Ontario Economic Briefing

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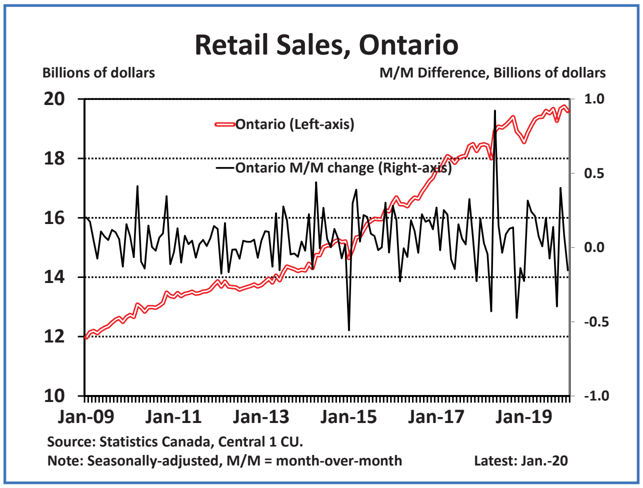
Highlights:

- COVID-19 effects will start to become evident in next month's data release
- Retail sales down 0.8 per cent in January
- A tight market lifted resale home average price in February by 4.1 per cent
- Manufacturing sales fell for the second consecutive month in January
- A slowdown in the rate of growth of goods slowed down general inflation in Ontario to two per cent



Retail sales fell in January on weaker motor vehicle and parts sales

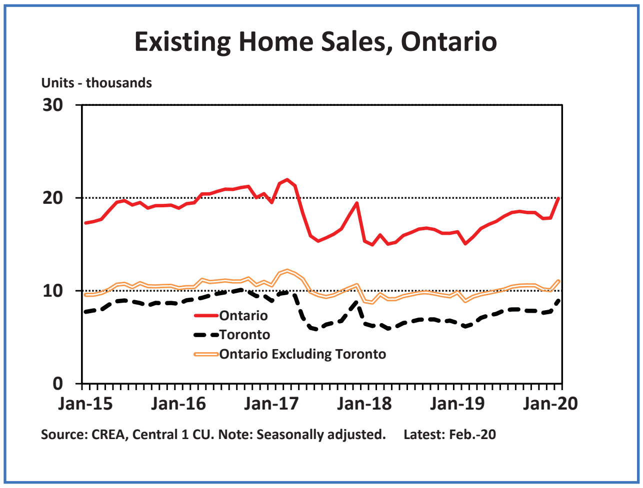
Ontario's retail sales declined in January by 0.8 per cent to $19.6 billion. Year-over-year sales remained five per cent above last year's trend. Sales in Toronto posted a deeper decline of one per cent in January to $8.3 billion. Year-over-year sales remained 7.4 per cent ahead of last year's pace. In areas excluding Toronto retail sales declined for the second consecutive month by 0.6 per cent of growth to $11.3 billion. Year-over-year sales outside of Toronto remained 3.3 per cent above last year's pace.

Retail sales in the following large sectors fell in January: motor vehicle and parts (down four per cent), building materials and gardening (down 2.7 per cent), gasoline stations (down 0.8 per cent), and sporting goods and recreation (down 2.8 per cent). Food and beverage sales on the other hand increased by 6.3 per cent.

This data does not reflect the effects of the COVID-19 pandemic, the effects of which will start to become evident in next month's data release. We can expect to see effects on next month's Ontario retail sales due to supply chain issues caused as China grappled with the virus. The province's own social distancing measures enacted in March will not show up until April's data release.

Ontario's resale homes market was on fire in February but COVID-19 impact will be significant

Ontario's existing homes market outperformed expectations in February with an 11.8 per cent pick-up in sales up from the 0.3 per cent increase in January. Furthermore, year-over-year February sales are even stronger up 32.4 per cent. Finally, compared to the longer-term monthly average from January 2001 to present day sales remained 19.7 per cent above trend.



With average sale price steadily climbing and more buyers out actively looking, supply finally came on board robustly. In February new listings increased by 13.2 per cent over January and year-over-year increased 6.9 per cent nearly erasing the 7.3 per cent drop in new listings posted in January. Like sales, new listings remained comfortably ahead of the long-term pace, up 6.3 per cent.

Despite the relief to the market brought about by more supply, the market remained tight as evidence by two metrics: the sales-to-new-listings-ratio (SNLR) and the months of inventory. February's SNLR came in at 60.4 per cent, down from the 67.6 per cent in January but still remained above 60 per cent the threshold between a balanced and sellers' market. Moreover, months of inventory slid down from 1.9 months of supply to 1.7

months of supply in February. As of February, months of supply is substantially lower than the long-term average: 3.5 months.

With a tighter market in February and likely more buyers coming to open houses, prices benefitted. The average price in Ontario for a resale home moved up 4.1 per cent to $684,011 which was a significant increase from the 2.2 per cent jump in price posted in January. Year-over-year average price moved up 19.1 per cent.

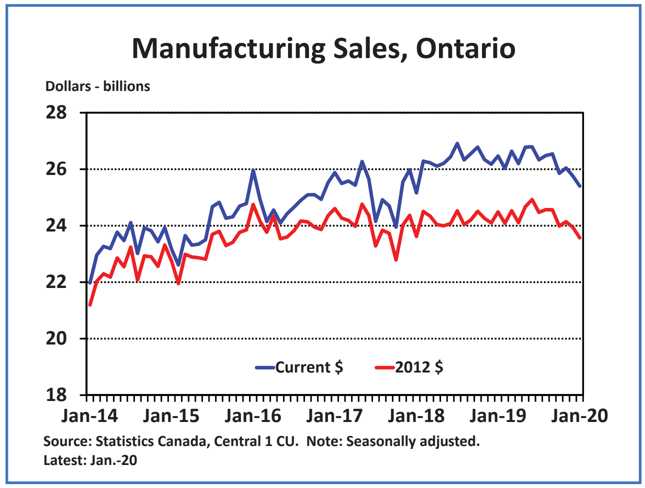
With only two months of data in the books, Ontario's housing market posted strong numbers. Sales and average price remained 20.2 per cent and 17.1 per cent above last year's pace. New listings, despite the surge in supply in February, remained 0.3 per cent below last year's pace.

According to the same-quality housing price index (HPI) of the seven metro areas surveyed all posted stronger year-over-year growth in February. The largest gains were posted in Ottawa (up 14.4 per cent), Niagara (10.3 per cent), and Toronto (up 10.2 per cent). Compared to the long-term average Ottawa's, Toronto's and Guelph index remained above trend. All other indices (Barrie, Oakville-Milton, Hamilton-Burlington and Niagara) were below trend.

By specific real estate board, year-to-date, almost all posted sales growth with a few exceptions. In Toronto sales increased 31.5 per cent, Ottawa increased 4.3 per cent, Hamilton-Burlington increased 20.8 per cent, London-St. Thomas increased by 15.3 per cent, and Barrie increased by 34.4 per cent.

Year-to-date, Greater Golden Horseshoe boards increased by 27.5 per cent while non-GGH boards saw sales increase by 8.1 per cent.

Up until February, Ontario's resale market was supported by strong population growth, a stable labour market with near record-low unemployment. Going forward COVID-19 will undoubtedly snuff out any growth in sales and price as social distancing becomes the norm until this virus can be contained. Even with the chains of social distancing removed once the virus is contained, if this goes well into the second quarter or even the third quarter it will be very difficult for the market to rebound. The central bank and the government are working together to ensure liquidity is not an issue and people can borrow at low costs to stay afloat.



Manufacturing sales fell again in January due to weaker durable sales

Ontario's manufacturing sales continued to slide into 2020. Sales declined a further 1.4 per cent in January adding to the 1.1 per cent drop in December. Durable sales fell by 2.9 per cent in February offsetting the 1.1 per cent gains to non-durable sales. Year-over-year, manufacturing sales are 4.0 per cent off last year's pace with durables 7.2 per cent down and non-durables 1.2 per cent above pace.

By large sub-sector, the following posted robust changes in sales:

- Food manufacturing (up 2.9 per cent)
- Petroleum and coal products (down 2.6 per cent)
- Plastics and rubber products (up 1.5 per cent)
- Transportation equipment manufacturing (down 8.4 per cent)
- Primary metal (down 1.6 per cent)
- Machinery (down 1.9 per cent)

Sales of transportation equipment fell due to lower sales of motor vehicle assembly and motor vehicle parts. This reflected longer temporary shutdowns at some assembly plants as well as the recent closure of the General Motors plant in Oshawa.

The fall in sales in the petroleum and coal product industry reflected lower sales and prices. Partial shutdowns at some Canadian refineries for maintenance work during the month were a major contributor to the decline in volumes sold.

Post February, the disruptive effects of COVID-19 should begin to be seen in the data. With most of the world sitting idle, supply chains are not being touched and sales are also not occurring. It is too early to tell when or where things will end up. What is certain is the longer the virus-induced slowdown continues the more certain 2020 will go in the books as a weaker year for manufacturing sales in Ontario.

Inflation comes in at two per cent in February, effects of COVID-19 not yet fully evident in the data

Headline inflation in February came in at 2.0 per cent a slightly slower pace of growth from the 2.1 per cent posted in January. While prices of services increased by 2.1 per cent (up 0.5 percentage points) goods prices all grew at a slower rate. The biggest slowdown occurred in non-durable goods (prices up 2.4 per cent from 3.6 per cent last month) and durable goods (up 0.7 per cent from 1.4 per cent last month).

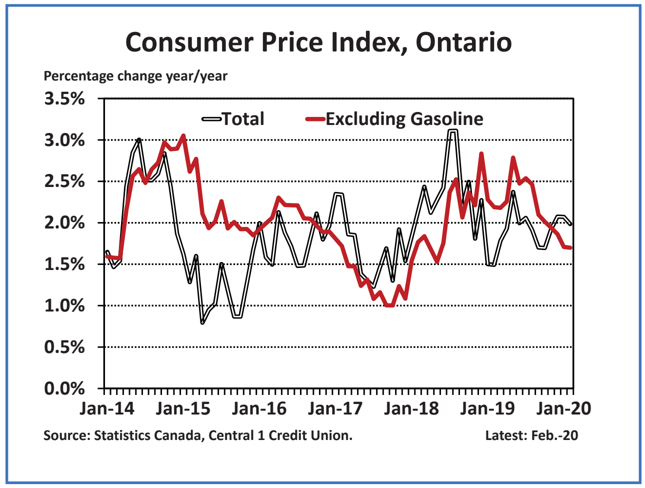
Food and shelter prices grew at a slower rate in February. Food prices slowed down due to a strong decline in fruit and vegetable prices (down 0.2 per cent down from 2.9 per cent growth in January). While prices of owned and rented shelter slowed a hair, most of the drop in shelter costs came from much slower energy prices which increased 6.5 per cent in February - slower than the 8.1 per cent posted in January. Fuel oil and other fuels prices increased 6.5 per cent slower than the 10.0 per cent growth posted last month.

Public transportation prices moved up 8.7 per cent (up from 7.2 per cent last month) while private transportation increased at a slower clip up by 4.3 per cent (slower than the 4.9 per cent posted last month).

Gasoline prices rose less in February (up 10.8 per cent) than January reflecting lower crude oil prices amid lower global demand following the COVID-19 outbreak at the end of January.

Food prices increased by slower clip in February due to cheaper prices of oranges. Prices of apples continued to fall amid an oversupply in North America. Moreover, plentiful supply of cucumbers, lettuce, and peppers contributed to slower price growth.

Prices moved up in Thunder Bay while prices in Toronto and Ottawa-Gatineau increased by a slower clip. Toronto prices moved up an additional 1.4 per cent from 1.6 per cent last month while prices in Ottawa-Gatineau moved up 2.5 per cent (slower by 0.1 percentage points) Prices in Thunder Bay moved up 1.6 per cent a faster rate than the 1.3 per cent posted last month. A strong gain in rental prices contributed



to the pickup in the pace of price growth in Thunder Bay. Likely, influx of new residents and a finite number of rental spaces available led to the increase in rental costs.

Like many other metrics, inflation does not reflect the reality on the ground yet with COVID-19. The effects of severely constrained consumer demand should begin to be felt in next month's report. Non-essential products and services should report a much slower if not negative rate of growth in the reports to come.

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