Ontario Economic Briefing

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Highlights

- Trade uncertainty may have finally caught up to business confidence
- Tariffs affected exports in June
- Toronto's existing home sales climbed an additional 3.6 per cent in July
- May's transportation equipment manufacturing's GDP growth declined by 2.5 per cent

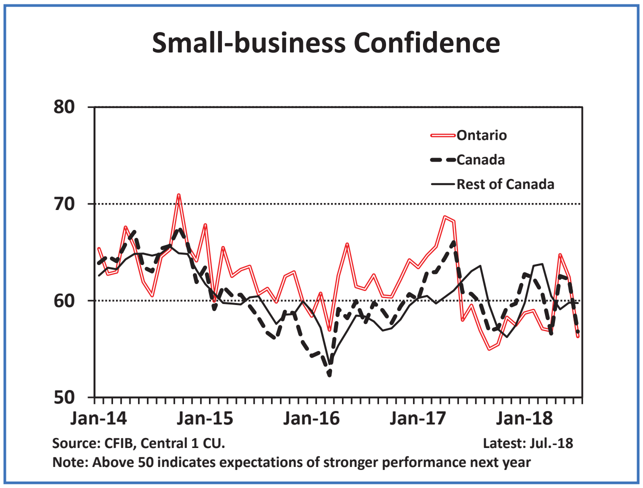
Business confidence takes a big month-over-month dive in July

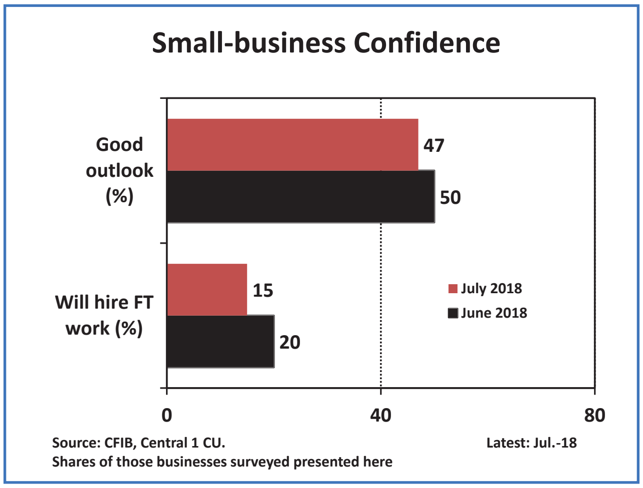
Ontario's small and medium enterprise (SME) confidence took a significant hit in July, dropping 6.1 points month-over-month to 56.3 points. The decline was the largest among all provinces and for Ontario specifically, the largest drop in confidence since June 2017 when the index dropped 10.2 points. This marked two consecutive months of losses in month-over-month confidence in Ontario. Canada's SME confidence fell 5.4 points from June.

Moreover, full-time hiring intentions over the next three months and businesses' own assessment of the general climate have worsened. Last month when surveyed, 20 per cent of businesses said they would be hiring full-time work over the next three months, and this has now fallen to 15 per cent in July. When assessing the general business climate, half of businesses surveyed said they felt good in June, but in July this has also dropped and now only 47 per cent of businesses feel good about the climate over the short-run.

Year-over-year, Ontario's SME confidence dropped 3.2 points in July. Canada's SME confidence also fell 3.9 points in July.

The prospects of deepening trade tensions between the U.S. and its major trading partners such as Canada may be starting to seep into business confidence.





Exports declined in June

Ontario's trade deficit in June declined due to a stronger contraction to imports that off-set the contraction to exports. Both imports and exports have declined together in the same month since December of last year.

Over the first half of the year, imports are nearly unchanged from last year (up by only 0.2 per cent), while exports are down 2.6 per cent. June's net exports are slightly higher than last year, the only month this year to track higher than the corresponding month last year.

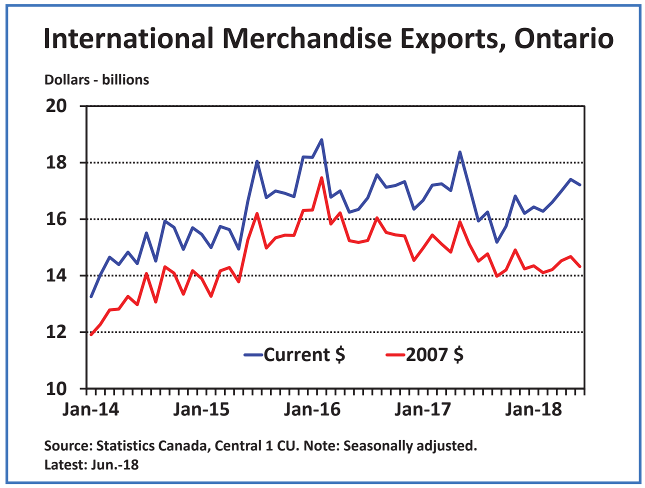
June's contraction to exports was due to lower volumes in the following exports:

- Metal and non-metallic mineral product (4.2 per cent decline)
- Electronic and electrical equipment and parts (1.9 per cent decline)

- Aircraft and other transportation equipment and parts (20.5 per cent decline)

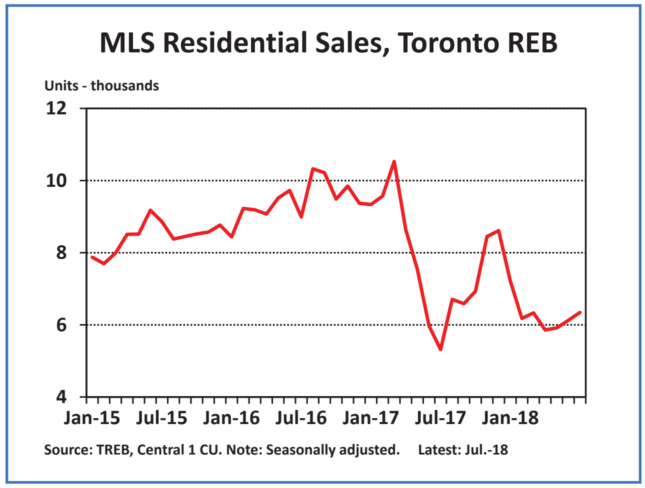
During the month, two large sectors posted very modest exports growth which did not help from pulling total exports growth lower. Those sectors were motor vehicles and parts (0.9 per cent growth, 35 per cent share) and consumer goods (0.2 per cent growth, 15 per cent share).

New trade policies such as the new tariffs on steel and aluminum took a bite out of Ontario exports in June. Moreover, dampening consumer demand also decreased growth of consumer goods and motor vehicle and parts exports. The University of Michigan's monthly consumer sentiment index remained relatively unchanged in June over May, inching up 0.2 points to 98.2. Since reaching a period high of 101.4 points in March, the index has been moving lower.



Sales and price growth continued to climb in July

Seasonally-adjusted sales have now increased robustly for two consecutive months. According to the Toronto Real Estate Board (TREB), July sales increased 3.6 per cent to 6,345 units. Year-over-year sales are also up by 5.1 per cent. With increased demand over the last three months, but more so the last two, new listings have also increased by 7.3 per cent or 13,041 units in July. Year-over-year new listings are still down by 1.4 per cent but the rate of decline is slowing.



Average prices increased by 4.1 per cent in July to $812,835, which follows an increase of 2.8 per cent last month. Over the last 19 months since January 2017, July's month-over-month price growth was the largest since March of last year. Year-over-year prices increased by 5.1 per cent. Seasonally-adjusted benchmark home values, a measure of quality-adjusted prices, increased month-over-month by 0.8 per cent due to gains in benchmark prices of all housing types. Year-over-year benchmark prices declined a further 0.6 per cent on the heels of a 4.9 per cent decline in May, due to continued moderation in benchmark price growth of low-rise homes such as single-detached and townhomes. Apartment benchmark prices advanced a further 8.3 per cent in July.

Year-to-date, existing home sales have not caught up to last year's torrid pace and remain 22.7 per cent lower, despite the very respectable gains over the last two months. New listings are also down by 10.7 per cent or 10,690 new listings. A stronger pull-back in sales continued to keep the market firmly balanced with a sales-to-new-listings-ratio (SNLR) reading of 49.2 per cent down from 56.8 per cent last year.

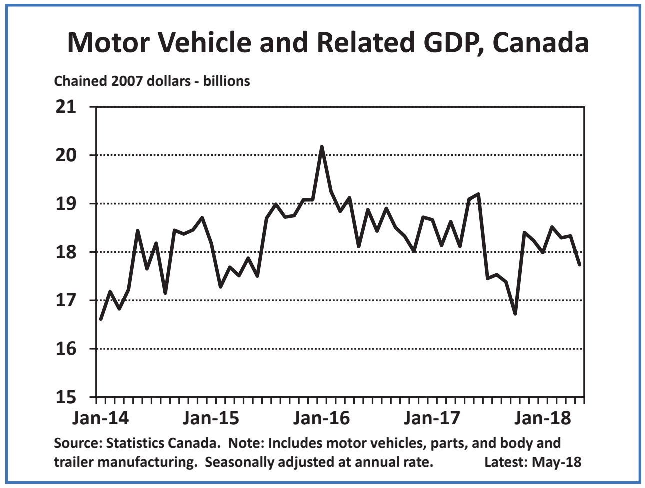
The effects of the housing-related policies continued to dissipate in July as more people stepped off the sidelines and entered homeownership. Keeping all things constant, home sales will continue to do well into August and into the first two months of the last quarter, barring an early start to winter. Bad weather tends to keep potential buyers home and away from the cold. Even with brisk activity for the rest of the year, total sales in 2018 will be significantly lower than 2017. This is because the market will not be able to replicate the torrid activity seen up until April of last year, before the first of the housing market-related policies came into effect.

Motor vehicle and parts' contribution to national GDP growth decreased in May

May's Canadian industry Gross Domestic Product (GDP) increased for the fifth straight month, coming in at a robust 0.5 per cent at seasonally-adjusted annual rate (SAAR). Growth was pushed up due to strong growth in the goods and services sector.

Within the goods-sector, growth stalled for the second straight month in transportation equipment manufacturing. Motor vehicle and parts manufacturing, which make up nearly all transportation equipment manufacturing, declined by 3.3 per cent month-over-month SAAR, following anemic growth last month of 0.2 per cent SAAR. All sub-sectors within motor vehicle and parts manufacturing contracted in May.

Many factors could be affecting the motor vehicle and parts sector in Canada, such as higher gasoline prices, increased debt tightening consumers' belts, decreased U.S. demand for Ontario-produced motor vehicles and parts, and trade uncertainties.



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