Ontario Economic Briefing

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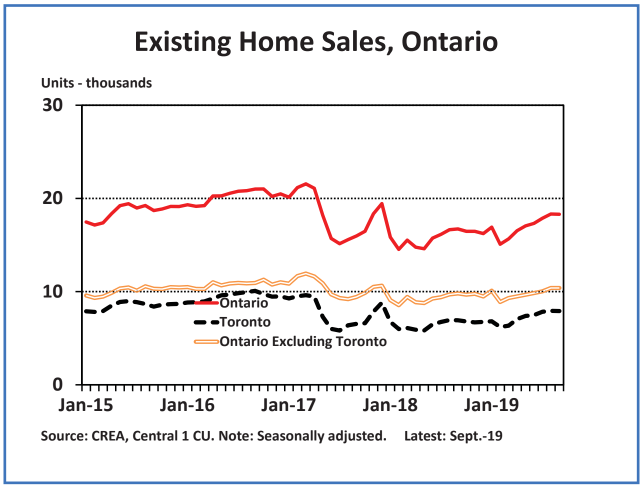
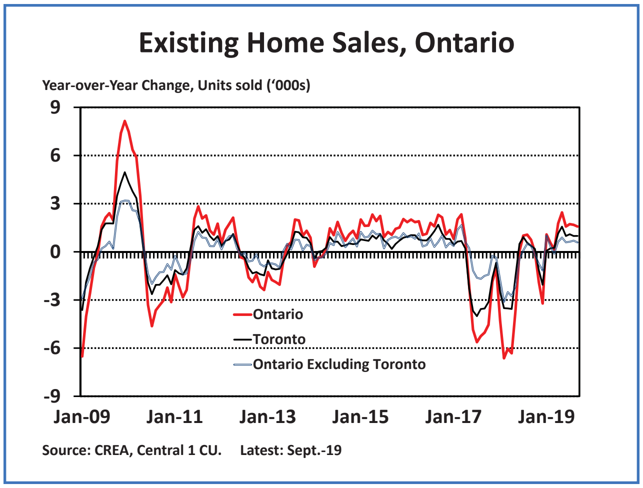
Highlights:

- With a stalled existing homes market in September average price moved up slightly, up only 0.9 per cent
- New car sales increased in August by 5.7 per cent
- Weaker services prices helped slow down overall price growth in Ontario
- Strong durable sales helped keep Ontario's month-over-month sales in the black in August
- Ontario's economy expanded by 3.3 per cent annualized in the second quarter





Ontario's existing homes market stalled in September remaining nearly unchanged from August's activity

September proved to be a very stable month with not much change in Ontario's existing homes market compared to August. Sales were nearly unchanged, edging down 27 units or 0.1 per cent down to 18,298 units. September's nearly unchanged sales numbers halted six consecutive months of growth. Year-over-year, sales in Ontario were 9.4 per cent up. Over the first nine months of 2019, existing home sales are 8.9 per cent above the pace set last year. Over a slightly longer horizon (average sales from 2016 to 2019) sales in September were 1.7 per cent above trend. Over the last three months sales have begun to outperform this average after starting the year significantly below it. Sales in Ontario are slowly coming back to typical numbers during an "optimal" year, without any policy-related shocks.

New listings also remained unchanged in September at 28,620 units. With unchanged demand and supply Ontario's average price moved up only 0.9 per cent to $618,165. Over the first nine months of 2019, new listings remained modest, up only 1.4 per cent above last year's pace while average price remained 5.3 per cent above last year's pace, a long way from the double-digit year-to-date average price growth of pre-2017.

Months of supply declined slightly in September coming in at 2.2 months down from 2.3 months in August. Year-to-date, months of supply stood at 2.5 months down from 2.8 months over the same period in 2018.

A potential ramping up of trade tensions between the U.S. and China playing out in the news may have taken the wind out of any momentum in Ontario's existing homes market. Understandably, with increased uncertainty that could affect wage and employment growth in Ontario if world trade prospects deteriorate, buyers decided to step back and reassess the situation in September, halting several months of slow and steady growth. Moreover, very limited supply may have also been a reason for less activity in the market. There are many potential buyers still in the market, who are unable to find the home they want due to limited supply. These potential buyers may have decided to take a breather and look again in the near term when supply growth ramps up again.

Year-to-date, existing home sales in the Greater Golden Horseshoe (GGH) markets have grown by 11.8 per cent, whereas markets outside the GGH have grown by 4.7 per cent. A strong influx of new residents into many markets in the GGH has awaken demand there more than in non-GGH markets.

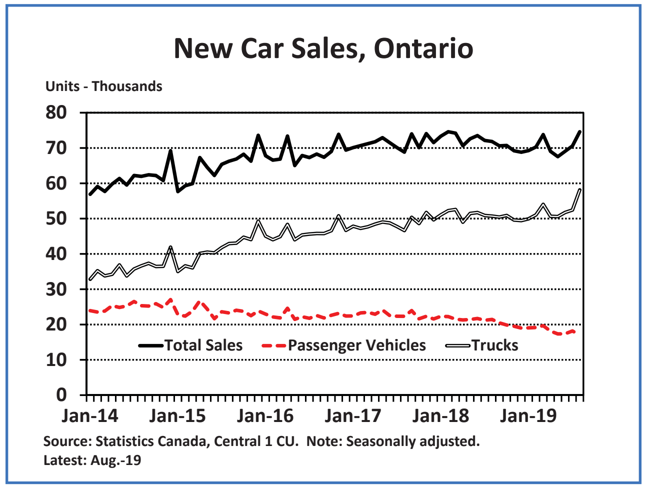
Over the first eight months of 2019 the following large markets have posted strong numbers up or down:

- Barrie (up 16.1 per cent)
- Hamilton-Burlington (up 9.5 per cent)
- Kitchener-Waterloo (up 5.5 per cent)
- Ottawa (up 5.1 per cent)
- Toronto (up 12.6 per cent)
- Durham region (up 17.6 per cent)
- York region (up 19.4 per cent)
- Windsor-Essex (up 6.6 per cent)
- Quinte (up 5.5 per cent)
- St. Catharines (up 16.8 per cent)
- Sudbury (up 0.5 per cent)
- Thunder Bay (down 1.4 per cent)

Strong sales of trucks helped lift overall new car sales despite a significant contraction to passenger vehicle sales

August proved to be a good month for new car sales in Ontario. Sales growth more than doubled in August over July coming in at 5.7 per cent adding to the 2.2 per cent growth in July. The overall growth in sales came entirely from trucks, which moved up an impressive 10.8 per cent month-over-month, eclipsing by a far margin the 1.3 per cent growth in sales in July. Sales of passenger vehicles struggled in August falling by 6.3 per cent. Sales of new cars have been trending up for three consecutive months, and with the robust sales of trucks in August total sales are up 3.8 per cent year-over-year. Despite very strong sales in August, looking at the first eight months of the year, new car sales are 4.2 per cent off last year's pace. It was not until August that year-over-year sales in 2019 surpassed last year's total. Trucks sales continue to perform well remaining 2.2 per cent above 2018's pace. Passenger vehicles are still struggling falling 15 per cent off last year's pace.

The average price of a new vehicle in Ontario moved up slightly by 1.2 per cent to $43,724. Over the first eight months of 2019, the average price of a new car is 4.9 per cent above last year's pace. The average price of passenger vehicles and trucks remained 1.2 per cent and 2.9 per cent above last year's pace respectively.



The pace of inflation slowed in September

Headline inflation came in at 1.7 per cent in September—a slightly slower rate of price growth from the 1.9 per cent posted in August. Price growth for services slowed to 1.9 per cent (down from 2.7 per cent in August), whereas prices for all types of goods increased. Overall goods prices sped up from 0.8 per cent to 1.3 per cent in September over August due to a strong ramp up in prices of semi and non-durable goods.

Fresh fruit and vegetable prices sped up helping to push up non-durable good prices. Prices of clothing and footwear and accessories increased from 0.6 per cent in August to 2.6 per cent in September.

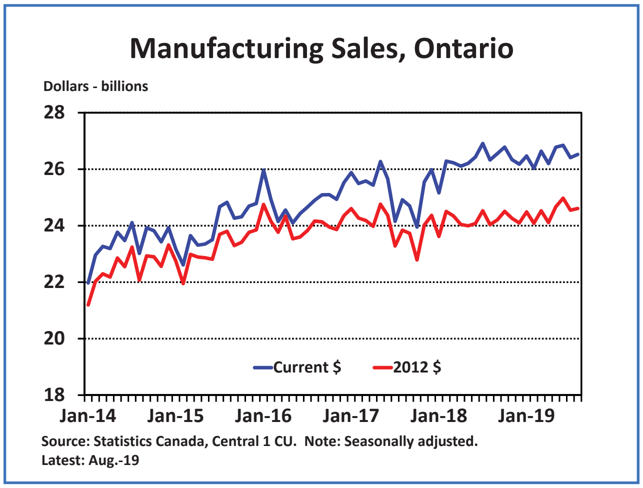
Private transportation prices increased substantially helping to pull up overall transportation costs slightly from 1.6 per cent to 1.8 per cent. Gasoline prices continued to contract in September therefore not a reason for increased private transportation costs. The price contraction is likely related to costs such as auto insurance and maintenance (i.e., auto parts, mechanic fees).

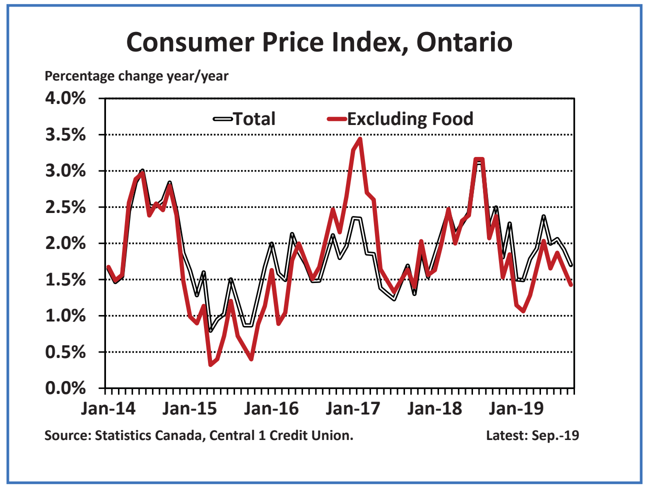
Energy prices slowed further in September falling 3.1 per cent due to lower prices of gasoline and fuel and other fuels. Natural gas prices continued to climb moving up a further 7.4 per cent.

The pace of price growth remained unchanged in Ottawa-Gatineau coming in at 2.1 per cent, but decreased in Toronto (1.7 per cent down from 2.2 per cent) and Thunder Bay (0.9 per cent down from 1.5 per cent).

Manufacturing sales rebounded in August on stronger durables sales

After posting 1.6 per cent lower sales in July manufacturing sales in Ontario rose modestly in August





moving up 0.4 per cent to $26.5 billion. National sales also rebounded moving up 0.8 per cent to $57.6 billion due to growth in seven of the country's ten provinces, including Ontario, which accounts typically for close to half of all manufacturing sales.

Sales by sector played musical chairs in August with non-durables posting weaker sales and durables rebounding. Non-durable sales moved down 0.5 per cent to $10.1 billon and durables increased by 1.0 per cent to $16.4 billion. Year-to-date, total manufacturing sales in Ontario are 1.1 per cent above last year's pace due to 2.4 per cent growth to durables despite non-durables still lagging last year's pace by 1.1 per cent.

In August, the following large sub-sectors posted strong activity, either up or down:

- Food manufacturing (down 0.7 per cent)
- Paper manufacturing (down 0.2 per cent)
- Petroleum and coal products (up 1.2 per cent)
- Plastics and rubber products manufacturing (down 2.2 per cent)
- Transportation equipment manufacturing (up 1.8 per cent)
- Primary metals manufacturing (down 1.1 per cent)
- Machinery manufacturing (down 1.3 per cent)
- Fabricated metal products manufacturing (up 0.7 per cent)

Production in auto plants in Ontario ramped up in August after summer closures from July to early August. Strong activity in the second half of August was enough to raise sales in transportation equipment manufacturing significantly. Likely the increased sales of trucks in August, as noted in the new car sales section of this report, also stoked increased manufacturing in the latter half of August at auto plants. Despite new car sales being supportive of transportation equipment, manufacturing auto parts was an area of decreased growth in August. Increased sales of aerospace equipment also supported growth in this sub-sector.

Sales of fabricated metals increased due to more demand from the architectural and structural metal industry. Several public transportation-related projects in the province (i.e., Eglinton LRT) and non-residential construction (i.e., large surge in building intentions of institutional structures) lifted sales of these products.

Of the big three metro markets now surveyed only Ottawa Gatineau posted stronger manufacturing sales in August over July coming in at 7.1 per cent higher. Toronto and Hamilton both posted weaker sales coming in at 4.1 per cent and 2.3 per cent lower respectively. Year-to-date, manufacturing sales in Hamilton remained 5.5 per cent above last year's pace while Toronto and Ottawa-Gatineau are 0.6 per cent and 0.9 per cent off last year's pace respectively. Carving out these three large centres from Ontario manufacturing sales in all other parts of the province are 1.4 per cent above pace.

Strong growth to exports helped lift overall growth in Ontario in the second quarter

Ontario recently released its latest economic accounts for the second quarter of 2019 and the news is much better coming out of this release than the previous six months. After two consecutive quarters of very modest growth Ontario's economy came back strong in the second quarter posting 3.3 per cent real growth seasonally adjusted at annual rate (SAAR) comfortably eclipsing the 0.5 per cent real growth SAAR from the first quarter, and the 0.7 per cent real growth SAAR from the fourth quarter of 2018. Year-over-year, Ontario's economic growth is nearly equal to that posted last year when real gross domestic product (GDP) grew at 3.8 per cent SAAR. Compared to the long-term average since the first quarter of 2008 second quarter growth is well above the 1.7 per cent average.

Household consumption increased 0.5 per cent in the second quarter up from 0.4 per cent growth in the first quarter yet, remained slightly lower than the 0.6 per cent average growth from the first quarter of 2008 to the second quarter of 2019. Consumption of semi-durables and services increased while durables growth fell significantly, non-durables inched up.

Business fixed gross capital formation – or the net increase in physical assets – declined by 2.0 per cent in the second quarter mostly on lower investment in machinery and equipment, which fell by 8.6 per cent after averaging over 2.0 per cent quarterly gains since the first quarter of 2017 to the first quarter of 2019. Investments in non-residential structures (up 0.2 per cent), residential structures (up 0.1 per cent), and intellectual properties (up 0.5 per cent) partially offset the drop to machinery and equipment that dragged overall business investment down. Increased housing demand has started to stoke residential structure investments and a thriving tech sector in Ontario continues to support growth in intellectual properties.

Exports increased 1.6 per cent, the strongest gain in four quarters, mainly due to higher international exports of motor vehicles and parts and metal and non-metallic mineral products. Both international (up 2.2 per cent) and interprovincial (up 0.4 per cent) exports increased. Imports declined 0.6 per cent, following a 1.6% increase in the first quarter. Tamer household consumption compared to the longer-term average likely put downward pressure on imports of durables as consumers wanted to be more prudent when it came to big-ticket items.

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