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Ontario Economic Briefing

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HIGHLIGHTS:

- Housing starts rebounded in June from May, but the downtrend persists
- Ontario's economy improved substantially in the first quarter with the strongest pace of quarterly growth since Q3 2014.
- Residential investment main driver of economic growth

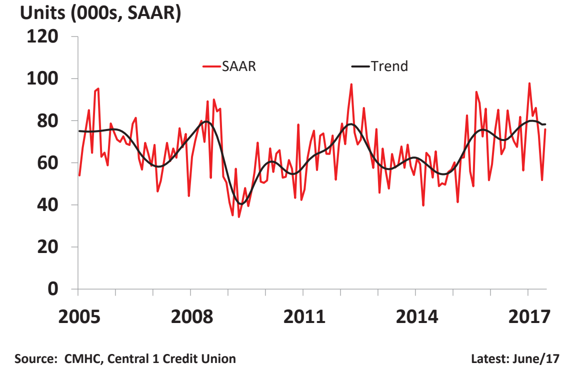
Housing starts rebound in June, downtrend intact

Ontario housing starts popped higher in June, following a sharp May tumble, but continued to track below the early year trend. While still early in the post-policy data cycle, builders may be holding back on new construction where possible following implementation of the Fair Housing Plan, particularly due to measures aimed at cooling foreign purchases and expanding rent controls. A steep drop in MLS® sales and a jump in new listings likely spooked builders with prospects of curtailed demand and excess supply.

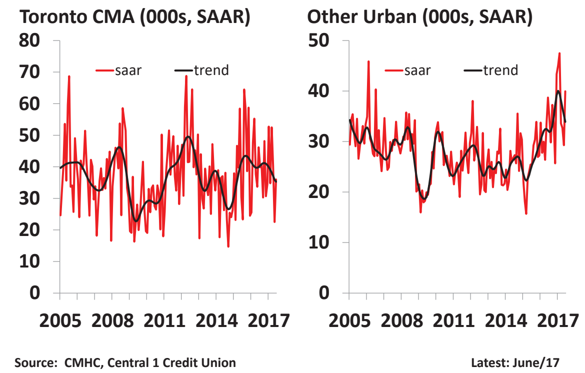
Total urban-area housing starts rebounded to a seasonally adjusted annualized rate (SAAR) of 75,900 units in June, up from 52,800 in May. Starts picked up across most metro areas, led by Toronto CMA which posted a 60 per cent rebound to an annualized 36,000 units, after a May pullback. Starts in Kingston rose four-fold from May to an annualized 2,700 units, with a doubling in London and a gain of 40 per cent in Windsor. Among housing types, multi-family construction more than rebounded from May's dip with a 64 per cent increase to 48,000 units (SAAR) on increased apartment and townhome units, while single-detached activity rose 24 per cent to 27,900 (SAAR).

Housing starts are exceptionally volatile given the impact of apartment and townhome projects in any given month. Looking through this, housing starts remained below the first-quarter trend but within the range observed since 2015. That

Ontario Urban Area Housing Starts



Housing Starts by Area



said, the trend has decelerated, owing mostly to less activity in the Toronto CMA relative to the first quarter, while the uptrend among other regions also turned lower over the past two months.

Multi-family housing has tracked levels observed since mid-2015, while detached housing has dropped sharply after a strong first quarter. Multi-family construction has made up more than 60 per cent of total housing starts since 2012, reflecting a shift in product due to affordability issues and high levels of activity the Golden Horseshoe region.

First-half 2017 housing starts, including rural areas, ran slightly ahead of a year ago by three per cent, but further deceleration in trend is expected. Most major projects will be unaffected given long-planning periods, but speculative builds will be curtailed while smaller projects could be delayed. A more pronounced slowdown is anticipated in the Golden Horseshoe. Total housing starts are forecast to end the year level from 2016, and fall nearly seven per cent in 2018.

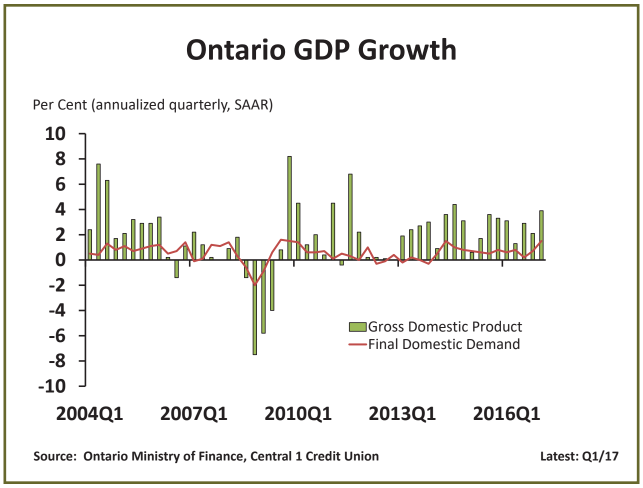
Ontario GDP growth jumps in first quarter

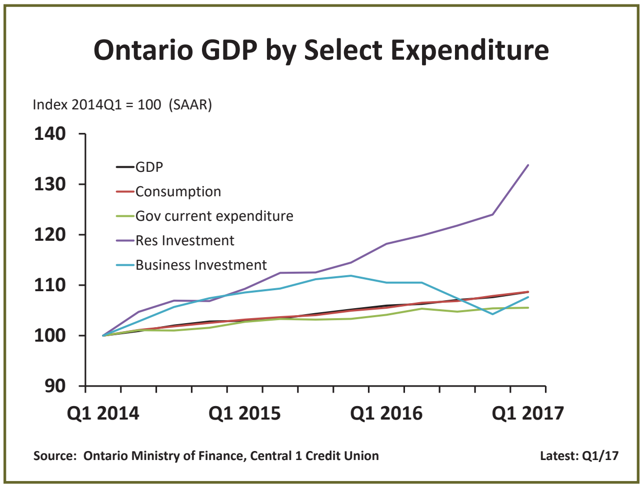
According to provincial estimates, Ontario's economy improved substantially in the first quarter with the strongest pace of quarterly growth since Q3 2014. On an expenditure-basis, real GDP jumped to an annualized pace of 3.9 per cent from 2.1 per cent in the fourth quarter. While not directly comparable, the province was a key driver of the 3.7 per cent national growth estimate by Statistics Canada over the same period.

This surge in quarterly growth is unlikely to be maintained as the upshift was led by a large increase in business inventories, which will likely be drawn down in future quarters. Nonetheless, the domestic economy continued to improve. Excluding inventories and trade factors, final domestic demand rose at a 1.5 per cent pace, up from 0.7 per cent the previous quarter. This was led largely by residential construction investment, which on the back of strong early-2017 housing starts propelled residential investment growth to a near eight per cent pace during the quarter, up from a two per cent pace in the fourth quarter. Housing has consistently been a pillar of economic growth for Ontario over the past three years. Investment in machinery and equipment rose 5.5 per cent. Growth in household consumption was similar to the fourth quarter at a solid one per cent.

On the trade front, exports were essentially unchanged from the fourth quarter, slipping 0.1 per cent on an annualized basis with flat international exports and a dip in interprovincial outflows. Total imports rose three per cent. Note that the rise in imports is not a negative signal for the economy, as it is has likely factored into consumption and machinery and investment growth.

Economic growth will slow from the first-quarter pace, holding annual growth at a still healthy 2.8 per cent pace as a softening housing market,





already observed in fewer resale transactions and the easing in housing starts, drags on growth. Growth of 2.5 per cent is forecast for 2018. Trade-related growth is expected to pick up, while government investment also rises.

On an industry-basis, which often differs from expenditure accounts and grew at a 5.3 per cent pace, growth was unsurprisingly led by the residential building construction sector (7.4 per cent, annualized), while manufacturing output rose two per cent after a fourth quarter contraction. The latter was lifted by improvements in auto vehicle and parts, food and beverage, and primary/fabricated metals manufacturing. Services-sector production climbed to 1.2 per cent from 0.7 per cent in the fourth quarter, with most sub-sectors showing modest gains.

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