# Ontario Economic Briefing

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## Highlights:

- Ontario's existing homes market woke from hibernation in April
- Manufacturing sales remained above last year's pace in the first quarter 2019
- Inflation up slightly to 1.9 per cent in April from 1.8 per cent in March
- Non-residential permit volumes increased by 5.3 per cent in March
- New car sales increased robustly in March after two relatively weaker months of sales to start 2019

## Ontario's existing homes market posted strong growth in April

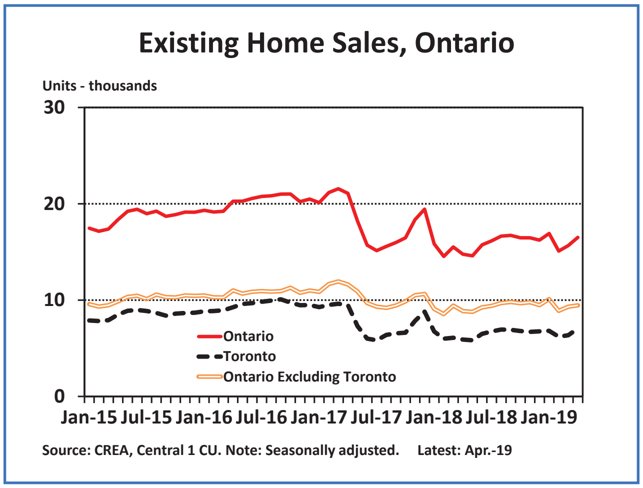
Ontario's existing homes market seems to be slowly waking up after a slow start to the year in January and February. Both sales and new listings posted strong growth numbers in April each moving up by 5.4 per cent and 5.0 per cent respectively. With slightly brisker sales relative to new listings, the sales-to-new-listings-ratio (SNLR) inched up from 58.5 per cent in March to 58.7 per cent in April. The latest reading indicates Ontario's existing homes market is inching closer towards a sellers' market.

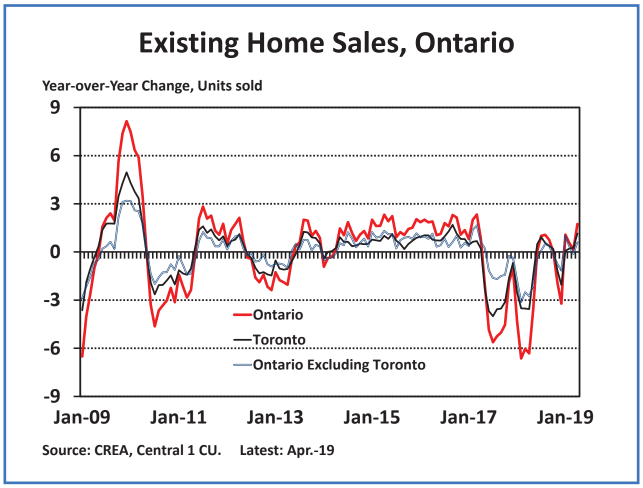
Despite increased activity, average price growth remained below inflation growth at 1.7 per cent growth in April to $589,191.

With the shock the federal mortgage stress tests at the start of last year deflating market activity for most of 2018, it is not surprising that metrics in 2019 are above last year's pace. This trend should remain for most of 2019. Over the first four months of 2019, sales, new listings and average price are above last year's pace by 5.8 per cent, 2.1 per cent and 3.2 per cent respectively.

Most real estate boards in Ontario posted stronger month-over-month sales growth numbers in April with a few exceptions. Here is a snapshot of how larger markets performed in April:

- Toronto (11.2 per cent growth)
- York region (10.2 per cent growth)

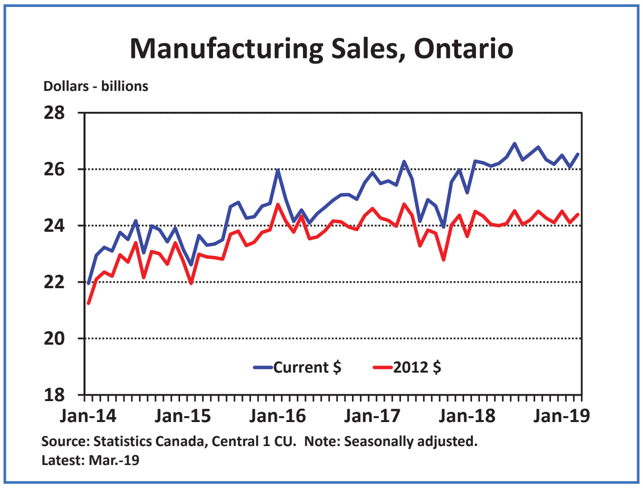


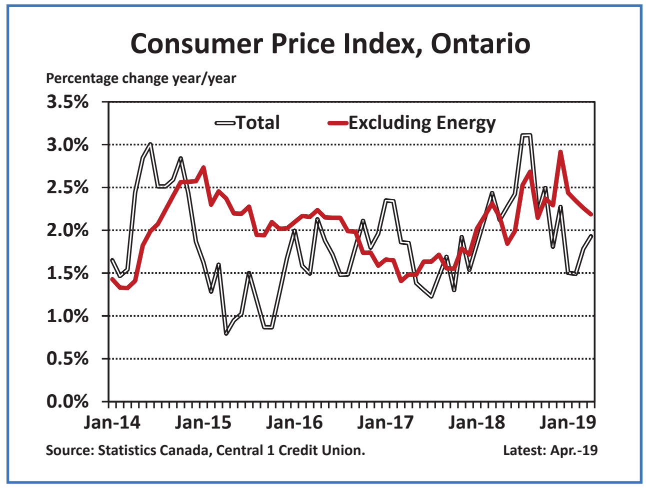




- Ottawa-Carleton (2.0 per cent growth)
- London-St. Thomas (10.0 per cent growth)
- Hamilton (0.5 per cent decline)
- Durham region (11.8 per cent growth)
- Mississauga (11.0 per cent growth)
- Thunder Bay (4.6 per cent decline)
- Kitchener-Waterloo (1.3 per cent decline)

Year-to-date, only two real estate boards posted sales declines compared to last year: Guelph (0.2 per cent decline) and Peterborough (1.5 per cent decline). Stronger sales in April propelled many regions above last year's pace.

Modest price growth continues to signal cautious buying. Anecdotal conversations with industry professional points to strong pent-up demand for homeownership in Ontario but cautious buying by prospective buyers. This trend should continue for most of 2019 until trade




concerns (i.e., U.S. and China trade spat) resolve, the economy moves closer to full capacity and consumer confidence sustains an upward trajectory.

## Increased non-durable goods sales lifted overall manufacturing sales in March

Manufacturing sales increased in March by 1.7 per cent to $26.5 billion (all figures are seasonally adjusted). Despite flip-flopping over the first three months of the year, monthly manufacturing sales in 2019 tracked higher than last year's totals for each corresponding month in January and March. In February, manufacturing sales tracked lower, likely due to harsh weather conditions affecting the transportation of finished products. Non-durable sales volumes declined 0.2 per cent while durable sales volumes moved up by 2.9 per cent.

In March non-durables were brought down by less sales in beverage and tobacco manufacturing (2.6 per cent down), paper manufacturing (10.7 per cent down) and plastics and rubber products manufacturing (0.9 per cent down). Gains to food manufacturing (1.2 per cent up)—a large sector of non-durables—was not enough to offset losses in the other areas mentioned above. Petroleum and coal product sales also increased (1.0 per cent).

With paper and printing manufacturing sales down, wood product manufacturing was affected posting 0.7 per cent lower sales. Transportation equipment manufacturing sales increased by 4.3 per cent helping to lift durable goods sales. Primary metal manufacturing, another large sector in durables, posted increased sales of 7.0 per cent.

Canadian manufacturing sales increased in March by 2.1 per cent to $58.0 billion due to growth in Ontario. Ontario's growth accounted for 46 per cent of all sales and growth out of the other three densely populated provinces—British Columbia, Quebec and Alberta. Together, these four provinces accounted for 90 per cent of sales volumes in March.

Over the first quarter of the year, manufacturing sales are 1.8 per cent above last year's pace at $79.1 billion. Non-durables are 0.5 per cent below last year's pace and durables are 3.3 per cent above last year's pace. With durables accounting for more than 62 per cent of all manufacturing sales, total sales have been lifted thus far.

Increased new car sales in March pulled down auto plant inventories. Primary metals gains came from widespread gains in the iron and steel mills and ferro-alloy industry; the non-ferrous metal (except aluminum) production and processing industry; and, the alumina and aluminum production and processing industry. Higher sales from refineries led to increased petroleum and coal product sales.

## Ontario prices inched higher in April due to more expensive goods and services

Headline inflation in Ontario increased from 1.8 per cent in March to 1.9 per cent in April (all figures are year-over-year growth rates of raw index values unless otherwise stated). The growth in prices was due to increased costs associated with services and goods, particularly non-durable and durable goods.

Energy prices declined by 1.7 per cent—a slower rate than the 5.3 per cent decline posted in March due to higher water and natural gas prices that offset the decline to gasoline prices.

Non-durables, such as food, alcoholic beverages and smoking products, including cannabis, saw their prices move up an additional 3.3 per cent and 2.4 per cent respectively. Food prices jumped due to double-digit growth to fruit and vegetable prices (13.2 per cent). The increase prices for these products added to the cost of food purchased in stores and restaurants.

Public transportation prices increased by 2.7 per cent in March to 5.1 per cent in April, which lifted overall transportation costs from 0.9 per cent last month to 1.4 per cent in April. Part of the increase was undoubtedly due to the introduction of the carbon tax in Ontario and many transportation services such as Toronto's transit commission lifted fare costs to meet agencies' higher operation costs.

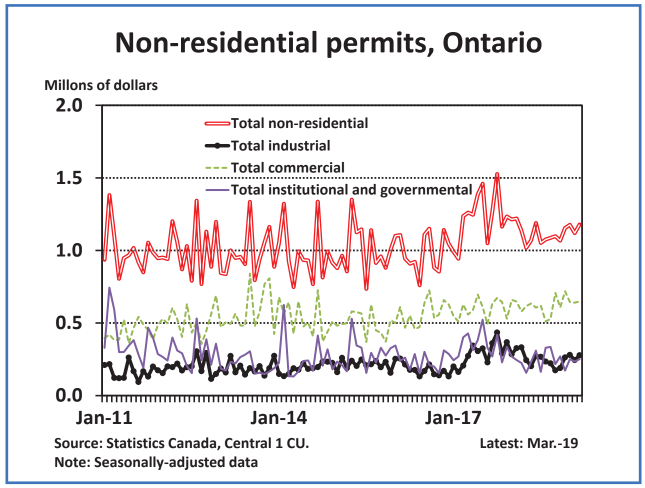
Overall prices increased in Ontario's metro markets. Prices moved up by 2.2 per cent in Toronto, 1.7 per cent in Ottawa-Gatineau and 1.6 per cent in Thunder Bay. Compared to March's readings, the pace of inflation increased in the metro markets partly due to increased natural gas and water charges.

The price of regular unleaded gasoline at self-serve pumps decreased in the Toronto and Ottawa metro areas by 5.2 per cent and 5.8 per cent respectively. While this marked six consecutive months of year-over-year declines in gasoline prices, the rate of the decline is slowing. Ontario faced the federal carbon tax on gasoline for the first time and this put some upward pressure on gasoline prices at the pumps, offset only by increased gasoline production by refineries. In the Thunder Bay metro area, the price of gasoline increased by 3.5 per cent likely due to the carbon tax and increased cost of transporting the gas from refineries to pumps in the north.

## Ontario non-residential permit volumes lifted in March driven by growth in non-metro areas

Total non-residential permit volumes in Ontario increased by 5.3 per cent in March after falling by 4.8 per cent in February (all figures are seasonally adjusted unless otherwise stated). The increase was due to strong growth in areas outside of Ontario's large metro centres that offset losses in metro areas. Moreover, this marked two consecutive months that non-residential permit volumes fell in Ontario's metro areas as a group. March's gains came from strong growth in all sectors: industrial (up 13.8 per cent), commercial (up 1.3 per cent) and institutional (up 7.0 per cent). While growth fell across all sectors in Ontario's metro markets, the volumes growth in non-metro markets was strong enough to offset the losses and lift Ontario's totals.

Over the first quarter of 2019, non-residential permit volumes are down 2.6 per cent from last year's pace in




Ontario, and 4.8 per cent in all metro areas. In non-metro areas, permit volumes are up 5.9 per cent due to 162.5 per cent growth to institutional permit volumes that more than offset declines to industrial and commercial permits. In metro areas, commercial permit volumes remained 5.3 per cent above last year's pace but significant declines in industrial and institutional permit volumes weighted on total volumes in metro areas.

In March, non-residential permit volumes fell in nine of sixteen metro markets in Ontario pulling down overall volumes. The following markets posted strong up or down activity in March:

- Barrie (63.9 per cent lower volumes)
- Guelph (85.7 per cent lower volumes)
- Hamilton (125.9 per cent higher volumes)
- Kingston (395.1 per cent higher volumes)
- Oshawa (50.4 per cent lower volumes)
- Thunder Bay (84.4 per cent lower volumes)
- Toronto (27.9 per cent higher volumes)
- Windsor (26.5 per cent higher volumes)

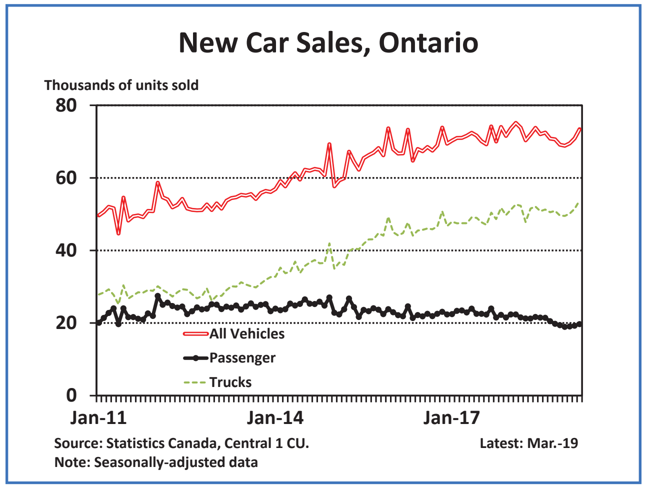
## Increased truck sales lifted overall new vehicle sales in March

New car sales increased substantially in Ontario in March—almost doubling the growth in month-over-month sales in February. The 3.6 per cent jump to 2,526 net unit sales in March came mostly from increased sales of trucks (4.4 per cent) and passenger vehicles (2.2 per cent) (all figures are seasonally adjusted by Central 1 unless otherwise stated). Trucks remained the most popular vehicle type accounting for more than 73.0 per cent of sales and slightly above the 72.7 per cent average share of sales for the first quarter of 2019.

After two months of sub-par growth (under 1.0 per cent), the average price of new vehicles sold in Ontario increased by 3.4 per cent to $43,810. Overall price growth increased mostly from truck sales (3.5 per cent growth to $47,255), which accounted for the most unit sales. Passenger vehicle sales average price increased by 2.3 per cent to $34,159.

Over the first quarter of 2019, new vehicle sales lagged last year's pace by 4.0 per cent, mostly from weaker year-over-year sales in January and February. Passenger vehicle sales remained 12.4 per cent off last year's pace and trucks only slightly of last year's pace at 0.5 per cent lower sales. Despite lower sales across all vehicle types, average price growth in 2019 is still outstripping last year's pace. Overall price is 2.8 per cent above last year's pace while passenger vehicles and trucks remained 0.5 per cent and 2.6 per cent above last year's pace respectively.

New car models with intricate technology, such as hybrid or electric cars, have kept average price growth above last year's pace, despite lower sales year-to-date.

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