Economics

Ontario Economic Briefing

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Highlights:

- Manufacturing sales record worse month on record with sales falling 37.1 per cent
- Prices fell a second month in a row, largely driven by lower gasoline prices
- Ontario's population grew by 33,213 net people by the end of the first quarter
- A full month of stay-at-home orders pulled retail sales down by 32.8 per cent
- With an opening up of the economy Ontario's housing market tightened substantially, average price jumped 5.8 per cent

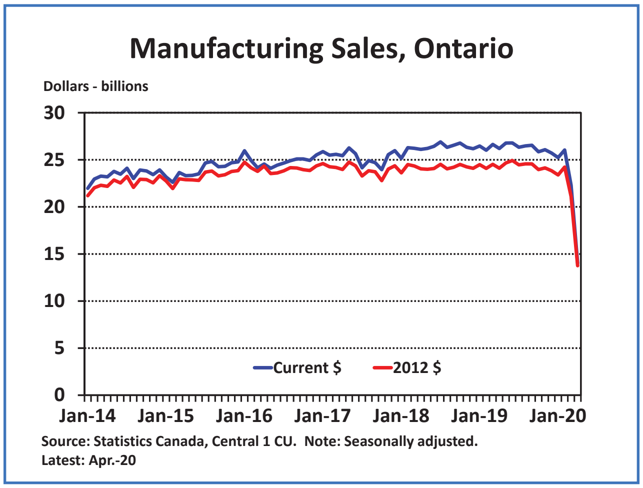
Record drop in manufacturing sales recorded in April

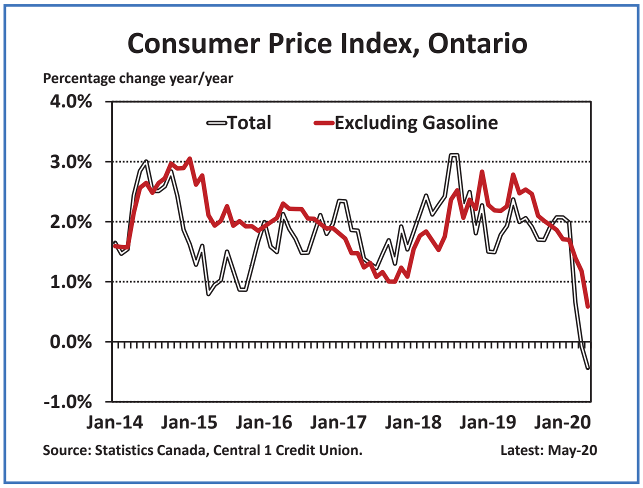
Manufacturing sales in Ontario fell by a record 37.1 per cent to $14.0 billion. Sales declined in all 21 industries, led by the motor vehicle (down 98.9 per cent), motor vehicle parts (down 90.6 per cent), primary metal (down 32.0 per cent) petroleum and coal product (down 47.7 per cent), food (down 10.8 per cent) and plastic and rubber product (down 34.9 per cent) industries.

Motor vehicle and parts sales fell due to every Canadian assembly plant ceasing operations in April, while many motor vehicle parts suppliers in North America operated at limited capacity or closed operations completely. Petroleum and coal sales fell reflecting lower revenues, as refineries curtailed production in response to reduced demand for energy products in April. The lower demand was due to an increase in remote work and a decline in commuting, which lowered energy consumption. Food sales fell mostly due to lower meat and dairy product sales. Many meat processing plants shut down after COVID-19 outbreaks occurred. Dairy manufacturers were affected by the shutdown of non-essential services such as restaurants, hotels, and schools.

Ontario prices fell for a second consecutive month in May as many households restrained spending

Ontario's headline inflation declined for a second consecutive month moving down 0.4 per cent in May





adding to the 0.1 decline in April. Despite the economy starting to open up in phases and by regions many businesses remained shuttered still. Prices for goods fell 2.9 per cent as households continued to minimize spending on non-essential goods and non-essential businesses were not serving clients. Prices fell for clothing and footwear (down 4.3 per cent), recreation, education, and reading (down 3.4 per cent), health, and personal care (down 0.2 per cent), and transportation (down 2.1 per cent).

With much of the province continuing to follow stay-at-home directives people drove less dampening demand for gasoline which also largely responsible for the decline in general prices internationally. Energy prices declined 20.2 per cent largely due to a drop in gasoline prices of 28.3 per cent. Without gasoline included in the basket of goods and services used to calculate the consumer price index inflation in Ontario would have increased 0.6 per cent. Electricity prices fell 13.1 per cent as Ontario continued to control prices to provide some cost relief for households during this difficult period.

While non-essential goods and services saw prices growth decline essentials such as food continued to increase. Food prices increased 2.2 per cent from both food bought from stores and restaurants (i.e., takeout orders). Decreased supply of meat and increased consumer demand and higher import costs from a weaker Canadian dollar drove up meat prices. Other foodstuffs such as tuna, flour, and rice also posted higher prices.

Prices fell in two of the three metro markets surveyed in May. Toronto saw overall prices fall 0.4 per cent while prices in Thunder Bay fell 1.3 per cent. In Ottawa-Gatineau price growth slowed down from 0.8 per cent in April to 0.3 per cent in May.

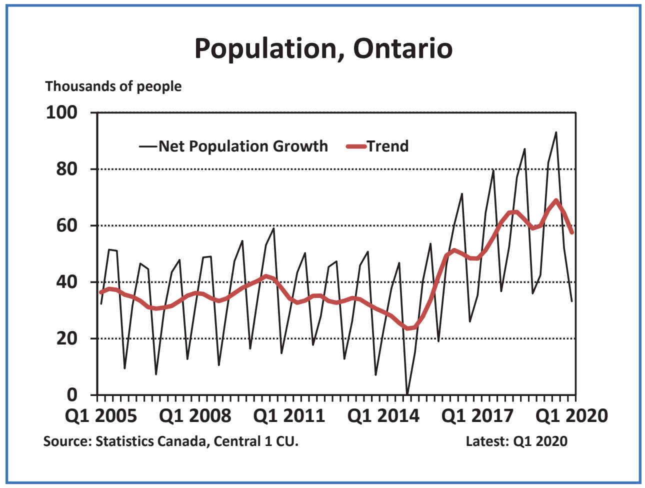
Pandemic effects show up in population estimates

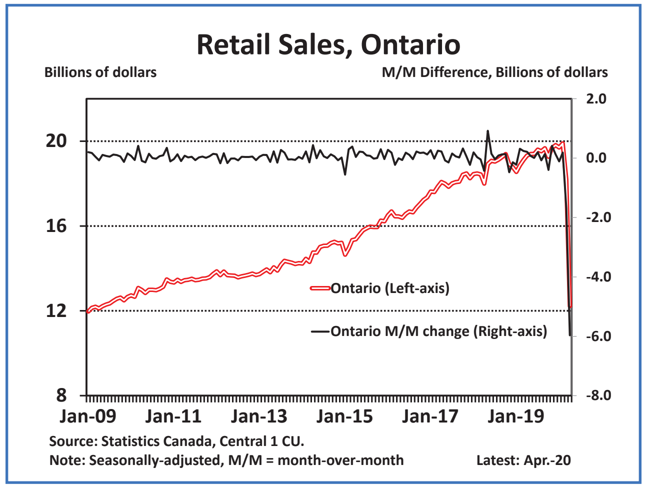
Quarterly population estimates were released this week and Ontario's population increased by 33,213 net people by the start of the second quarter to 14.7 million residents. Canadian population increased by 76,221 net people to 37.8 million residents of which Ontario made up for nearly 40 per cent of this net growth.

Ontario's quarter-over-quarter population growth was weaker than average. For example, during the recovery phase of the Great Financial Crisis to the start of this recession (the first quarter of 2010 to the first quarter 2020) net population growth averaged 40,594 net people. Moreover, during this period population growth quarter-over-quarter averaged 0.3 per cent, the latest reading puts population growth at 0.2 per cent.

The decline in population growth was largely due to much fewer non-permanent residents (down 77.1 per cent from the previous quarter to 4,111 net people), interprovincial migration (down 3,786.8 per cent to 2 507 net fewer people), and natural increase (down 28.2 per cent to 5 480 net people). Other international migration excluding non-permanent residents actually held steady declining only 1.5 per cent from the previous quarter to 26,129 net people.

Border closures kept many non-permanent residents such as seasonal workers and foreign students away, while stay at home directives kept those that would have relocated from other regions of Canada to Ontario at home as well. International migrants largely held up as they were able to get their files for permanent residency approved just before consular services





shut down at embassies abroad and fly over to reunite with immediate family.

Central 1 Economics fully expects movements of people to be challenged for most of the year as borders and economies open up very slowly to safeguard from a potential second wave of COVID-19 undoing all the hard-earned gains. Ontario's population growth is expected to considerably slowdown in 2020 to 1.2 per cent from 1.7 per cent in 2019.

Retail sales slid 32.8 per cent

As expected, with a full month of stay-at-home orders in Ontario in April retail sales fell further (down 32.8 per cent to $12.2 billion) adding to significant losses in March (down 8.5 per cent). In the Toronto metro area, retail sales fell an additional 35.6 per cent to $4.7 billion. Excluding the Toronto metro area retail sales in the rest of Ontario fell 30.9 per cent.

In January and February, pre-crisis, retail sales averaged $19.8 billion, April sales are 38.2 per cent down from this pre-crisis trend. Over the first four months of the year, retail sales are 9.2 per cent off last year's pace, in the Toronto metro area sales are 9.6 per cent off last year's pace while all other areas of Ontario, excluding Toronto, sales are down 8.9 per cent.

While essential retailers such as supermarkets and other grocery stores, convenience stores, pharmacies, gasoline stations and beer, wine and liquor stores remained open with reduced hours, other non-essential retailers remained closed. Some were able to pivot quickly to e-commerce platforms to keep revenues trickling in.

Motor vehicle and parts dealer sales fell significantly in April contributing to the general steep slide in total sales. Consumers continued to tighten their belts and focus solely on essential goods. Lower crude oil prices and fewer Ontarians driving to work contributed to lower gasoline sales at gas stations.

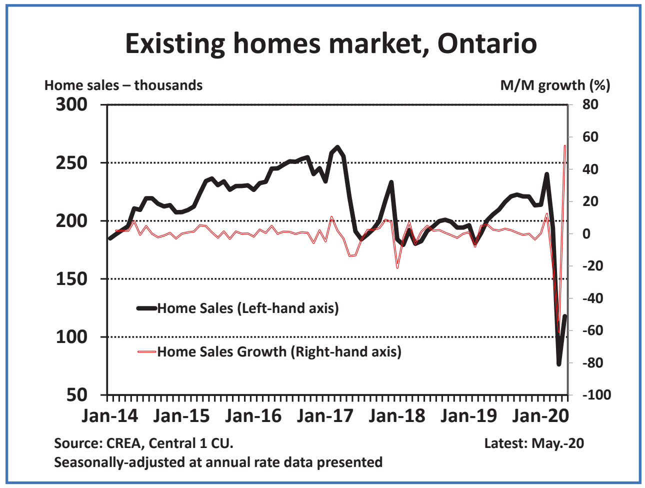
Central 1 economics is calling for a 10.6 per cent contraction to retail sales in 2020[1]. The worse of the economic crisis is expected to be May from which a gradual and uncertain recovery begins for the economy.

With Ontario's economy slowly opening up the housing market also came back to live

While many Ontario households are taking a long hard look at their expenses and only spending on essential goods due to several factors brought about by this pandemic (i.e., unemployment, loss hours, loss income) there is a group of households that seem to be taking advantage of this time to look for homeownership housing attracted by the market's low mortgage rates. After a dismal April where both sales and new listings growth plummeted due to stay-at-home directives as the economy has slowly started to come out of hibernation so too have some buyers ready to pounce on potential deals in the market.

In May, sales increased 54.5 per cent month-over-month to 9,828 units. Despite the month-over-month increase year-over-year sales were 42.6 per cent off last year's pace and lagged the long-term trend by 41 per cent.

While sales rebounded strongly new listings picked up but not quite to the same degree. New listings moved up 35.7 per cent to 14,720 units but like sales lagged year-over-year by 47.1 per cent and the long-term monthly trend by 47 per cent. The lack of supply stems from health concerns from home showing to many potential buyers at this time and a weakened market.



With increased sales off-setting the growth in new listings the market has tightened according to the sales-to-new-listings ratio (SNLR) and the months of supply metric. The SNLR in May moved up to 66.8 per cent (up from 58.7 per cent in April) and months of supply fell 1.8 months to 2.7 months well below the long-term monthly trend of 3.5 months but still above the 1.8 months of supply average over January and February before the start of the pandemic in March in Ontario.

The Canadian Real Estate Association's (CREA) constant quality housing price indexes for Ontario real estate boards picked-up steam in most markets surveyed. Oakville-Milton posted the largest month-over-month gains. The rate of growth of the index slowed down in Barrie, and declined in Niagara.

Average home price rebounded by 5.8 per cent in May to $604,681 after giving back over thirteen per cent of value in April. Certainly, a tighter market with buyers looking for deals and not enough supply likely led to intense bidding wars for homes especially in the dense urban markets as this is where most of the recovery in sales occurred. The following real estate boards accounted for 60.8 per cent of the growth in sales in May (of which Toronto region made up 30.6 per cent share):

- Toronto Region (sales up 53 per cent)
- Barrie (sales up 111.1 per cent)
- Hamilton-Burlington (sales up 69.4 per cent)
- Kitchener-Waterloo (sales up 72.5 per cent)
- Ottawa (sales up 30.5 per cent)

1 https://www.central1.com/wp-content/uploads/2020/06/ECON_EA_ONT_202002.pdf

- Durham region (sales up 49.5 per cent)
- York Region (sales up 64.8 per cent)

With the recent changes to qualify for Canada Mortgage and Housing Corporation's (CMHC) mortgage default insurance future months' sales may take a bit of a haircut as many first-time buyers may be sidelined due to the more stringent qualifying criteria if they wish to go with CMHC insurance. First-time home buyers can use private insurers which will likely not mirror these changes but if a first time buyer is looking to purchase a multi-family unit (i.e., townhome or condo apartment) they may be sidelined in Ontario's largest markets where multi-families are popular and attainable for the majority of first-time buyers as private insurers do not deal in the multi-family space but CMHC does.

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