Ontario Economic Briefing

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Highlights:

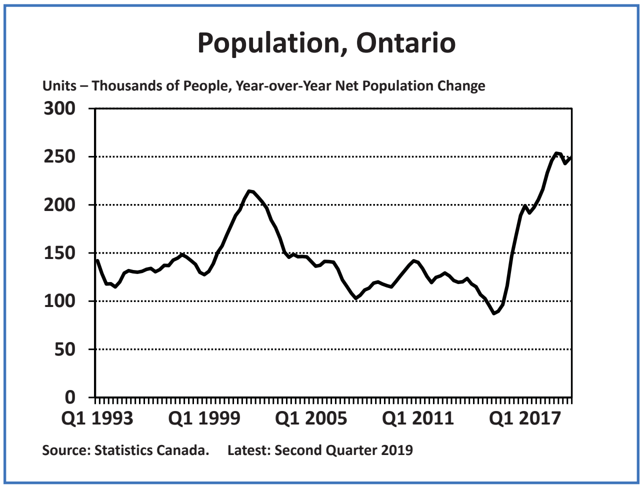
- Ontario's population up by over 82,000 net new residents to 14.6 million in the second quarter
- Weaker production of motor vehicles and parts brings down the overall motor vehicle and parts manufacturing in July
- Tourists spent a larger chunk of their money on accommodations and transportation costs in th second quarter over the first quarter of 2019
- Exports remained nearly unchanged in August after very robust growth in July
- Toronto's existing home prices moved up only 1.2 per cent in September

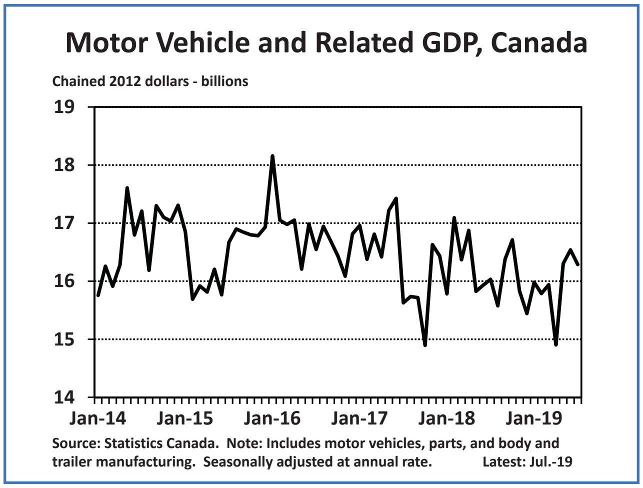
Ontario's population continued to increase in the second quarter adding over 82,000 net new residents, many coming from abroad

Second quarter population estimates were recently released by Statistics Canada. According to the latest data Ontario's population continued to increase by 82,305 residents to 14.6 million by the end of the second quarter over the first quarter of 2019. Ontario's population now accounts for close 40 per cent of Canada's.

By component of growth, international migration provided the biggest lift to Ontario's population with international migrants, non-permanent residents and permanent residents together, accounting for 85.5 per cent of the 82,305 net new residents. Breaking this number down by its components non-permanent residents accounted for 35.7 per cent of the growth and permanent residents accounted for 49.9 per cent. Natural increase, the net difference between births and deaths accounted for 13.5 per cent of the net new residents while interprovincial migration, movements from other parts of Canada into Ontario, accounted for only 1.0 per cent of the growth.

Year-over-year, Ontario's population moved up 1.7 per cent. Permanent residents and interprovincial migration have grown by the largest margins, 16.2 per cent and 16.6 per cent respectively. Natural increased modestly at 1.1 per cent while non-permanent residents actually fell by 2.7 per cent.





Skilled labour shortages in Ontario and an aging population means Ontario companies have had to continue sourcing from other parts of Canada and abroad to fill gaps.

Motor vehicle and parts manufacturing declines in July erasing two consecutive months of growth

Canadian seasonally adjusted at annual rate (SAAR) gross domestic product (GDP) stayed nearly unchanged in July over June inching up only 0.02 per cent. The very modest move up in activity was due to decreased production in the goods sector (down 0.7 per cent month-over-month) and an uptick in services sector activity (up 0.3 per cent) that could not offset the losses in the goods sector.

Of particular importance for Ontario, production in the motor vehicle and parts sub-sector within transportation equipment manufacturing, contracted 1.5 per cent in July over June erasing two consecutive months of month-over-month growth. Motor vehicle and parts manufacturing has been unstable in 2019, in the first seven months of 2019, production has flipped flopped regularly from a period of growth to a period of decline. The two-month period of growth in May and June was the longest sustained period of growth in this sector so far.

In specific sub-sectors both motor vehicle manufacturing and motor vehicle parts manufacturing posted weaker activity in July over June falling by 2.7 per cent and 1.3 per cent respectively. Motor vehicle body manufacturing increased robustly in July over June moving up 5.7 per cent but this sub-sector only represents about seven per cent of all production in motor vehicle and parts manufacturing.

Year-to-date, motor vehicle and parts manufacturing are 1.9 per cent off last year's pace.

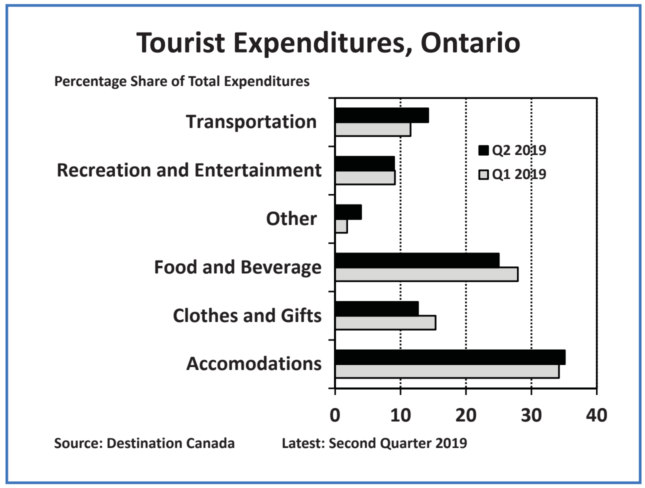
Restrained consumer activity and auto plant production interruptions has kept motor vehicle and parts manufacturing off-balance in 2019.

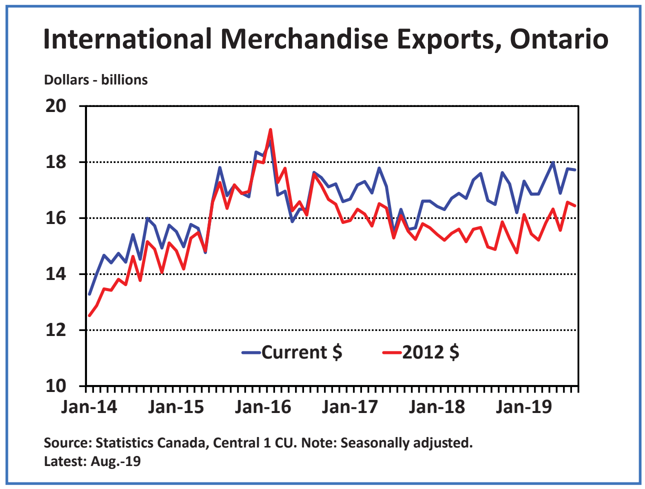
Tourists expenditures increased significantly in the second quarter as business started to ramp up towards peak season in the summer

Destination Canada released preliminary tourist expenditure numbers for the second quarter of 2019 this week. According to the new numbers Ontario took in a total of $2.2 billion dollars from tourists in the second quarter this is significantly up from the $1.0 billion taken in during the first quarter of 2019. This is not too surprising since Ontario's tourism numbers typically don't pick-up until the weather is much nicer. Fewer tourists like to visit Ontario during the winter months than during other seasons such as spring or summer.

In the second quarter, tourists spent most of their money on accommodations ($771.1 million or 35.1 per cent share of total), food and beverages ($549.4 million or 25.0 per cent share of total), and transportation ($312.5 million or 14.2 per cent share of total). The remainder of their money was spent on clothes and gifts, recreation and entertainment, and other expenditures such as souvenirs, shopping, etc.

Compared to the first quarter a bigger chunk of expenditures were taken up by accommodations and transportation. Increased demand for a finite number of hotels, especially in prime locations of Ontario typi-





cally means higher accommodation costs. Increased demand for transportation (i.e., airplane tickets) and higher energy costs passed onto the consumer meant higher transportation costs.

With most export categories surveyed posting lower exports growth in August overall exports remained nearly unchanged

After posting 5.2 per cent growth in July exports remained nearly unchanged in August falling 0.2 per cent to $17.7 billion. While exports remained nearly unchanged imports fell by 3.1 per cent in August after posting very strong growth of 5.8 per cent in July. A larger contraction to imports relative to exports meant that net exports increased.

Over the first eight months of 2019 exports remained 3.1 per cent above last year's pace while imports remained 3.4 per cent above pace as well.

In August, 7 of the 11 categories surveyed posted lower exports growth which dampened overall exports growth. The larger sectors which posted lower or higher activity included:

- Metal and non-metallic mineral products (6.0 per cent growth)
- Motor vehicle and parts (4.2 per cent decline)
- Consumer goods (5.8 per cent decline)
- Industrial machinery, equipment and parts (1.0 per cent growth)

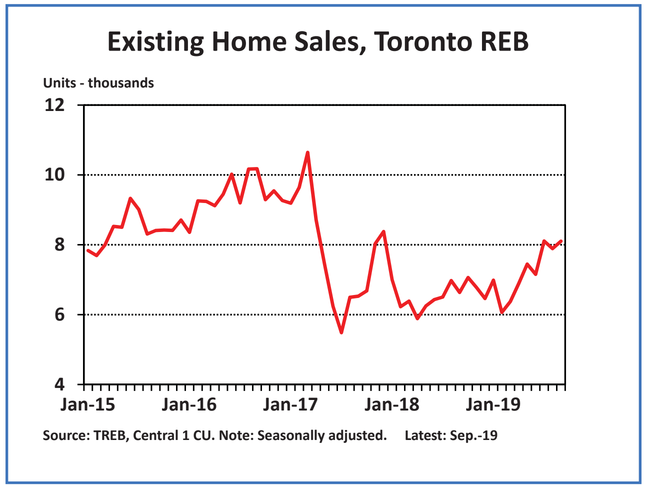
Higher gold prices lifted metal and non-metallic mineral product exports in August. Prolonged summer plant shutdowns pulled down new auto exports for both passenger and truck vehicles. Likely restrained consumer spending was a factor in lower consumer good exports in August.

Toronto's average existing home price growth remained modest in September

The Toronto Real Estate Board (TREB) released preliminary statistics for September 2019 this week. According to the latest numbers seasonally adjusted sales in September over August 2019 remained nearly unchanged. Yet, year-over-year sales are up over 22 per cent and after starting the year down the market has posted double-digit year-over-year sales growth since the end of March up to and including September, six consecutive months of year-over-year growth. Of course, 2018 marked a weaker year of existing home sales activity in Toronto in quite some time due to the often-mentioned policy changes. For a more concrete sense of the market, compared to the monthly average sales from 2010 to 2019 only over the last three months, including now September, has the Toronto existing homes market outperformed this monthly average. Over the nine months of 2019 so far, sales are up 11.5 per cent above the pace set during the same period last year.

Even though sales are significantly up year-to-date the same cannot be said of supply, over the same period new listings are up only by 0.6 per cent above last year's pace, even with robust growth in new listings of 3.9 per cent in September over August. Year-to-date, new listings growth has lagged last year's pace for most of the year.

Seasonally adjusted price growth moved up again in September but at a modest pace, similar to most of 2019. Average prices increased 1.2 per cent in September following the 1.3 per cent growth from August. Despite very stronger sales activity in 2019 compared to 2018 price growth has remained modest. Over the first nine months of 2019, average price is only 3.0 per cent above the pace set last year.



With a pick-up in new listings in September stronger than the pick-up in sales the market cooled slightly according the sales-to-new listings ratio (SNLR) moving down from 61.6 per cent in August to 60.9 per cent in September. Even with the slightly cool down in the market due to more choice for potential buyers the market continues to flirt with a sellers' market classification.

The pick-up in new listings in Toronto in September may be due to the First-time Home Buyer's Incentive program from the Canada Mortgage and Housing Corporation (CMHC) which kicked off in September. Potential sellers may have thought that with the help to first-time buyers the activity in the market would pick-up and some finally decided to move away from the sidelines and finally list their home for sale.

Even with this new program though most of the activity by first-time buyers would be geared towards higher-density housing which is what the program would allow them to afford to buy in a market like Toronto. The constant- quality housing price index from TREB in September was up 5.2 per cent year-over-year, with condo apartments posting 8.0 per cent year-over-year price growth, townhomes posting 6.1 per cent growth year-over-year and single-detached homes posting 3.1 per cent growth year-over-year.

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