Ontario Economic Briefing

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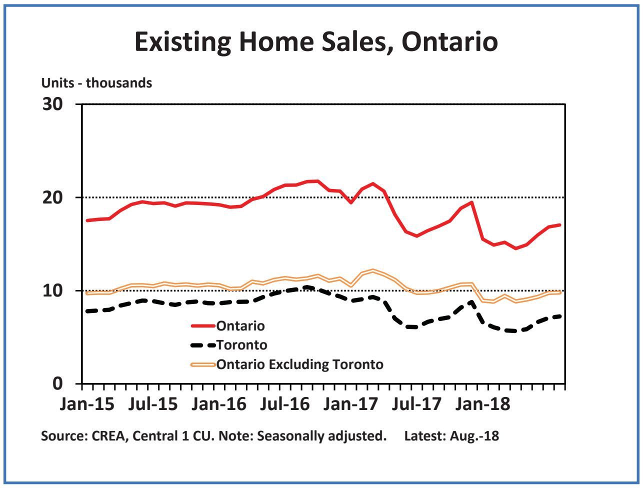
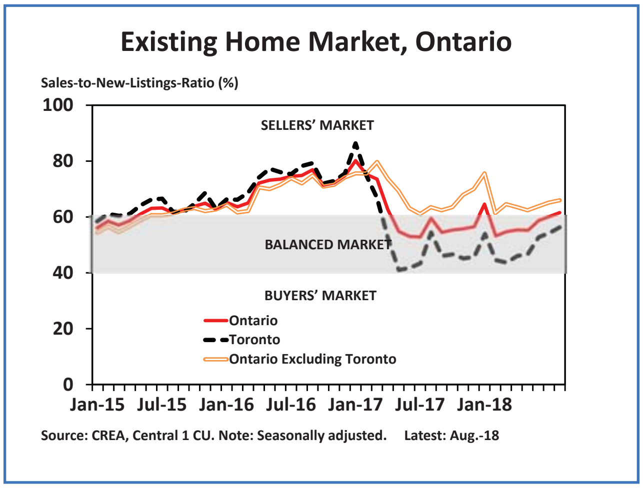
Highlights

- Sales have recovered but price growth modest
- Two-thirds of sectors grew in July to lift manufacturing sales
- Services and non-durable goods push prices higher
- Less spending in key sectors kept retail sales growth nearly unchanged
- EI decline in rural areas more than off-set gains in urban centres





Ontario's existing homes market on the path to recovery

The Canadian Real Estate Association (CREA) released its August market data this week. With the release of the Toronto Real Estate Board's (TREB) data last week, an increase in provincial sales was expected, given that Toronto's market alone accounts for over 40 per cent of activity in the province. As expected, Ontario's seasonally-adjusted existing home sales increased for the fourth-consecutive month, moving up an additional 1.2 per cent in August to 17,040 units sold. If three data points make a trend, then four months of sales increases is almost surely a recovery. Increased sales and fewer new listings (dropped by 1.1 per cent month-over-month) further tightened the market. The sales-to-new-listings-ratio (SNLR) moved up 1.4 per cent to 61.5 per cent in August.

Price growth was quite modest in August, inching up by only 0.7 per cent to $583,637. There may be more competition for homes in the market, but that competition is firmly aimed at the higher-density homes, which are what buyers can currently afford to purchase given tightening of lending requirements at federally-regulated financial institutions.

With only four months of sales remaining in the year, it is becoming increasingly certain that this year will enter the record books as a decline across all metrics, the current period of recovery notwithstanding. Compared to last year, sales remained 16.3 per cent off last year's pace. New listings and average price growth were also down by 8.4 and 4.6 per cent respectively.

In August, the recovery in sales was not only due to the 2.2 per cent increase in Toronto. Other markets also contributed to this month's growth:

- Barrie (10.2 per cent growth)
- Durham region (10.5 per cent growth)
- Hamilton (4.3 per cent growth)
- Kitchener-Waterloo (1.5 per cent growth)
- Ottawa-Carleton (2.1 per cent growth)
- Peterborough (two per cent growth)
- Thunder Bay (38.2 per cent growth)
- Windsor (2.4 per cent growth)

Strong pick-up in transportation equipment manufacturing sales lifts July's total

Manufacturing sales in July posted a very healthy increase of 2.1 per cent to $27.1 billion dollars over

June. This marked two consecutive months that manufacturing sales have posted robust growth. Nationally, manufacturing sales were largely lifted by Ontario's activity. Alberta and Nova Scotia were the only other provinces to record sales gains in July, increasing an additional 0.9 per cent to $58.6 billion.

July was a good month for both durables and non-durables, where each grew by an additional 1.9 and 2.3 per cent respectively. Moreover, of the 21 categories tracked in the survey of manufacturing, two-thirds of them posted gains month-over-month. The following large volume sectors posted gains in July over June:

- Food manufacturing (2.2 per cent growth)
- Petroleum and coal product manufacturing (9.3 per cent growth)
- Chemical manufacturing (4.0 per cent growth)
- Machinery manufacturing (1.9 per cent growth)
- Transportation equipment manufacturing (3.6 per cent growth)

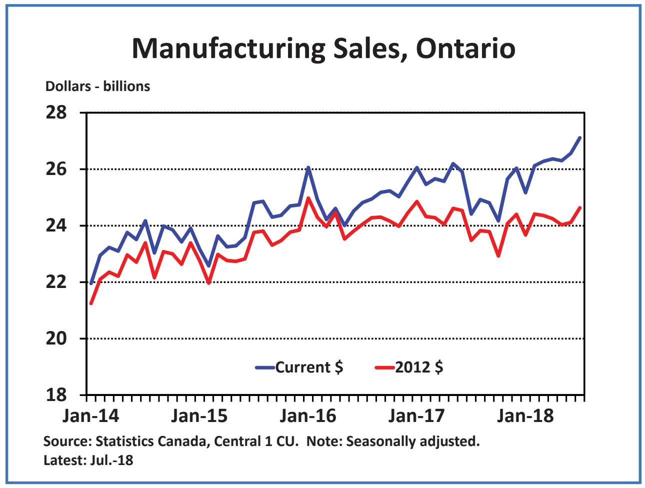
With almost every month so far in 2018 tracking above manufacturing sales from the same corresponding month last year, year-to-date sales are up 2.6 per cent. It is possible that manufacturing sales will outpace 2017, although U.S. – Canada trade uncertainty remains a risk.

Transportation equipment manufacturing sales were lifted by increased production of automobiles and railroad rolling stock. In the railroad sector, assembly plant shutdowns in July turned out to be shorter than expected. Manufacturers were able to get back to production sooner and contribute to overall growth. With many transportation projects in the pipeline such as the Eglinton light-rail train (LRT) in Toronto, the Ottawa LRT expansion, the Waterloo rapid transit, and the Hamilton LRT, the need of these local governments to buy rail-related transportation equipment such as streetcars and/or light-rail trains have helped this sector.

Finally, petroleum and coal product manufacturing increased due to higher output by refineries to meet consumer demand. With July being a month where many people take holidays, gasoline consumption tends to peak around this period.

Prices increased a further 3.1 per cent year-over-year

Year-over-year (y/y) headline inflation increased by 3.1 per cent in August, the same rate reported last month.



With that reading, inflation remained at the highest level recorded over the last 20 months. Prices continued to climb due to continued growth to services and non-durable goods. The following increases in non-durables and services contributed to higher overall prices in the province:

- Public transportation (16.5 per cent y/y)
- Alcoholic beverages and tobacco products (6.3 per cent y/y)
- Gasoline (19 per cent y/y)
- Fuel oil and other fuels (21.8 per cent y/y)
- Food purchased from restaurants (6.5 per cent y/y)

The cost of living in Toronto continued to climb; prices moved up 3.1 per cent (y/y), up from three per cent (y/y) in July. Price growth in August marks the highest price growth (y/y) in Toronto over the last twenty months. Shelter costs, both rental and owned, helped to pull prices higher. Prices in both Ottawa and Thunder Bay either remained at a twenty-month period high, which was the case in Ottawa, or eclipsed last month's high and became the new period high. Prices in Ottawa increased a further 3.2 per cent, and in Thunder Bay prices moved up 2.7 per cent.

Higher upkeep and maintenance of housing, both owned and rental, continued to push overall prices in these three cities.

Retail sales growth nearly unchanged

Retail sales remained relatively unchanged in July over June, moving up by only 0.1 per cent (all figures in this section seasonally-adjusted) to $18.9 billion. Nationally, sales increased very modestly by 0.3 per cent to $50.9 billion, due to modest or negative sales growth in most provinces.

Lower expenditures in several key sectors, which accounted for close to 70 per cent of total sales, kept retail sales volumes growth modest in July over June. Among the areas where consumers spent less were:

- Motor vehicles and parts (1.3 per cent down month-over-month)
- Building materials, gardening, etc. (1.2 per cent down month-over-month)
- Food and beverages (8.0 per cent down month-over-month)
- Clothing (2.3 per cent down month-over-month)
- General merchandise (3.1 per cent down month-over-month)

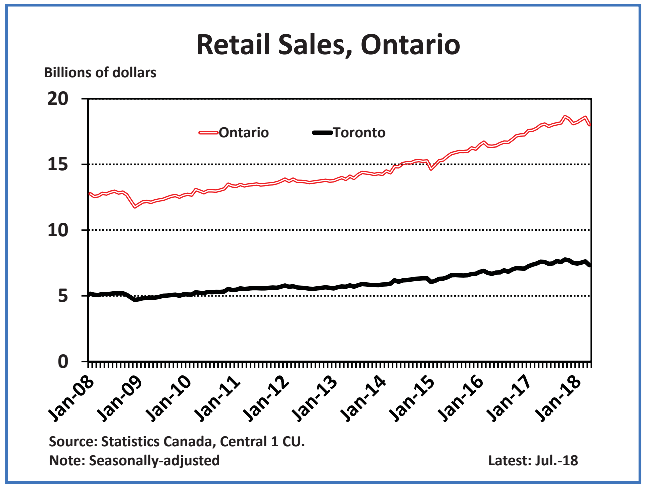
Consumers are continuing to show restraint given the ongoing uncertainty regarding the future of the economy. Moreover, apart from individual restraint, robust inflation growth in key sectors such as energy, food, and housing is helping to dampen consumer demand.

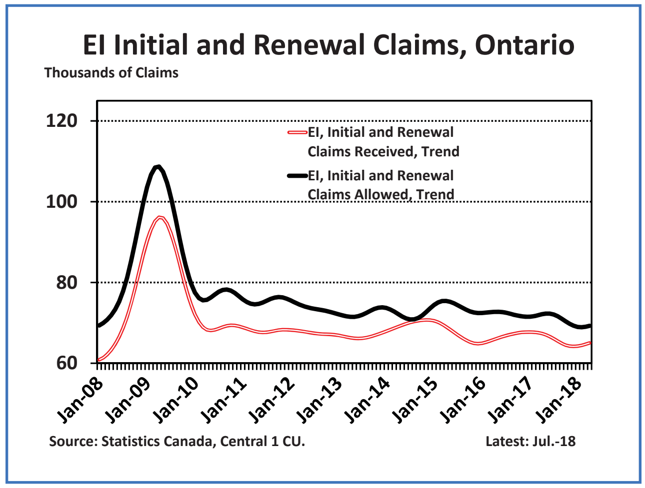
Year-to-date retail sales volumes were up by 4.2 per cent. Sales in 2018, monthly, are outpacing sales for each year from 2015 to 2017. Only home furniture and furnishings, and food and beverages, are tracking lower than last year.

Toronto CMA's retail sales volumes remained nearly unchanged in July, inching up by only 0.2 per cent from June to $7.703 billion. Year-to-date, sales volumes continued to track higher than 2017 by 1.4 per cent.

Employment growth in July helped to keep EI numbers trending lower

The Ontario economy continued to expand in July as companies took on an additional 60,600 new employees, helping to bring down the unemployment rate to 5.4 per cent from 5.9 per cent in June. This helped keep the EI numbers trending down as more potential workers were able to move from receiving benefits to paid employment. Ontario had 119,940 residents receiving regular benefits in July, a very slight decline of 130 recipients from June. The drop to beneficiaries in July was due to a significant drop in Ontario's rural areas where 620 residents stopped receiving benefits. By contrast, beneficiaries increased by 500 in Ontario's urban centres, 490 in Census Metropolitan Areas (CMAs) and 10 in Census Agglomerations (CAs). In Ontario's CMAs, significant gains in beneficiaries in London (460 new recipients or 11.3 per cent increase month-over-month) and Windsor (208 new recipients





or 9.2 per cent increase month-over-month) off-set the declines in other CMAs.

EI claims by occupation declined in most areas with two glaring exceptions:

- business, finance, and administration (12.6 per cent increase)
- education, law and social, community and government services (10.8 per cent increase)

Significant declines in other areas, such as sales and service occupations (5.2 per cent decline) and trades, transport and equipment operators and related occupations (three per cent decline), helped off-set the gains in those two sectors in the month.

Finally, seasonally-adjusted initial and renewal-received claims increased by 1.6 per cent or 1,180 recipients to 74,700 in July over June. Despite the month-over-month increase in July, the rate of growth declined significantly from last month. Compared to the monthly average from January 2008 to July 2018, seasonally-adjusted initial and renewal-received claims in July are 2.6 per cent below this long-term average.

The summer months are typically a time with much opportunity in seasonal and/or part-time work. It is not unforeseeable to see employment fluctuations during this month, as workers are able to get off EI, but a few months later they return to the program. Examples of these types of industries include, retail, construction, and, tourism-related jobs.

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