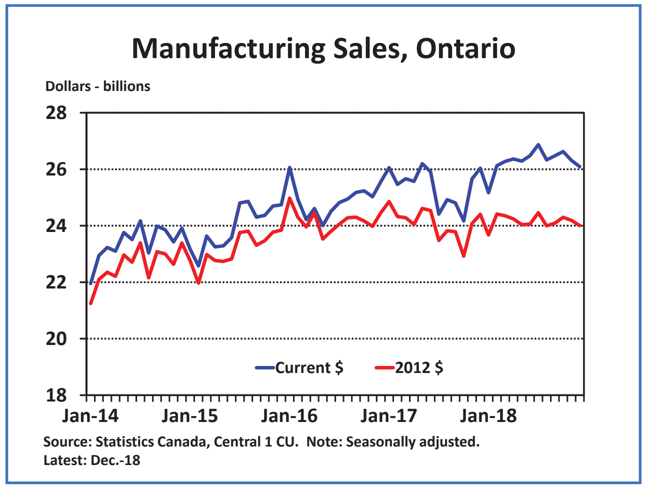
Ontario Economic Briefing

Volume 25 • Issue 7 • Week of February 11-15 2019 | ISSN: 1981-355

Highlights:

- Manufacturing sales increased by 3.5 per cent in 2018
- Ontario existing home sales increased by 3.5 per cent in January



Month-over-month manufacturing sales decline for second straight month in December

Ontario manufacturing ended 2018 with a second consecutive month-over-month sales decline in December (lower sales to $26.1 billion—all figures in this section are seasonally-adjusted) on top of November's 1.2 per cent month-over-month sales drop. Nationally, manufacturing sales declined 1.3 per cent to $56.4 billion due to fewer sales in many of Canada's provinces. Including Ontario, sales declined in six of ten provinces in December. The only large province to post increased sales was Quebec.

Fewer sales in several large sectors pulled total sales down in December. The largest sector to post softer sales was transportation equipment that represents over 30 per cent of total sales. Below is a listing of Ontario's large sectors that posted lower sales volumes:

- Food (2.2 per cent drop)
- Petroleum and coal products (4.6 per cent drop)
- Chemical (1.1 per cent drop)
- Fabricated metal products (2.0 per cent drop)
- Transportation equipment (1.0 per cent drop)

Together, these five sectors accounted for over 62 per cent of total sales volumes or $16.3 billion in December.

Food manufacturing posted lower total sales because of decreased volumes in meat, dairy and grain and oilseed manufacturing. Decreased sales in these areas may reflect changing dietary needs as people move to plant-based and/or vegan diets due to health reasons or food costs forcing consumers to substitute to other products. More data needs to be analyzed to see if this is a trend or just a one-month blip in production.

Lower sales volumes in petroleum and coal products reflect increased production and lower prices of gasoline at the pumps.

Lower sales of fabricated metal products are related to decreased production of transportation equipment. Significant month-over-month sales volume declines in December in motor vehicle parts manufacturing and aerospace product and parts manufacturing, meant less fabricated metal products for transportation equipment manufacturing needed. Auto plant closures during 2018 and less demand for car products pulled down transportation equipment manufacturing.

With December numbers now in the books, an annual comparison between 2018 and 2017 points to increased manufacturing sales despite some month-over-month declines in sales volumes in 2018. Over the course of 2018, sales managed to come in 3.5 per cent above 2017's pace to $315.4 billion. Every month's sales in 2018 surpassed sales in 2017 sales, except in January.

By sector both non-durables and durable manufacturing sales increased in 2018 over 2017 by 5.9 per cent and 2.0 per cent respectively. Nearly all sectors in non-durable goods posted higher sales except textile mill manufacturing, which posted a 1.2 per cent decline. Durable goods manufacturing increased by 2.0 per cent but a 1.5 per cent contraction to transportation equipment manufacturing kept growth range-bound.

Increased inventories in December suggests some manufacturing slowdown into 2019. Household consumption growth in Ontario will moderate in 2019 to 1.7 per cent down from 2.7 per cent in 2018. Range-bound employment growth will keep wage growth modest and in line with inflation, helping to tame household consumption particularly for big-ticket non-necessary items such as vehicles. Moreover, Oshawa General Motors plant closure in 2019 will result in a decline in the supply of transportation equipment, which will also affect sales volumes.

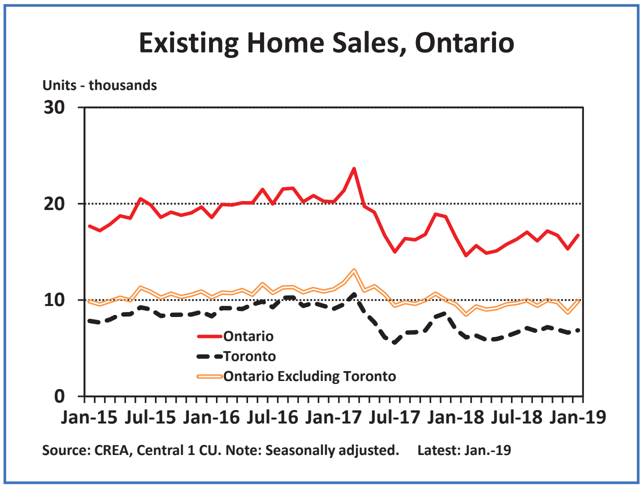
Ontario resale market starts off 2019 on good footing

The Canadian Real Estate Association (CREA) released its January figures this week, which revealed that the Ontario existing homes market started 2019 on good footing. Ontario MLS® seasonally-adjusted sales increased 3.5 per cent in January over December to 16,365 units. New listings also increased by 1.4 per cent during this period to 26,331 units. With more robust sales activity despite the increased supply the market tightened slightly. The sales-to-new-listings-ratio (SNLR) edged up to 62.2 per cent in January from 60.9 per cent in December while the month's inventory decreased from 2.7 in December to 2.6 in January.

Despite a tighter market, price growth declined slightly in January over December by 0.6 per cent to $579,270. Many Ontario households have an interest to purchase a home, but the mortgage stress test constrains how much they can spend and what they can buy. Homebuyers continue to look at higher-density housing and shy away from single-detached homes due to affordability concerns.

Sales in the Toronto real estate board increased 3.7 per cent in January over December. This goes a long way lifting Ontario's total, given this board represents about 41 per cent of overall activity in the province. Other boards that reported robust changes month-over-month include:

- Brantford (13.7 per cent growth)
- Cambridge (30.2 per cent growth)
- Durham (4.4 per cent growth)
- Kingston (39.1 per cent growth)
- Kitchener-Waterloo (16.5 per cent growth)
- London-St. Thomas (16.6 per cent growth)
- Oakville-Milton (18 per cent growth)
- Ottawa-Carleton (36.3 per cent growth)



- Guelph (1.3 per cent decline)
- York region (1.9 per cent decline)
- Thunder Bay (11.6 per cent increase)

Several boards located in the Greater Golden Horseshoe (GGH) reported robust sales growth in January. With only one month of data for 2019 available, it is too early to say if homebuyers have adapted to the new mortgage rules by changing what type of home, they purchase. However, it is encouraging to see sales come back even in some of the higher priced regions of the province.

Edgard Navarrete
Regional Economist
Central 1 Credit Union
enavarrete@central1.com / P **905 282 8501**
www.central1.com