Ontario Economic Briefing

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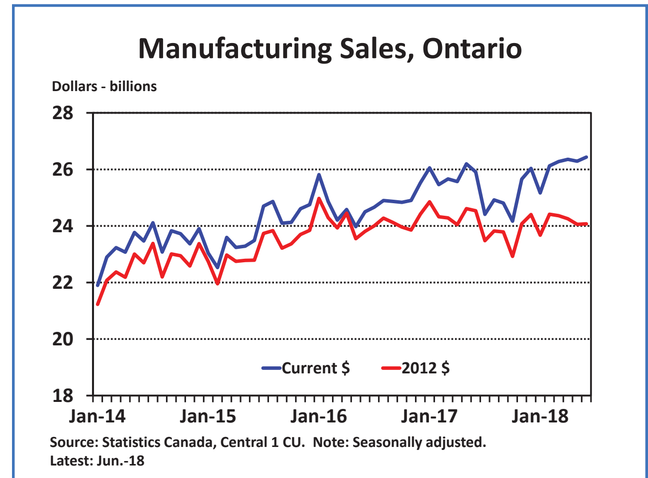
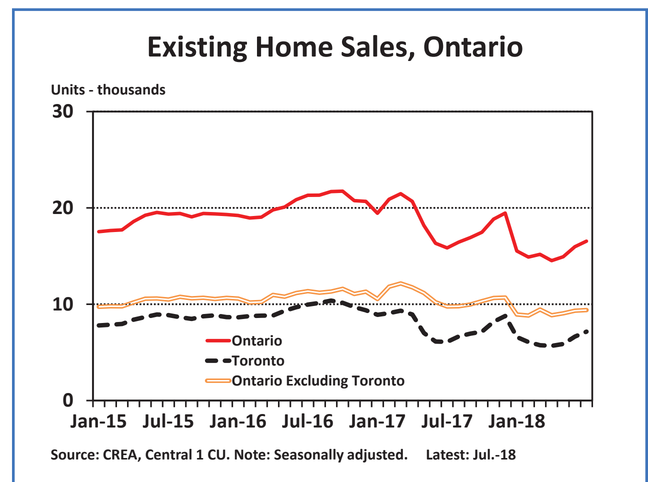
Highlights

- Year-over-year manufacturing sales volumes now up for five straight months
- Existing homes market slowly showing signs of possible recovery
- Ontario inflation reaches a 19-month high in July
- Fewer U.S. visitors in May pulled down total tourist visits





Growth in durable goods lifts manufacturing sales volumes

Ontario's manufacturing sales this month posted a 0.5 per cent gain in June, to $26.4 billion dollars, reversing the 0.3 per cent drop in sales from last month. Nationally, manufacturing sales also climbed 1.1 per cent to $58.1 billion, of which Ontario contributed nearly half that volume (46 per cent). National manufacturing sales increased due not only to growth in Ontario but also in Alberta, Quebec, and British Columbia, Canada's three other dense provinces.

During the month, non-durables sales declined by 0.8 per cent to $10.1 billon. The month's gains to manufacturing dollar volumes is entirely due to growth in durables, with a significant chunk of growth coming from increased transportation equipment sales of motor vehicles (1.5 per cent growth to $8.1 billion or 30.7 per cent share). Other areas of durables growth included:

- Fabricated metal products (5.3 per cent growth to $1.5 billon)
- Machinery (2.5 per cent growth to $1.6 billion)
- Furniture and related products (8.4 per cent growth to $584.7 million)

With half the year in the books, manufacturing sales in 2018 are 1.2 per cent higher than last year's total at the same time at $156.7 billion. Apart from January manufacturing sales volumes, same-month sales have been above 2017 levels for all months. With six months to go in the year, it is possible that Ontario may record higher manufacturing sales volumes than last year. But, significant downside risks to this happening are still on the horizon.

Domestic auto sales in Ontario are still doing well thanks to strong growth in the truck segment. This is helping to alleviate some of the downward pressure in sales of automobiles produced here, but sold in the U.S. Yet, with the threat of further trade sanctions by the U.S. via auto-industry related tariffs, should these come to fruition they may undo all the gains posted thus far this year. This key sector in Ontario would face significant headwinds for the foreseeable future.

Existing home sales growth continued to climb on the heels of last month's growth

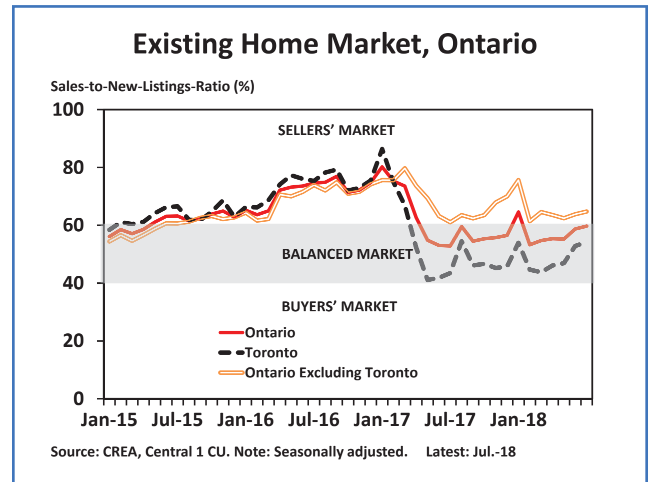
It seems that Ontario's existing homes market is starting to show signs of recovery. With July in the books, seasonally-adjusted sales and new listings of homes

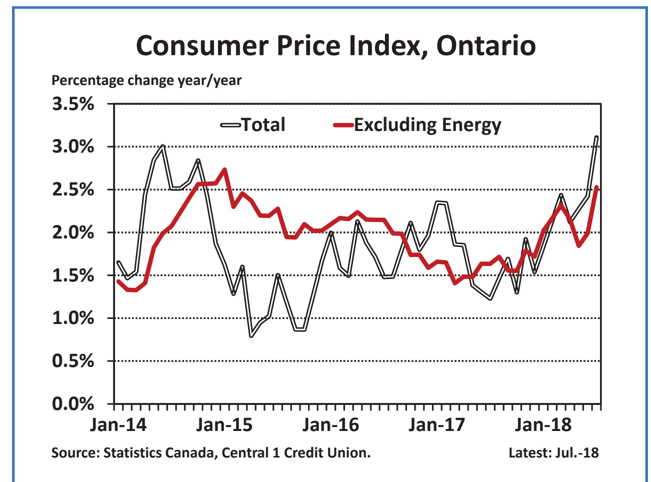
have increased three consecutive months, reversing a very slow start to the year. Sales of existing homes clocked 3.6 per cent growth in July to 16,543 units, and new listings increased 1.9 per cent to 27,709 listings. Sales growth outstripped new listings growth which tightened the housing market further.

With increased sales pulling more listings off the market, even as new listings are starting to come back, the increased competition for homes continued to push the average price of an existing home in Ontario further up. In July, the average price increased a further 2.1 per cent to $574,031, which follows a 2.7 per cent increase last month.

Even with the recent pick-up in activity in Ontario's existing homes market, it is not all rosy. Month per month analysis shows that on average, sales are 17.7 per cent lower per month than the same corresponding month last year. This is after including the 4.4 per cent jump in year-over-year sales posted in July, the first time all year that sales were higher than last year. New listings faired a little better, being on average down by 9.1 per cent per month and price five per cent down. As a result, all year-to-date metrics, sales, new listings, and price are significantly lower than the same period last year. The rules put in place at the start of the year to control the growth of mortgage debt by restricting credit continue to weigh on the market. Even if the rest of the year posts very strong growth, it is very unlikely 2018 totals will surpass 2017 even with the market now showing signs of digesting the changes and adapting to the new rules. For example, with seven months in the books and five more to go, sales this year have only reached 48.5 per cent of last year's total. Usually, by the seventh month of the year a significant clip of total activity has already occurred. Looking at the period from 2000 to 2017 by this point in the year 59 per cent of sales have already occurred on average. Looking strictly at last year, which posted robust numbers, by this time last year 61 per cent of sales had already occurred. For the market to only equal last year's tally, sales would have to average 22,882 units for the rest of the year, a jump of 48.9 per cent from what they are currently averaging. Significant jumps would have to occur in new listings and average price too.

By sub-region nearly all markets in Ontario posted existing home sales growth in July. Markets in the Greater Toronto Area (GTA), which were the bullseye of the new policies, posted strong month-over-month sales growth. For example, Toronto posted 7.7 per cent growth, Oakville-Milton posted 10.1 per cent growth, and, Mississauga posted 5.1 per cent growth.





Outside of the GTA the following selection of markets also posted robust month-over-month gains in sales:

- Guelph (1.6 per cent)
- Hamilton (2.3 per cent)
- Kingston (10.2 per cent)
- London-St. Thomas (2.5 per cent)
- Ottawa-Carleton (1.4 per cent)
- Peterborough (2.7 per cent)
- Windsor (2.2 per cent)

Food and energy costs climbed substantially in July

Year-over-year headline inflation has now reached its highest pace over the last 19 months, coming in at 3.1 per cent (all values year-over-year growth), due to increased price growth of non-durable goods and services. Food and energy prices together clocked 5.2 per cent growth, which helped lift headline inflation to a new period high. Gasoline prices continued the torrid climb (22.7 per cent growth), coupled with increased water (4.6 per cent growth), and fuel oil and other fuels

costs (23.7 per cent growth), while food purchased from restaurants increased 6.7 per cent. Moreover, increased gasoline energy prices, particularly other fuels and gasoline price appreciation, seem to have been passed onto consumers in the month due to higher air travel and travel tour costs. The minimum wage hike seems to continue to affect food-services consumers as restauranteurs pass those costs on to their patrons.

The cost of living in Canada's largest city continued to climb, and like headline inflation for the province, clocked a 19-month high in July. Toronto's inflation was three per cent in July. Shelter costs climbed, particularly owned accommodation, thus helping to push up overall prices. A similar trend occurred in the nation's capital and Thunder Bay. Inflation in both these urban centres reached a period high in July, coming in at 3.2 and three per cent respectively in both cases due to increased owned ownership costs.

Increased mortgage rates and living costs, such as water and other fuels, coupled with relatively sticky prices, are slowly making homeownership more prohibitive in large urban centres. This is despite a period of lessened housing demand due to new policies put in place to control mortgage debt growth.

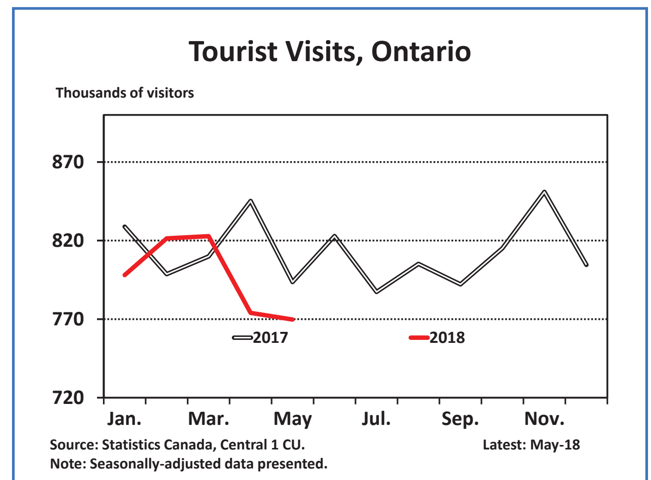
Year-to-date tourist visits to Ontario are down

Total international tourist visits to Ontario declined slightly in May by 0.5 per cent (all figures seasonally-adjusted) to 4,244 net tourists. This is due to a significant drop in visits to Ontario from U.S. citizens (decline of 12,901 tourists or 2.3 per cent) that could not be off-set by the jump in visits from people from other parts of the world, other than the U.S. (8,658 net tourists or 4.1 per cent jump).

By mode of transportation, more U.S. citizens are visiting by car and other means such as boats, but significantly less are coming by plane and this anchored U.S. visits in May.

Strictly looking at non-U.S. visitors, the jump in May was due to increased visits from people coming from other parts of North America, Central America and the Caribbean, and Asia. Visits from those hailing from Europe and Oceania also increased in May, while visits from those hailing from Africa or South America posted declined growth.

Year-to-date, tourist visits to Ontario are down 2.2 per cent or 90,270 net fewer tourists compared to the same period last year, due to fewer visits from U.S.



(1.8 per cent drop) and non-U.S. tourists (3.2 per cent drop). By month, January, April, and May were particularly weaker months for tourism.

Year-over-year, the U.S. dollar has weakened relative to the Canadian dollar for each of the first five months of 2018, while for the most part, European and Asian currencies have appreciated. These influences are keeping U.S. visitors home but attracting non-U.S. visitors from Europe and Asia.

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