Ontario Economic Briefing

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Highlights

- Manufacturing sales up modestly
- Multi-family permit growth lifts total permit volumes
- New car sales declined by 5.8 per cent in April
- Teranet-National Bank house price indices climb in Ontario's markets

Manufacturing sales increased modestly in April

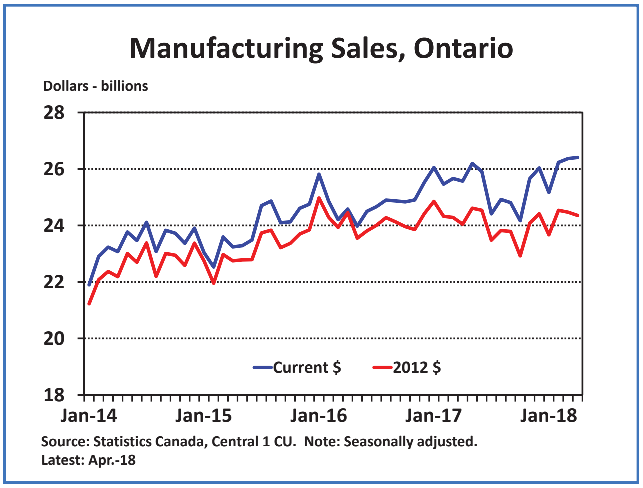
Ontario's manufacturing sales increased in April by 0.2 per cent to $26.4 billion dollars, while year-over-year sales increased 3.3 per cent. By contrast, Canada's manufacturing sales declined in April by 1.3 per cent due to contractions in manufacturing sales in six of ten provinces.

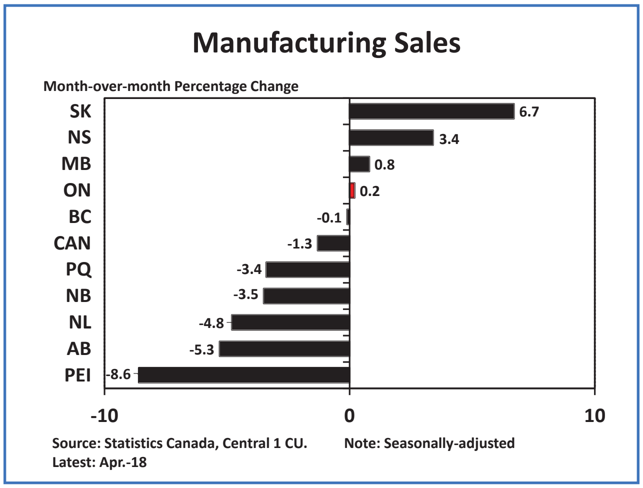
Manufacturing sales increased in April modestly, due to 1.3 per cent growth in non-durable goods while durable goods contracted by 0.5 per cent. Among both sectors the following posted month-over-month growth which lifted total sales:

- Food (1.8 per cent)
- Paper (4.7 per cent)
- Plastics and rubber products (3.9 per cent)
- Wood (3.1 per cent)
- Primary metal (6.8 per cent)
- Computer and electronic products (4.6 per cent)

Year-to-date, manufacturing sales remained up from the same period last year by 1.4 per cent due to growth in both durable (0.5 per cent) and non-durable goods (1.2 per cent).

Partial shutdowns of several Canadian refineries in the month for maintenance lowered supply, which caused prices to jump, keeping sales down. Moreover, transportation equipment was a drag on growth falling a further 0.9 per cent in April following a drop last month. Higher gas prices at the pumps could be affecting car and car part sales. As discussed in the new car sales section below, truck sales declined in April.





Residential building permit volumes rebounded in April but remained down year-to-date

April's building permit dollar volumes in all Census Metropolitan Areas (CMA) jumped 5.6 per cent from March to $1.5 billion, due to robust growth in areas outside the Greater Golden Horseshoe (GGH) of 32.2 per cent and nearly unchanged dollar volumes within the GGH (down 0.7 per cent). After two months of recoil, permit dollar volumes increased in April but not enough to reverse the year-to-date trend. Over the first four months of the year, permit volumes have recoiled 5.3 per cent to $6.5 billion, and monthly building permit dollar volumes in 2018 continue to track mostly lower than last year's volumes, with April the sole exception.

During the month, single-detached permit dollar volumes decreased in Ontario due to lower volumes in GGH and non-GGH markets with some exceptions. The only markets that posted single-detached permit dollar volume increases were: Brantford, Hamilton, Kingston, Kitchener-Cambridge-Waterloo, Ottawa, and Peterborough.

Together these six CMAs accounted for just over 32 per cent of all single-detached permit dollar volumes, not enough to off-set the declines in the other ten markets, especially in Toronto where close to half of permits were issued.

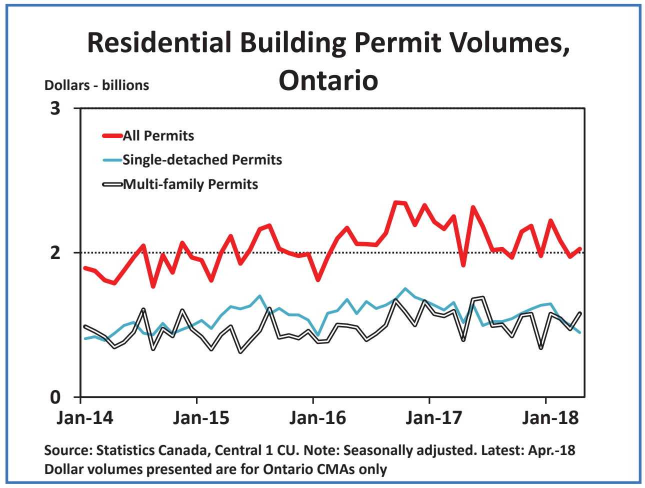
This month's permit volumes growth occurred because of a strong jump in multi-family permits of 22.6 per cent to $868.2 million from broad-based growth in nearly all regions of Ontario.

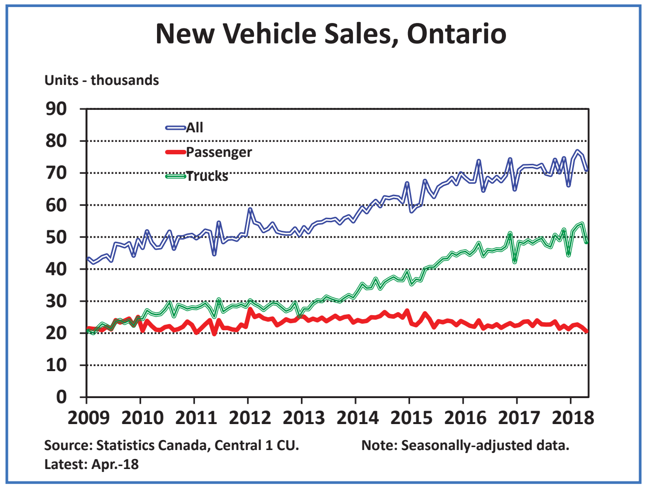
In our upcoming housing forecast, we mention that real – inflation free – residential investment will decline in 2018 due to a strong moderation in new dwelling investment. So far, our forecast direction is in line with the data. Even though we had a robust month-over-month up-tick in April of 5.6 per cent compared to each month last year, with the exception of April, building permit volumes have decreased. Many people are remaining on the sidelines given the difficulties in accessing credit. When permits are issued, we are seeing growth to multi-family permits. Not surprisingly, given the current policy climate, more households are looking for housing that fits their budgets.

Significantly lower new truck sales pulled down total sales

April's new vehicle sales declined by 5.8 per cent (all figures seasonally-adjusted) following a drop of 1.8 per cent in March. This marked two straight months that new vehicle sales have declined following strong growth numbers to start 2018. Truck sales, which over the last sixteen months have been quite strong, declined by 10.5 per cent in April, adding to the drop to passenger vehicle sales and anchoring total sales.

The average price of new vehicles declined for the first time this year in April by 1.5 per cent to $41,303. Sales of North American manufactured cars, which account for over 70 per cent of all sales typically, fell off by 10.8 per cent while sales of cars manufactured outside of North America increased by 12 per cent. In April, North American manufactured cars had an average price tag of $42,887 compared to $36,817 for non-North American manufactured cars. At a time when the economy is growing at a modest pace, interest rates have gone up and could likely go up a few more times as households have high levels of debt, and many are shying away from more expensive new cars. The result is the drop in average price and sales in April.





Toronto's housing price index jumps up in May

According to the Teranet-National Bank housing price index[1], May marked the first month in quite some time, about nine months, that Toronto's price index posted robust month-over-month growth. Of the three Ontario metropolitan centres included in the national composite, Ottawa-Gatineau also posted above average month-over-month growth in the month. Toronto and Ottawa-Gatineau prices increased by 15.8 and 20.9 per cent respectively at annualized rates. Hamilton,

[1] The Teranet-National Bank House Price Index is estimated by tracking observed or registered home prices over time using data collected from public land registries. All dwellings that have been sold at least twice are considered in the calculation of the index. This is known as the repeat sales method.

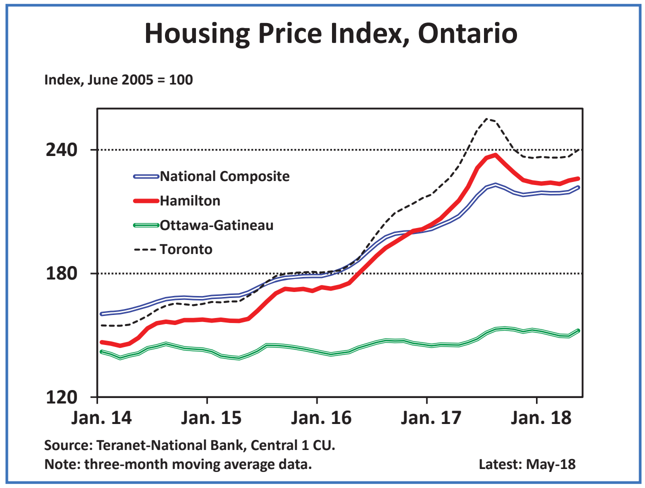
A national composite index is computed using weighted housing price index values of the following metropolitan centres:

Calgary
Edmonton
Vancouver
Victoria
Winnipeg
Halifax
Hamilton
Ottawa-Gatineau (Ontario part only)
Toronto
Montreal
Quebec City

the other Ontario market included in the composite, grew at a more modest annualized rate of 4.9 per cent in the month and below the month-over-month growth rate of 8.3 per cent from January 2017 to May 2018. The national composite price index increased by an annualized rate of 12.3 per cent, aided by strong growth from large centres such as Toronto, Ottawa, and Vancouver.

Over the first five months of 2018, price growth in Toronto, Hamilton, and, Ottawa-Gatineau is up compared to the same period last year but modest and/or negative growth for most of the first five months put downward pressure on year-to-date price growth.

Given the new policy environment that restricts access to credit, higher-density housing has become more popular. The gains posted this month are driven by increased demand for higher-density options such as condominium apartments, as people shy away from single-detached homes.



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