Ontario Economic Briefing

Volume 25 • Issue 16 • Week of April 15-19 2019 | ISSN: 1981-355

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Highlights:

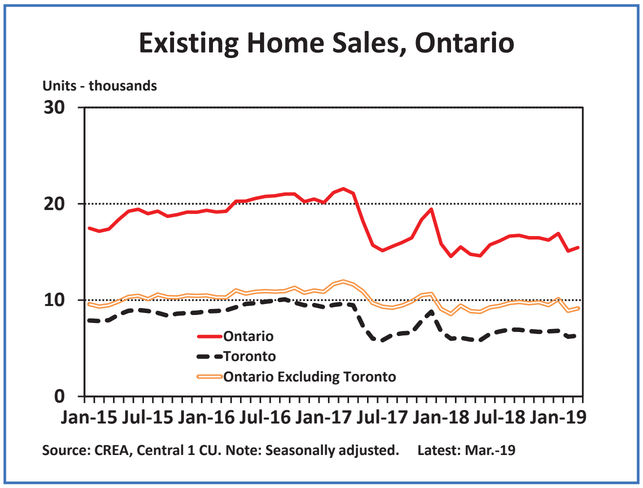
- Average resale home price nearly unchanged in March despite pick-up in sales
- Manufacturing sales volumes fell due to transportation equipment manufacturing sales decline
- Inflation moves up to 1.8 per cent in March
- Less motor vehicle and parts manufacturing in February pulled down exports
- Retail sales rebound in February even though big-ticket item sales declined

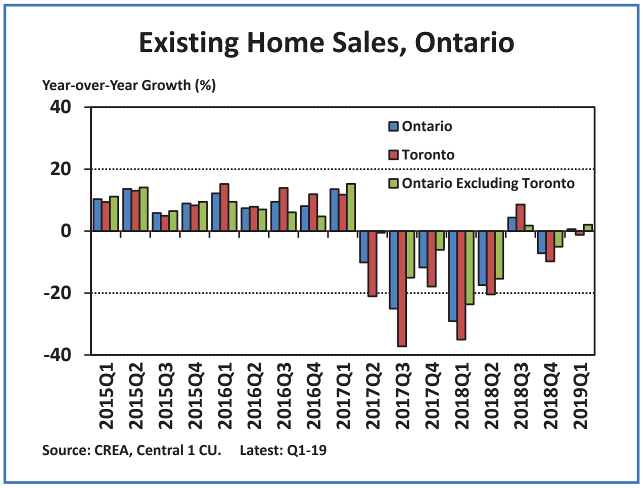
Market tightened in March, but price growth remains muted as buyers keep looking for deals

The Canadian Real Estate Association (CREA) released its March figures this week. The market was a mixed bag. New listings barely moved while sales rebounded by a solid 2.4 per cent, or 362 units, in March from the 10.8 per cent decline in sales posted in February. Despite more demand than supply, average price remained stable increasing by 0.7 per cent from the 0.2 per cent growth in February. Despite the strong pick-up in sales activity, it is likely many potential buyers from February bunched in with the March crowd due to the bad weather in February. Price growth is a strong indication of cautious buying.

Year-over-year comparisons show similar trends to February's data. In the first quarter of 2019, sales are up by 3.4 per cent from the same period last year. Supply remains nearly unchanged at only 0.5 per cent above last year's pace, while price growth remains modest and in line with inflation at 2.0 per cent above last year's pace. The sales-to-new-listings-ratio—a relative metric of market tightness—shows that the market has tightened slightly but still within the criteria for a balanced market, moving up from 58.4 per cent to 60.1 per cent.

Increased sales in a few large real estate boards such as Toronto (1.8 per cent growth), Ottawa-Carleton (3.9 per cent growth), York Region (3.3 per cent growth), and Windsor (4.5 per cent growth) helped lift sales in March.





Other markets that posted sales increases in March included:

- Barrie (4.3 per cent growth)
- Brantford (9.9 per cent growth)
- Guelph (3.5 per cent growth)
- Hamilton (0.6 per cent growth)
- Kitchener-Waterloo (4.6 per cent growth)
- Oakville-Milton (12.1 per cent growth)
- Sarnia-Lambton (2.3 per cent growth)
- St. Catharines (5.8 per cent growth)

Year-to-date, there are few real estate boards that posted sales declines compared to last year. Among them:

- Cambridge (2.0 per cent down)
- Guelph (3.4 per cent down)
- Mississauga (1.5 per cent down)

Significant drop to transportation equipment manufacturing pulled down sales volumes

Ontario manufacturing sales gave back all the gains from January with a sales decline of 1.7 per cent to $25.8 billion in February (all figures in this section are seasonally-adjusted). Given Ontario's 46 per cent share in Canada's manufacturing sales, February's month-over-month sales volumes drop pulled down sales in Canada by 0.2 per cent to $56.6 billion. More than half of Canada's provinces recorded lower manufacturing sales volumes.

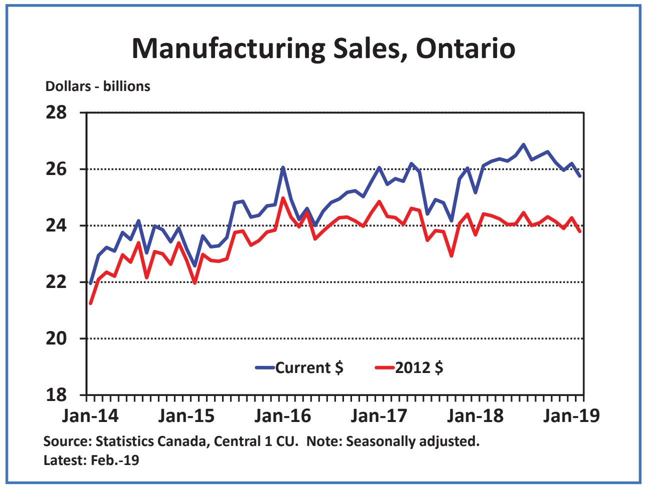
February's decline in sales volumes occurred in both durables and non-durables, which fell by 2.3 per cent and 0.7 per cent respectively, in several large-share sectors. Transportation equipment manufacturing was the largest sector to report lower sales, which dropped by 4.5 per cent. Other sectors to post lower sales included:

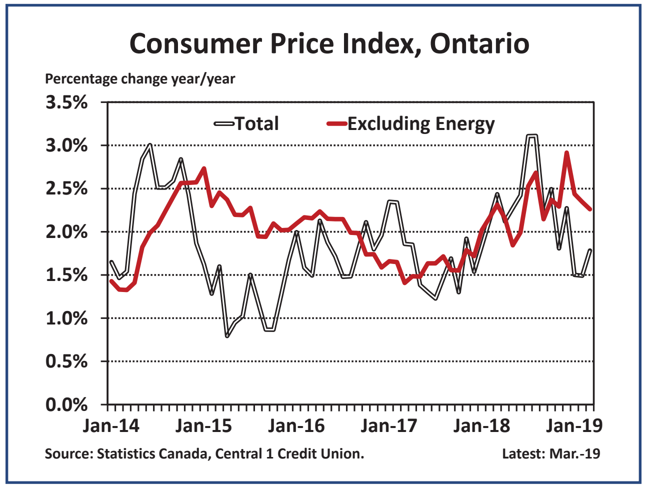
- Food manufacturing (0.3 per cent decline)
- Printing and related manufacturing (9.4 per cent decline)
- Petroleum and coal products (4.5 per cent decline)
- Chemical manufacturing (1.5 per cent decline)
- Primary metal manufacturing (2.3 per cent decline)
- Fabricated metal product manufacturing (0.1 per cent decline)
- Electrical equipment, appliance and component (2.6 per cent decline)
- Furniture and related products manufacturing (2.3 per cent decline)
- Miscellaneous (4.4 per cent decline)

Transportation equipment manufacturing and the above sectors represented nearly 76 per cent of Ontario's manufacturing sales volumes in February.

Transportation equipment manufacturing suffered in February due to fewer sales of new cars. Moreover, motor vehicle assembly also decreased due to temporary plant closures for maintenance and retooling. The aerospace product and parts industry declined 26.7 per cent following a 38.6 per cent gain in January.

Over the first two months of the year, manufacturing sales volumes are 1.3 per cent above last year's pace due to mostly growth in durables (1.8 per cent above





pace) and growth in non-durables (0.4 per cent above pace).

Inflation moves up slightly in Ontario

Cost of living increased in Ontario as headline inflation increased from 1.5 per cent in February to 1.8 per cent in March. The jump in inflation occurred due to higher prices paid for goods and services. In March, goods prices increased 1.0 per cent while services increased 2.2 per cent year-over-year (per cent changes in this section are year-over-year comparisons unless otherwise stated). Among goods durable and semi-durable goods, prices increased by 1.1 per cent and 1.2 per cent respectively. Non-durable price growth increased from -0.5 per cent in February to 0.9 per cent in March.

Energy prices declined by 5.3 per cent in March after declining by 10.2 per cent in February. Electricity and water prices continued to increase by 1.3 per cent and 2.4 per cent respectively, and about the same as the previous month. Gasoline prices declined by a further 8.9 per cent in March from an 18.1 per cent decline in February. Higher world oil prices led to a lift in gasoline prices and a lift in transportation costs. Public transportation costs increased by 0.6 per cent while private transportation costs increased by 2.7 per cent.

Food prices increased by 4.0 per cent in March due to a 4.7 per cent price growth in food purchased from stores and 2.4 per cent price growth in food purchased from restaurants. Transportation costs were passed on to consumers at food stores and restaurants. For example, several food items reported strong price gains such as canned salmon (24.3 per cent growth), apples (12.4 per cent growth), onions (14.7 per cent growth) and potatoes (22.6 per cent growth).

Durable goods prices increased partly based on higher car dollar volumes. Alcohol, tobacco and cannabis price growth helped lift non-durable prices.

Overall prices increased in Ontario's metro markets. Prices moved up by 2.0 per cent in Toronto, 1.7 per cent in Ottawa-Gatineau and 1.2 per cent in Thunder Bay.

The price of regular unleaded gasoline at the pumps continued to decline in Toronto (8.2 per cent decline) and Ottawa (11.8 per cent decline) in March. In Thunder Bay, gasoline prices inched up 0.2 per cent as increased transportation costs to the northern location were passed onto consumers.

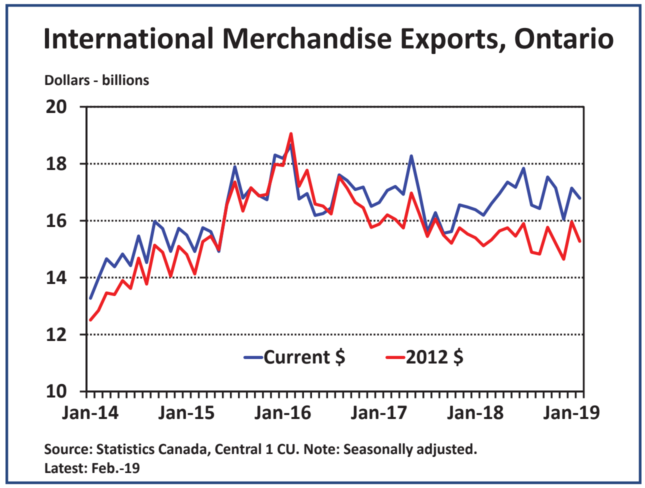
Trade deficit deepens as exports declined by a larger margin to imports

Net exports declined further in February due to nearly unchanged imports (declined by 0.7 per cent to $30.4 billion) and contraction to exports (2.1 per cent decline to $16.8 billion). Over the first two months of 2019, imports are tracking substantially higher than at the same period of the last two years. Exports have stayed relatively aligned with 2017 totals, which has increased the trade deficit.

Despite February's weaker exports and imports activity, imports are tracking 6.2 per cent above last year's pace while exports are tracking 4.2 per cent above last year's pace. Stronger import growth relative to exports has kept the trade deficit at $27.1 billion.

In February, exports shrunk due to contractions in several large sectors. Chief among the decline was motor vehicle and parts exports, which fell by 3.7 per cent and represented 33.0 per cent of total exports. Other sectors posting weaker numbers included:

- Farm, fishing and intermediate food products (1.7 per cent decline)
- Metal and non-metallic mineral products (6.5 per cent decline)



- Forestry products and building and packaging materials (2.3 per cent decline)
- Electronic and electrical equipment and parts (0.1 per cent decline)
- Aircraft and other transportation equipment and parts (8.6 per cent decline)

The latest data out of the U.S. points to weaker year-over-year sales of cars and housing starts. These two factors put downward pressure on motor vehicle and parts exports and forestry products, building and packaging material exports. Aerospace product and parts manufacturing declined in February, which put downward pressure on exports.

Retail sales volumes rebound in February after three straight months of declines

Ontario retail sales increased in February by 1.5 per cent to $18.8 billion after three consecutive months of declines (all figures seasonally-adjusted unless otherwise stated). Strong growth in Toronto and regions outside of Toronto supported retail sales volume growth.

Retail sales in Canada increased by 0.8 per cent to $50.6 billion in February, supported by retail sales growth in Ontario, Alberta and Quebec. Among Canada's big three cities, retail sales increased by 3.1 per cent in Montreal, increased by 1.3 per cent in Toronto and declined by 3.5 per cent in Vancouver.

Over the first two months of the year, retail sales are up 1.5 per cent in Toronto and 1.0 per cent outside of Toronto—averaging 1.2 per cent up in Ontario. Despite sales being up from the same period last year, growth has decelerated over the last three years, year-to-date. This could be attributed to consumers tightening their spending belts given turbulent external economic factors.

By specific segment, retail sales volume growth was a mixed bag in February. A few large segments posted lower sales month-over-month while others posted increased sales. On balance, enough segments posted stronger retail sales to offset sluggish activity in others. Below is a listing of several large segments in Ontario and their retail sales performance in February over January[1]:

- Motor vehicle and parts (1.3 per cent decline)
- Home furniture and furnishings (0.2 per cent decline)
- Electronics and appliances (13.9 per cent decline)
- Building materials, gardening, etc. (0.7 per cent increase)
- Food and beverage (0.4 per cent increase)
- Health related (2.3 per cent decline)
- Gasoline stations (2.8 per cent increase)
- Clothing (2.8 per cent decline)
- Sporting goods and recreation (0.6 per cent increase)
- General merchandise (2.8 per cent increase)
- Miscellaneous (1.0 per cent increase)

Motor vehicle and parts sales fell on lower sales of new and used cars and parts. Consumers are tightening their spending belts on big ticket purchases, such as cars, or other non-essential purchases such as home furniture, electronics and clothing.

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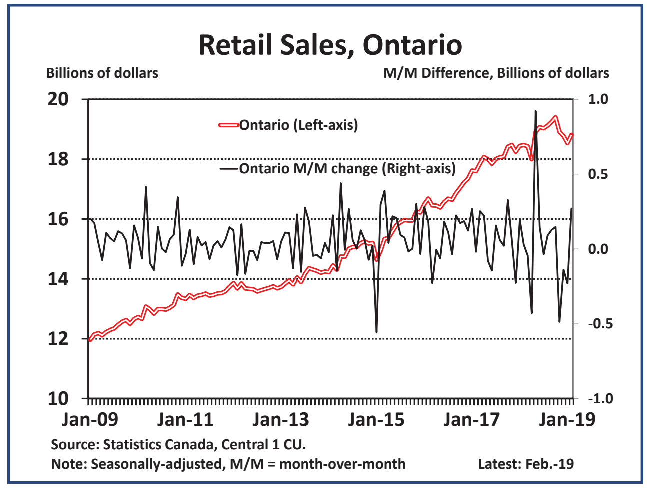

1 The segment growth rates are based on seasonally-adjusted dollar volumes calculated by Central 1 CU. Statistics Canada only provides seasonally-adjusted headline retail trade volume