Ontario Economic Briefing

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Highlights:

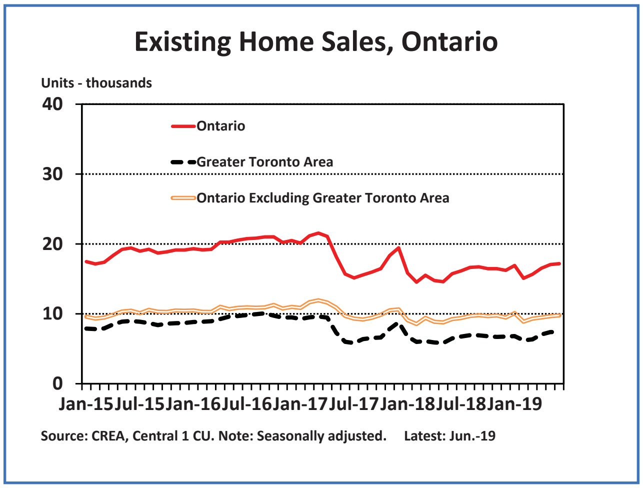
- Increased supply loosened Ontario's existing homes market in June
- Inflation slowed down to 2.0 per cent in June
- Manufacturing sales increased by 2.7 per cent in May
- Retail sales grew by 0.5 per cent in May
- Ontario economy experienced weakest quarter-growth in the first quarter of 2019 since the second quarter of 2016

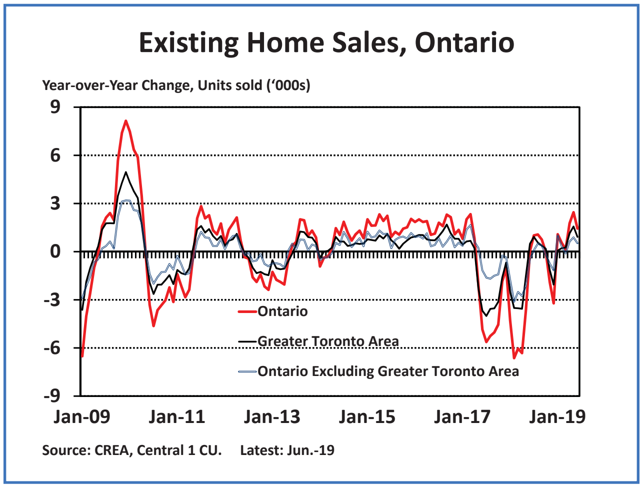
New listings grew three times more than sales in June in Ontario

Existing home sales grew in June but at a slower rate than May. After posting 3.1 per cent growth in May, sales grew just 0.8 per cent to 17,180 units in June (growth rates are seasonally adjusted monthly values by the Canadian Real Estate Association (CREA)). Unlike the previous month, supply picked-up significantly by 2.4 per cent. Despite increased supply, the average price increased by 1.3 per cent in June to $601,662—almost double the 0.8 per cent growth posted in May. The CREA constant-quality housing price indicator (HPI), which is available for select markets, increased in the Toronto metro area by 0.8 per cent in June and by 2.9 per cent year-over-year. In the Ottawa metro area the HPI increased an additional 0.7 per cent in June and 7.6 per cent year-over-year.

The sales-to-new-listings-ratio (SNLR) declined significantly from 61.3 per cent in May to 60.3 per cent in June. This was due to increased supply loosening the market and sliding Ontario closer to a balanced market—a range between 40 per cent and 60 per cent for the SNLR.

Even with an existing homes market trying to stabilize from the policy shocks of the last two years, all metrics in 2019 remained above last year's pace. Sales and new listings are up 8.2 per cent and 1.7 per cent respectively while average price is up 3.4 per cent. This is not hard to do given the strong recoil in activity seen in 2018. Yet, over the longer term 2019 remains below trend. Even though average sales continued below trend in June the gap is shrinking as the market continues to stabilize.





Sales grew modestly in June largely due to minute growth in Toronto where sales increased by only 0.2 per cent in June over May. Other large real estate boards that posted robust up or down activity in June included:

- Hamilton-Burlington (down 3.1 per cent)
- London and St. Thomas (up 6.5 per cent)
- Kitchener-Waterloo (up 5.5 per cent)
- Ottawa (down 2.3 per cent)
- Sudbury (up 9.9 per cent)
- Durham (up 1.6 per cent)
- Mississauga (down 4.9 per cent)
- Welland (down 7.9 per cent)

The modest sales growth in Toronto is evidence that buyers in Ontario's most expensive housing market have not fully adapted to the new mortgage lending rules. Their maximum loan amount is likely not allowing them to put in competitive offers for most types of housing they desire.

A broad price slowdown dampened inflation in June

Headline inflation slowed down in June coming in at 2.0 per cent down from 2.4 per cent in May due to a general slowdown in price growth across many goods and services (all figures are year-over-year calculations unless otherwise noted). Electricity, water and natural gas prices remained unchanged. The following goods and services posted slower price growth:

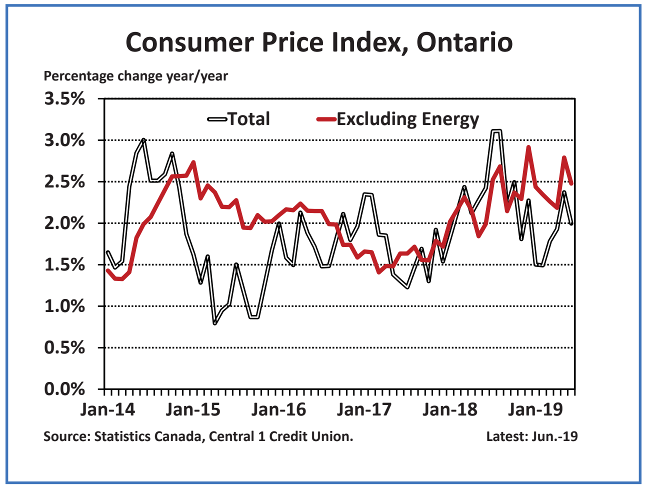
- Energy (down 4.1 per cent from a decline of 2.0 per cent in May)
- Food prices (grew 3.6 per cent down from 4.1 per cent in May)
- Clothing and footwear (grew 1.0 per cent down from 1.5 per cent in May)
- Transportation prices (grew 1.4 per cent down from 2.2 per cent in May)
- Alcoholic beverages, tobacco and cannabis (grew 0.9 per cent down from 2.5 per cent in May
- Gasoline (down 9.9 per cent from a decline of 6.0 per cent in May)

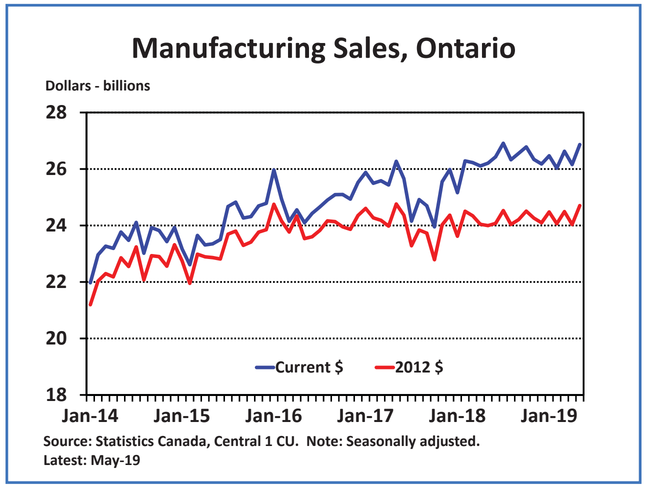
Consumers paid less for gasoline, fuel oil and other fuels. This was due in part to falling oil prices amid rising fuel inventories in the United States. Slower price growth to public transportation helped slow down overall transportation prices in June and slower price growth to food purchased from stores helped slow down overall food prices even though price growth in food purchased in restaurants remained nearly unchanged.

Overall prices slowed down in the metro markets of Toronto, Ottawa-Gatineau and Thunder Bay. The largest net slowdown in prices occurred in Toronto (down 0.6 percentage points to 2.0 per cent growth) and Thunder Bay (down 0.6 percentage points to 1.7 per cent growth). Overall prices in Ottawa-Gatineau slowed down by 0.4 percentage points to 1.9 per cent.

Over the first half of the year overall prices are up 1.8 per cent from the same period in 2018.

Inflation is potentially slowing down in Ontario due to less general demand and price pressure, as a result of restrained consumer spending and business investment.





Strong growth in transportation equipment sales helped lift total sales in May

Manufacturing sales increased by 2.7 per cent in May over April to $26.9 billion. This month's month-over-month growth was the fourth strongest in Canada behind other provinces like Nova Scotia, Newfoundland and Labrador and Manitoba. May's sales are more than 14 per cent higher than the monthly sales average from January 2002 to May 2019.

The growth came entirely from durables, which expanded by 4.9 per cent month-over-month to $16.7 billion, with the following areas contributing:

- Transportation equipment (8.7 per cent growth)
- Machinery (2.4 per cent growth)
- Primary metals (1.2 per cent growth)
- Fabricated metal products (0.9 per cent growth)

The above four sectors contributed more than half of the manufacturing sales.

Non-durables declined due to lower sales in food manufacturing (4.2 per cent decline), paper manufacturing (1.7 per cent decline) and beverage and tobacco manufacturing (1.6 per cent decline).

Year-to-date, manufacturing sales are 1.7 per cent above 2018's pace due to durable goods sales remaining 2.7 per cent above last year's pace and non-durables remaining nearly unchanged at 0.1 per cent above last year's pace.

Sales of transportation equipment rose in May due to higher sales in the motor vehicle and motor vehicle parts industries. The increase in motor vehicle sales was the result of more units produced at all assembly plants, particularly, those that had shutdowns in the previous month.

Year-over-year price growth of food increased by over 4.0 per cent in May likely contributing to less sales of manufactured food as consumers tightened their spending belts.

Retail sales continued to expand in May but at a slower rate

Retail sales increased for the fourth consecutive month in May moving up an additional 0.5 per cent to $19.4 billion (all figures are seasonally adjusted unless otherwise stated). Even though sales have been growing for a few months now, the rate of growth has been trending down.

Retail sales in the Toronto metro area expanded in May by an additional 0.3 per cent to $8.1 billion. Sales in all other areas excluding the Toronto metro area expanded by 0.7 per cent to $11.3 billion.

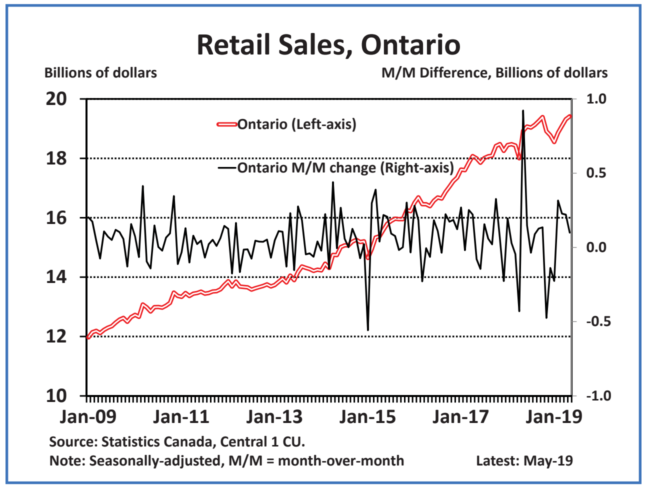
Sales growth in May was supported by increased sales in many areas, including the following larger ones:

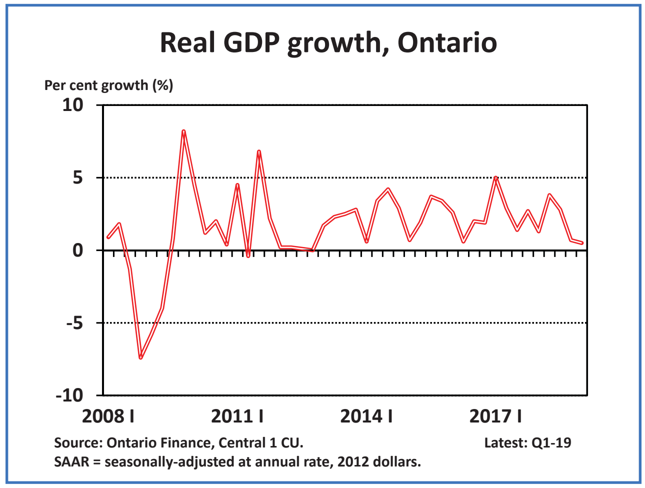
- Motor vehicle and parts
- Food and beverage
- Gasoline stations
- General merchandise.

Year-to-date, sales in Ontario remained 3.2 per cent above last year's pace. Sales volumes in the Toronto metro area increased 5.2 per cent year-over-year while sales in areas excluding the Toronto metro area increased 1.8 per cent year-over-year.

Ontario's economic growth slowed further in the first quarter

Economic activity continued to moderate in Ontario according to recently released quarterly economic





accounts. After posting 0.7 per cent real GDP growth at a seasonally adjusted at annual rate (SAAR) over the fourth quarter of 2019, Ontario's economy slowed further posting 0.5 per cent growth over the first three months of 2019 (all figures in this section are SAAR unless otherwise noted). The last time Ontario's economy grew close to such modest pace was over the second quarter of 2016.

Household consumption growth remained unchanged from the fourth quarter of 2018 at 0.4 per cent SAAR mostly supported through durable spending (1.3 per cent growth SAAR up 1.3 per cent) and semi-durables (0.7 per cent growth SAAR up 0.6 percentage points). Non-durable spending declined by 0.3 per cent while services slowed down to 0.4 per cent growth (down 0.1 percentage points). Currently, household spending is well below the 0.7 per cent growth quarterly average from the first quarter of 1981 to the first quarter of 2019. A general feeling of uncertainty in the economy continued to show in consumer spending data as consumers are tightening belts. Non-durables, such as food prices, have inflated considerably as well as energy prices—forcing consumers to be prudent with their expenditures.

Residential structure investment continued to decline in the first quarter coming in at 4.2 per cent lower than the 3.3 per cent contraction posted over the fourth quarter. Weakness from the existing homes market is now showing up in new housing construction numbers. Increased economic uncertainty and tougher mortgage lending rules continued to dampen new residential construction.

Like residential spending, business investments have slowed. Business fixed gross capital formation—or the net increase in physical assets—declined a further 0.9 per cent in the first quarter. Moreover, this marked three consecutive quarters that business investments are down in Ontario. An area of business investment that continued to expand was machinery and equipment investments that increased by 4.8 per cent in the first quarter, which is a large jump from the 2.1 per cent growth posted in the fourth quarter. Businesses have taken to the government's new asset depreciation rules and continue to funnel dollars away from large investments into machinery and equipment.

Exports growth increased in the first quarter by 0.4 per cent (up 0.3 per cent) with more than 92 per cent of that growth coming from international exports. Imports also expanded by 1.2 per cent. The greater growth in imports relative to exports increased the trade deficit. Weaker consumer spending and business investments swelled inventories from $7.8 billion in the fourth quarter to $8.1 billion in the first quarter.

By industry, Ontario's goods-sector continued to decline for the fourth consecutive quarter posting 0.4 per cent weaker growth in the first quarter of 2019 due to slower growth in utilities, construction and the primary sector. The services-sector posted slower growth in the first quarter at 0.3 per cent from the 0.8 per cent growth posted in the fourth quarter. Retail trade continued to slow for the second consecutive quarter. Other areas that posted weaker growth included: transportation and warehousing, information and culture and arts entertainment and recreation.

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