# Ontario Economic Briefing

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## Highlights:

- Ontario's average existing home price remained relatively unchanged despite a tighter market
- Weaker transportation equipment and primary metal sales helped pull down manufacturing sales
- Headline inflation comes in at 1.9 per cent in August slower than the 2.1 per cent posted last month
- Retail sales rebound in July increasing 1.2 per cent

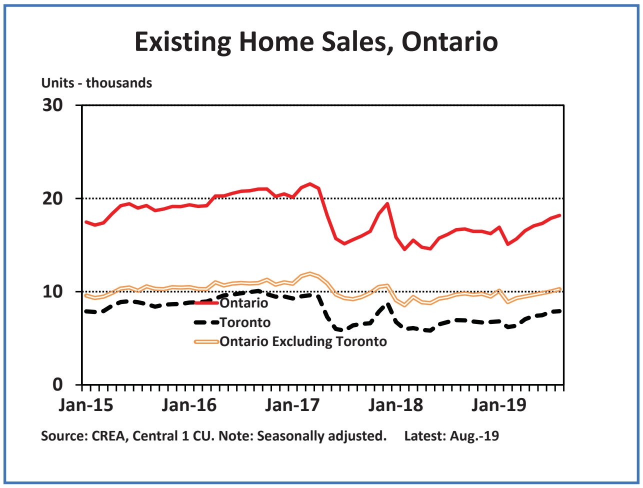
## Ontario's housing market is showing signs of recovery, too early to say it is fully recovered

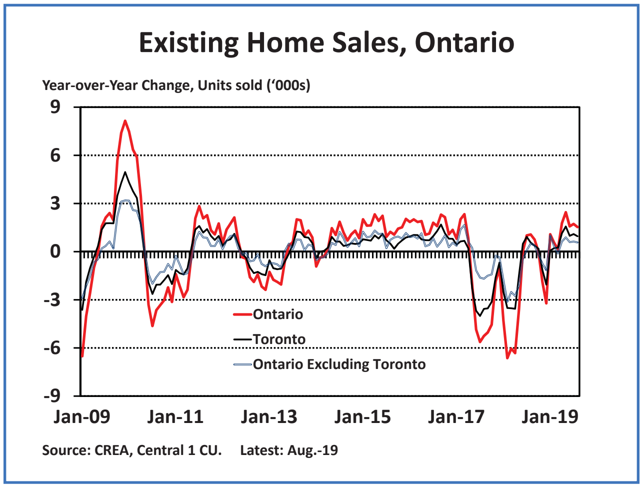
Existing home sales increased a further 1.7 per cent to 18,177 units, this follows on growth in sales of 3.2 per cent in July according to the latest August data from the Canadian Real Estate Association (CREA). Existing home sales have now posted month-over-month gains six consecutive months since the end of February and seven of the first eight months of 2019.

Over a longer horizon, though existing home sales are yet not fully recovered, 2017 and 2018 saw muted housing demand due to the policy shocks. This year seems to be recovering from those relative low points in the market. Looking at average monthly existing home sales from 2016 to 2019, home sales remain lower. Only over the last two months have existing home sales started to climb back up. September data will tell whether this is a true recovery trend, or just a blip in the radar.

Ontario's housing market continued to tighten in August as sales strength month-over-month continued to outpace new listings growth. In August, new listings were nearly unchanged. The sales-to-new-listings-ratio (SNLR) moved up to 63.4 per cent in August from 62.3 per cent in July. Since the end of April, the SNLR has been over 60 per cent—the typical threshold for a market to be in a sellers' market.

After five months of consecutive decreases, the months of supply stalled in August remaining unchanged at 2.3 months same as July.




Even though the market has tightened average price growth stalled in August. The average price for an existing home inched lower in August to $612,300 from $613,037 (down 0.1 per cent month-over-month).

There is still a pool of potential buyers out there looking for housing deals since the average price is inching down even though the market is tighter, as seen by stronger sales growth and unchanged new listings. Economic uncertainty continued to weigh on the minds and buying decisions of many of these buyers. Many want to take advantage of current mortgage rates but may not want to overextend themselves. Therefore, many are foregoing low-rise housing and likely concentrating on high-density housing, especially in expensive dense urban markets. With the skew to high-density, average price is being pulled down.

Over the first eight months of 2019, existing home sales are up 8.7 per cent while new listings are up 2.0 per cent. The average price moved up 5.1 per cent to $592,435. The market has tightened with the SNLR up to 60.9 per cent from 57.1 per cent over the same period in 2018. The average months of supply also fell from 2.9 months to 2.6 months.

Year-to-date, existing home sales in the Greater Golden Horseshoe (GGH) markets have grown by 11.6 per cent, whereas markets outside the GGH have grown by 4.3 per cent. Over the first eight months of 2019 the following large markets have posted strong numbers up or down:

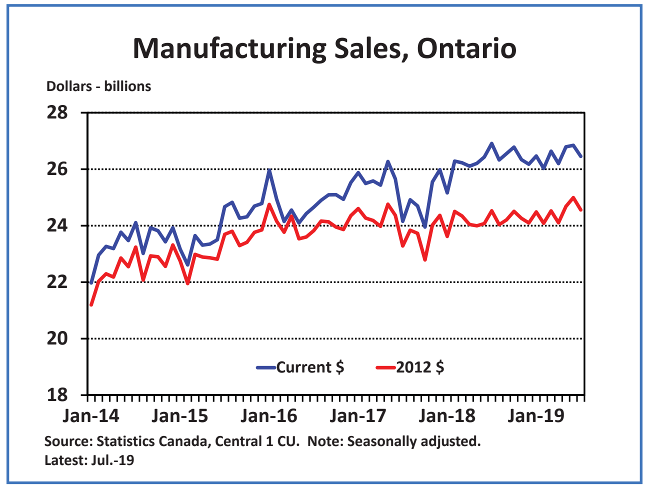
- Barrie (up 16.3 per cent)
- Hamilton-Burlington (up 10.5 per cent)
- Kitchener-Waterloo (up 4.9 per cent)
- Ottawa (up 4.9 per cent)
- Toronto (up 12.4 per cent)
- Durham region (up 17.5 per cent)
- York region (up 18.9 per cent)
- Windsor-Essex (up 6.6 per cent)
- Quinte (up 4.6 per cent)
- St. Catharines (up 17.7 per cent)
- Sudbury (down 2.1 per cent)

## Weaker sales of durable goods in key sectors pulled down manufacturing sales by 1.5 per cent in July

After two consecutive months of manufacturing sales growth, July's sales numbers came in 1.5 per cent lower at $26.5 billion. Nationally, manufacturing sales also contracted in July falling off 1.3 per cent to $57.2 billion due to lower sales volumes in half of the country's provinces.

The lower sales volumes in July were due mostly to durable goods posting weaker numbers. Durable goods sales fell by 3.1 per cent to $16.3 billion. Non-durable sales increased by 1.3 per cent to $10.2 billion. Large durable goods sectors which posted weaker sales were:

- Transportation equipment (3.0 per cent lower)
- Computer and electronic products (9.7 per cent lower)
- Fabricated metal products (2.7 per cent lower)
- Primary metals (13.4 per cent lower)
- Non-metallic mineral products (2.6 per cent lower)




Sales of motor vehicles decreased in July, the second consecutive monthly decline. The decrease in motor vehicle sales was partially the result of an extended shutdown at a major assembly plant attributable to maintenance projects to support new model production.

Primary metal sales fell on weaker iron and steel mills and ferro-alloy products sales due to lower quantities sold and maintenance shutdowns at some plants.

Over the first seven months of 2019, manufacturing sales remained up 1.1 per cent above last year's pace but the dip in activity in July slowed that pace down slightly. Non-durable sales remained off last year's pace by 0.6 per cent while durable goods are still up 2.2 per cent despite July's weakness in large key areas like transportation equipment and primary metal sales.

For the first time ever, Statistics Canada has released manufacturing sales volumes data by select Census Metropolitan Area (CMA). Data is available for Toronto, Hamilton and Ottawa-Gatineau. Over the course of 2019 so far, these three CMAs have accounted for about 47.8 per cent of all sales in Ontario and slightly lower than the same period last year (48.3 per cent).

In July, manufacturing sales increased in all three markets, which means the month-over-month decline in sales was due to weaker sales in other parts of Ontario.

Over the first seven months of the year, manufacturing sales in these three markets together are minutely up from last year's pace at 0.3 per cent due to weaker sales growth in Ottawa-Gatineau (0.9 per cent down) and Toronto (0.5 per cent down). Sales in Hamilton remained 6.8 per cent above last year's pace set in that market. All areas in Ontario outside these three markets remained 2.0 per cent above last year's pace. Growth in areas outside these markets has kept Ontario's manufacturing sales bottom line up from the same period last year.

## The rate of inflation slowed due to slower goods-sector price growth

Headline inflation came in at 1.9 per cent in August—a slightly slower rate of price growth from the 2.1 posted in July. Price growth for services remained unchanged in August moving up an additional 2.7 per cent adding to the 2.7 per cent in posted in July. The slower pace of inflation in Ontario came from the goods-sector where prices moved up 0.8 per cent in August, which is a slower rate of growth than the 1.2 per cent inflation posted in July. Slower rate of price growth in the durable and non-durable goods sectors contributed to an overall slower rate of headline inflation growth.

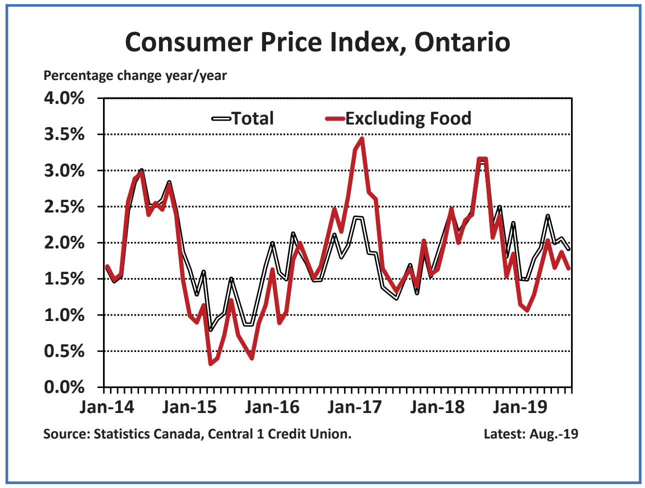
Food prices continued to increase moving up 3.5 per cent in August compared to the 3.3 per cent increase posted in July. Growth in food prices came mostly from food purchases in stores which moved up 4.3 per cent compared to the 3.9 per cent increase in July. The rate of growth of food purchased from restaurants remained nearly unchanged in August. Such has been the inflation to fruits and vegetable prices that, excluding this area, drops headline inflation from 1.9 per cent to 1.6 per cent in August. Bad weather conditions in some agricultural food source regions of the world affected supply shipments thus elevating prices.

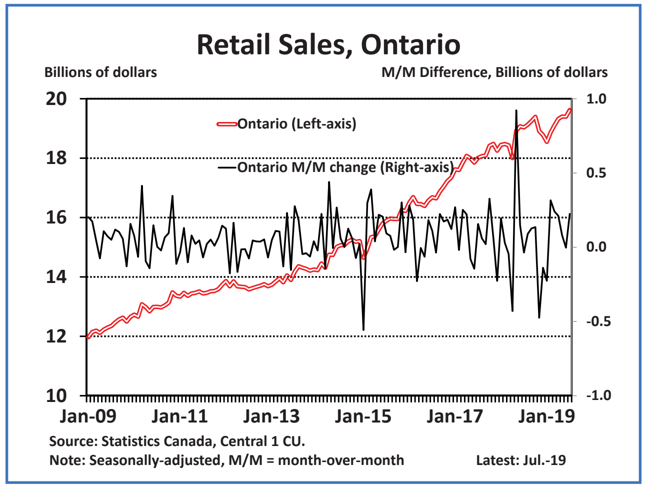
Clothing and footwear prices moved up 0.6 per cent in August, which was a slower rate of growth from the 1.6 per cent posted in July.

Transportation prices increased a further 1.6 per cent in August from the 1.8 per cent posted in July. Private transportation prices rate of growth slowed down significantly due to the slowdown in gasoline prices discussed below. This helped pump the breaks on the overall rate of growth in this sector despite public transportation prices moving up 7.1 per cent in August.

Energy prices fell by 3.8 per cent in August due to a 9.6 per cent drop in gasoline and fuel prices (2.1 per cent drop). Rate of price growth for electricity and water remained unchanged from last month coming in at 2.2 per cent and 3.2 per cent respectively. Increased oil production in August helped pull down gasoline prices.

The pace of price growth remained unchanged in Toronto and Ottawa-Gatineau with prices moving up




2.2 per cent and 2.1 per cent respectively in August. In contrast, the rate of inflation in Thunder Bay slowed down in August coming in at 1.5 per cent down from the 2.0 per cent growth posted in July. Prices contracted dramatically in Thunder Bay rental accommodations in August over July helping to pull down overall prices in this market.

## Increased retail activity province-wide lifts overall sales in July

Ontario's retail sales picked-up again in July after two lackluster months of activity in May and June. July's retail sales increased 1.2 per cent to $19.6 billion. Nationally, retail sales picked-up in July after being slightly down in June due to increased sales in over half of the country's provinces.

Sales in the Toronto CMA increased in July by 1.1 per cent to $8.2 billion following a slight decrease last month. Sales in all other parts of Ontario, excluding the Toronto CMA, increased by 1.2 per cent to $11.5 billion in July.

Over the first seven months of 2019, retail sales remained 3.0 per cent above last year's pace. Toronto's sales and sales in all other regions, excluding Toronto, remained above last year's pace by 4.5 per cent and 1.9 per cent respectively.

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