the financial sector to increased vulnerability
- The slowdown in emerging markets, including China, lower commodity prices, and geopolitical uncertainty in the Eurozone, have weakened global demand for financial services
- The sector’s employment and GDP is expected to expand at a slower pace from 2017 to 2019, relative to pre-recessionary rates

Ontario accounts for almost half of the nation’s total employment in the finance, insurance, real estate, rental and leasing (FIRE) sector. Two thirds of the approximate 560,000 people employed in the sector in Ontario are located in the Toronto Economic Region (ER), making it the financial hub of Canada.[i] In 2016, the FIRE sector accounted for 8% of total provincial employment but contributed over 23% of Ontario’s GDP,[ii] giving it one of the highest GDP to employment ratios. The FIRE sector is composed of two main subsectors: 1) finance and insurance, and 2) real estate and rental and leasing. The finance and insurance subsector makes up close to three quarters of employment within the sector[iii], while in terms of GDP, the real estate subsector makes up almost 60% of the sector.

Over the past decade, the FIRE sector was one of the stronger industries in Ontario in terms of employment growth. As shown in Figure 1, the industry enjoyed steady GDP growth from 2002 to 2007, while corporate revenues in the sector boomed. Throughout the financial crisis in 2007-2008 and the subsequent recession, employment and output in the sector were stagnant and corporate revenues dropped. In 2009, sector employment and GDP started to grow again, albeit at a much more muted pace than before the recession. Corporate revenues levelled off from 2011 to 2013 before increasing to record levels through 2014 and 2015. Particularly in 2015, revenues received an extra boost from the Bank of Canada interest rate cuts which drove lending forward for the year. A more confident outlook at the Bank, which increased its key rate by 0.5

percentage points thus far in 2017, with the potential for more hikes,[iv] may moderate loan growth over the forecast.

**Figure 1: Ontario FIRE sector: Growth in employment, GDP, corporate revenues**




Source: Statistics Canada, LFS & Table 187-0002, Corporate Financial Positions, (Index, 2001=100)

## Finance and insurance subsector faces both internal and external risks

The finance and insurance subsector is comprised of establishments mainly engaged in conducting or facilitating financial transactions. The workforce within this subsector is highly educated and average earnings are above the total average of all industries. The following occupations make up about 50% of the employed labour force in this subsector:

- Customer service representatives (NOC 1433)
- Other financial officers (NOC 1114)
- Banking, credit and other investment managers (NOC 0122)
- Insurance agents and brokers (NOC 6231)
- Loan officers (NOC 1232)
- Information systems analysts and consultants (NOC 2171)
- Banking, insurance and other financial clerks (NOC 1434)

Employment demand in the finance and insurance subsector may be impacted by corporate profits, which in turn are impacted by corporate investments. Volatility in key indicators such as equity markets and interest rates can strongly affect profits, particularly in the insurance sector which depends on returns on investments to pay for insurance policy/actuarial liabilities. Banking sector income relies on various product and service offerings. The most lucrative include household and business credit products (particularly mortgages), high value investment products such as investment funds, equities trading, and retirement planning.

Equity and bond markets are important to the revenue streams of the financial & insurance subsector. Bonds and equities are the main investment assets held both by consumers as well as companies in the sector. Annual market returns for the TSX Composite Index[v] have been sluggish from 2011 to 2015 due to volatility, despite the index testing all-time highs.[vi] The equity market benchmark has recovered since, on strengthening financial stocks and stabilizing oil[vii] and commodities[viii] over the second half of 2016 and first half of 2017. Government of Canada bond yields, which were at or near all-time low levels[ix], have also regained their pre-2015 levels. These investments are important to insurance companies who rely heavily on higher quality bonds to back policy liabilities and on equity market returns to cover bonuses and guarantees on certain products. Low investment returns decrease profitability through increasing liabilities and expenses, thus, may impact hiring decisions and could lead to expense cutting through job cuts.

Financial institutions and insurance companies had to offset the drop in revenue caused by lower investment returns in the years following the recession. Over 2014 through 2017, there have been waves of layoffs as RBC, Scotiabank, CIBC, TD, and BMO have each cut positions and restructured divisions. In insurance, Great West Life also announced job cuts in 2017. They have each cited various factors for these layoffs ranging from losses on international operations and from struggling energy sector investments to increasing operational efficiencies and adapting to new technologies. While profits currently remain strong, with both investments and hiring planned to continue, the sense of caution builds going forward as profits are expected to slow.[x]

Despite these cuts, Ontario's population dynamics still drive demand for financial and insurance services related to savings and retirement. Population demographics will also encourage a shift in services, e.g. from lending and borrowing to more advisory services and greater focus on long-term care and disability insurance. The diversification of supply (offering more products and services) is likely to support employment growth. However, the increasing use of technology, such as online financial services, for more complex services like mortgages, financial advising, and insurance sales is enabling a reduction[xi] and reallocation of in-branch personnel and agents/brokers.

A recent risk for finance and insurance companies comes from Financial Technology (FinTech). The sector is comprised of organizations which use computer software to provide more efficient financial services. Examples include online/mobile payments, lending, exchanges, and digital currencies, amongst others. Although these risks are not expected to be severe, the big banks have had to consider process changes in the short-term which could imply further job cuts for all banks. Going forward, solutions such as partnering, investing, and competing with FinTech companies are being adopted to mitigate FinTech disruption. Steps have been taken to move in this direction with financial institutions investing in technology innovation centres across the province.

Finally, the how and when of Britain exiting the European Union could have negative impacts on Ontario's financial services sector, given Canada's strong industrial, commercial and financial ties to the United Kingdom[xii]. In the short-term, uncertainty will likely give rise to volatility in global markets, impacting various investments. While the uncertainty going forward persists, the focus will be on whether volatility will continue, determining the magnitude of any negative impacts, and if these impacts lead to a more serious crisis.

## Indicators point towards a potential slowdown in the provincial real estate sector

While Ontario's finance and insurance subsector is larger in terms of employment, the real estate and rental and leasing subsector contributes the most to the overall sector's GDP. The following occupations make up about 50% of the workforce in the real estate and rental and leasing subsector:

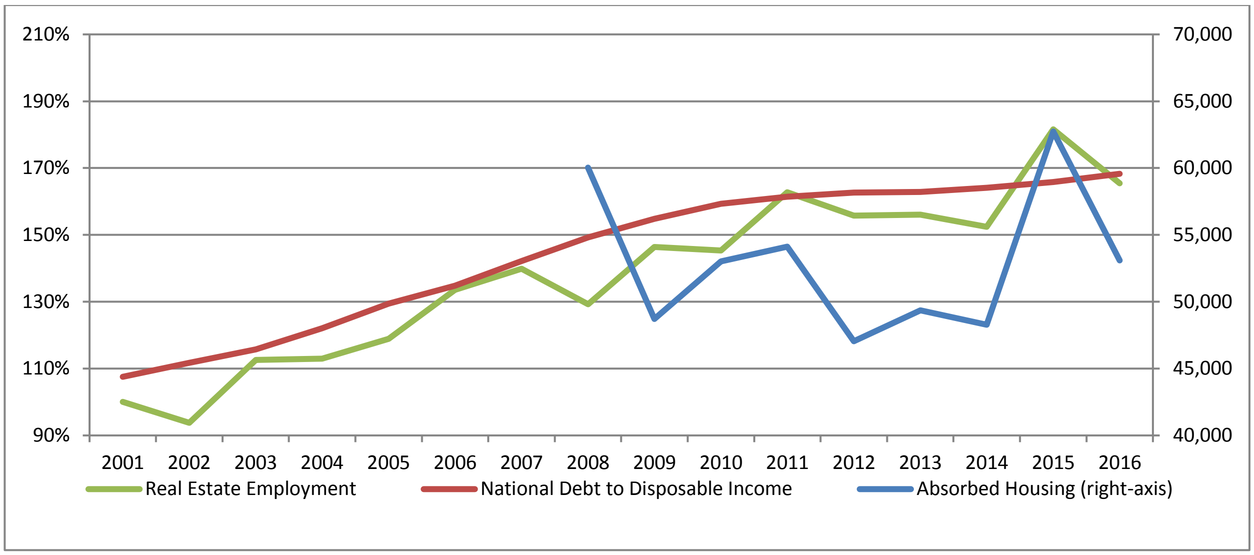
- Real estate agents and salespersons (NOC 6232)
- Property administrators (NOC 1224)
- Janitors, caretakers and building superintendents (NOC 6663)
- Insurance, real estate and financial brokerage managers (NOC 0121)

The real estate and rental and leasing subsector can be broken down further to i) real estate, and ii) rental and leasing. The real estate component is the larger of the two, making up about 89% of employment. Both segments will be analyzed separately, as they have experienced notably different employment growth trends over the past decade.

*Real Estate*

As illustrated in Figure 2, employment growth in real estate was strong in Ontario from 2002 to the period leading up to the 2008 recession, after which employment experienced a slight decline. Since then, as interest rates dropped to all-time lows, so have mortgage rates.[xiii] This increases the affordability of mortgages and more people look to buy new or larger homes, which has driven housing prices upwards. New and resale home price increases have driven average rents upwards as well, as some buyers who have been priced out of the market, opt to rent rather than buy.[xiv] These conditions led to increased real estate activity, indicated by the expansion in employment in the real estate sector after the recession.

**Figure 2: Real estate market indicators:**
**Employment (Index=2001), absorbed housing (units) & National debt-to-income ratio (%)**




Source: Statistics Canada' Labour Force Survey, CANSIM Table 378-0123 & CMHC's Housing Market Indicators. (Index, 2001=100)

From 2012 to 2014, employment growth in the sector declined as there were concerns over a Canadian housing market bubble and the sustainability of the relatively high level of home prices and mortgage debt. Figure 2 shows a slowdown in absorbed housing units,[xv] indicating an easing in real estate activity during this period. In addition, Figure 2 shows the debt-to-income ratio continued to reach all-time highs. However, Bank of Canada interest rate cuts in 2015 provided upward momentum for sales in the real estate market. Absorbed housing units and real estate employment both spiked that year, showing the impacts of the Bank of Canada's move.

Higher demand influenced house sales and prices across the country, as national mortgage levels grew faster and the debt-to-income ratio grew to over 168%.[xvi,xvii] In 2017, Federal and provincial legislative and regulatory action was taken to rein in the residential market. The changes added stricter income testing for mortgages, introduced a foreign buyer tax in the Greater Golden Horseshoe, and allowed the City of Toronto to tax vacant homes.[xviii] Ontario home sales and prices have cooled somewhat in reaction,[xix] leading to conflicting worries over housing affordability and real estate employment during what may be a temporary lull in the sizeable GTA market. A slowing housing market could translate into lower demand for real estate agents, real estate lessors, property managers and appraisers.

*Rental and leasing services*

This subsector includes establishments mainly engaged in renting consumer goods and equipment, as well as those engaged in leasing machinery and equipment often required for business operations. Since 2004, employment in the rental and leasing subsector has been trending downwards. The time period of 2006-2012 coincides with an employment decline in consumer goods rental,[xx] particularly movies and games, culminating in the Blockbuster Video bankruptcy in mid-2011. Rental and leasing employment has stabilized since, returning to its 2012 level by 2016.

Moving forward, signals are mixed for rental and leasing services. This industry operates on an as-needed basis, so if business and economic activity remain stable, as expected, there may be signs of employment growth. Low interest rates positively impact leasing activities and continued price increases makes renting and leasing of equipment and other assets a cost effective alternative to purchasing. However, slowing demand in the Ontario real estate subsector may impact demand for rental and leasing of equipment/machinery. There would also be impacts to employees of companies providing related rental services (e.g. moving services). Due to the many other factors (such as household income, corporate profits, real estate) impacting this subsector, the pace of growth is expected to be uneven and weak from 2017 to 2019.

## Sector outlook

Over the 2017 to 2019 period, corporate revenues and global demand for financial services will likely continue to grow, albeit at a slower pace than before the recession. Job creation may be restrained by technological changes which will increase productivity and slow labour demand, affecting some occupations such as bank tellers, agents/brokers of banking and insurance products, customer service representatives across the FIRE sector and some mid-office finance/insurance roles. The increasing number of retirees should positively impact employment in the finance and insurance subsector. Tightening regulations and signs of a slowdown, may affect real estate activity in parts of Ontario, particularly in the resale market. As a result, employment in the FIRE sector is expected to expand from 2017 to 2019.

## Sub-provincial industry trends

Ontario's FIRE sector is highly concentrated in metropolitan areas. The finance and insurance subsector consists of just over 70,000 establishments.[xxi] The majority of financial institutions related to banking and investments are located in the Toronto ER, while the insurance sector is primarily in Toronto with a presence in the Kitchener-Waterloo-Barrie ER (particularly Waterloo). Ontario's real estate and rental and leasing subsector consists of just under 230,000 establishments, about 54% of which are located in the Toronto ER , followed by Kitchener-Waterloo-Barrie, Hamilton-Niagara and Ottawa with 9% each.

**Toronto** is the fastest growing economic region in Ontario with population growth at about 6.1% between 2010 and 2015.[xxii] It ranks 14th internationally as a global financial hub, has the third largest financial sector in North America, and accounts for 65% of employment in Ontario's FIRE sector. Toronto is home to the head offices of Canada's five largest banks, three of which rank among the world's largest 25 banks by market capitalization. It is also the Canadian headquarters for most foreign banks operating in Canada, including four of the largest.[xxiii] The high concentration of the financial sector in Toronto, as well as its consistent growth, will lead to continued employment demand in the area.

Toronto's residential real estate sector cooled significantly in the first half of 2017, with sales down by close to a third at mid-year. However, the market is is expected to regain some of its strength going forward[xxiv] due to strong population growth. The commercial and industrial real estate sector in Toronto is also expected to continue its growth mainly due to a continued high level of private investment. Over half the value of Ontario's total building permits falls within the Toronto metropolitan area.[xxv]

The **Kitchener--Waterloo--Barrie** ER is known for its insurance sector, particularly with Waterloo being home to Manulife and Sun Life headquarters. The University of Waterloo has a well-recognized Mathematics, Statistics & Actuarial program and companies (insurance, investment/pension funds) may locate there to attract available talent. A significant presence of manufacturing and a growing technology sector in the region will likely continue

to contribute to the increases in commercial and industrial real estate activity[xxvi] going forward. This, in turn, is expected to increase demand for real estate sector jobs. Population growth is also higher in this region which may increase demand for residential real estate services.[xxvii] However, residential real estate increase will be localized to new single builds, resale and rental markets. Overall, housing starts are expected to remain fairly stable through to 2018.[xxviii,xxix] The continued growth in housing, albeit slower relative to past years, coupled with the presence of many finance and insurance companies will help drive the region's employment in the FIRE sector from 2017 into 2019.
The **Hamilton-Niagara** and **Ottawa** ERs have real estate sectors which will be driven by population growth and expanding communities. **Hamilton-Niagara**, particularly, benefits from being an affordable alternative to the Greater Toronto Area (GTA) as its proximity allows for a reasonable commuting time. As a result, the ER's real estate market is affected by the risks to the Toronto residential sector. Both Hamilton-Niagara and Ottawa have a solid finance and insurance presence which, combined with technology sectors that are showing growth potential, may bode well for the finance and insurance as it grapples with FinTech.

In other more rural economic regions such as **Muskoka--Kawarthas**, **Stratford--Bruce Peninsula**, **Kingston--Pembroke** and **Northeast** and **Northwest** Ontario, finance and insurance is not a significant subsector. Most financial sector roles in these regions are jobs in branches or as financial advisors which are dependent on number of customers. Also, net inter- and intra-provincial outmigration implies less likelihood for increased real estate related positions due to a lower real estate demand.

***Note:*** *In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.*

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[i] Statistics Canada, Labour Force Survey
[ii] Statistics Canada, CANSIM Table 379-0028
[iii] Statistics Canada, Labour Force Survey
[iv] Hasselback, D. (2017, July 12). Bank of Canada rate hike spurs expectations for more to come. *Financial Post*. Source : http://business.financialpost.com/news/economy/bank-of-canada-rate-hike-spurs-expectations-for-more-to-come
[v] The TSX Composite Index is an index of stock (equity) prices of the largest companies on the Toronto Stock Exchange. An increase in a stock price implies investors foresee positive results for a company and vice versa; sometimes used a leading economic indicator.
[vi] TSX Composite Index <http://web.tmxmoney.com/quote.php?qm_symbol=^TSX>
TSX Financials Index <http://web.tmxmoney.com/quote.php?qm_symbol=^TTFS>
[vii] https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=rwtc&f=d
[viii] https://tradingeconomics.com/commodities
[ix] Bank of Canada: Bond Yields <http://www.bankofcanada.ca/rates/interest-rates/canadian-bonds/>
[x] Toronto Financial Services Alliance. (2017, January). Trends and Innovations in Financial Services. Source: http://tfsa.ca/storage/reports/TrendsandInnovationsinFinancialServices2017.pdf
[xi] Canadian Bankers Association. Sources: http://www.cba.ca/bank-branches-in-canada, http://www.cba.ca/transactions-by-delivery-channel
[xii] Lovely, Warren. (June 2016). Hot Charts. *National Bank Economics & Strategy*. Source: https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/hot-charts-15june2016.pdf
[xiii] Bank of Canada
[xiv] CMHC, Ontario Housing Indicators
[xv] An absorbed unit is a housing unit that has been sold and completed. A unit is considered sold when a binding contract is secured by a non-refundable deposit and has been signed by a qualified purchaser.
[xvi] Statistics Canada, CANSIM Tables 378-0122 & 378-0123
[xvii] The Canadian Press. (Mar 2016). Canada's debt-to-income ratio sets new record high. *CBC News*. Source: http://www.cbc.ca/news/business/debt-income-1.3486811
[xviii] Marr, G. (2017, April 20). Ontario slaps 15% tax on foreign buyers, expands rent control in 16-point plan to cool housing. *Financial Post*. Source: http://business.financialpost.com/personal-finance/mortgages-real-estate/ontario-slaps-15-tax-on-foreign-buyers-expands-rent-control-in-16-point-plan-to-cool-housing
[xix] Ontario Real Estate Association. Housing Market Stats. Source: http://www.crea.ca/housing-market-stats/
[xx] Statistics Canada, CANSIM Table 2810024
[xxi] Statistic Canada, Canadian Business Patterns Database – NAICS 52 & 53
[xxii] Statistics Canada, Census 2016
[xxiii] Toronto Region Board of Trade report, *Toronto As A Global City: Scorecard on Prosperity - 2015*
[xxiv] Ontario Real Estate Association. Housing Market Stats. Source: http://www.crea.ca/housing-market-stats/
[xxv] Statistics Canada, Building Permits values by activity sector, CANSIM Table 026-0003
[xxvi] According to CBRE Market Reports (Released: Q2 2017)
[xxvii] Statistics Canada, Census 2016
[xxviii] Ontario Chamber of Commerce: 2016 Ontario Economic Update – Kitchener-Waterloo-Barrie.
[xxix] According to CMHC Housing Market Outlook (Released: Q2 2016)