Ontario Economic Briefing

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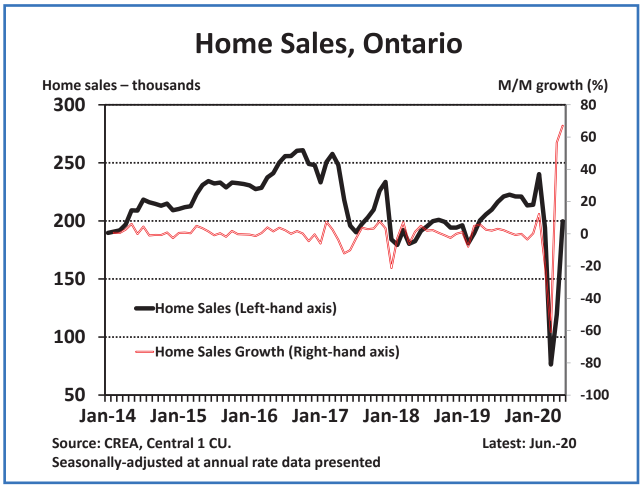
Highlights:

- A tight market kept average home price up in June, moving up 10.2 per cent to $667,827
- Manufacturing sales rebounded strongly in May moving up 17.5 per cent
- Real GDP growth slipped two per cent in the first quarter of 2020



Ontario's market continued to roar back in June, home prices moved up 10.2 per cent

Ontario's existing homes market continued to grow in June marking two consecutive months of growth after two dismal months of activity from March to April due to stay-at-home directives from Ontario Public Health to protect Ontarians from COVID-19. The growth in June is not only pent-up demand, it's spring-time activity coupling with a usually hot summer market, as well as buyers trying to get ahead of new Canada Mortgage and Housing Corporation (CMHC) mortgage insurance rules. In June, sales increased by 67 per cent over May to 16,636 units while new listings also moved up by 68.6 per cent to 24,932 units. June marked the first month in 2020 thus far where new listings growth outpaced sales growth. Supply has been an issue in the market and a reason for the relative tightness even during the height of the pandemic. Despite two strong months of growth the damage to the market over March and April continues to weigh on year-to-date figures. Over the first six months of the year sales and new listings continued to lag last year's pace by 11.7 per cent and 21.4 per cent respectively.

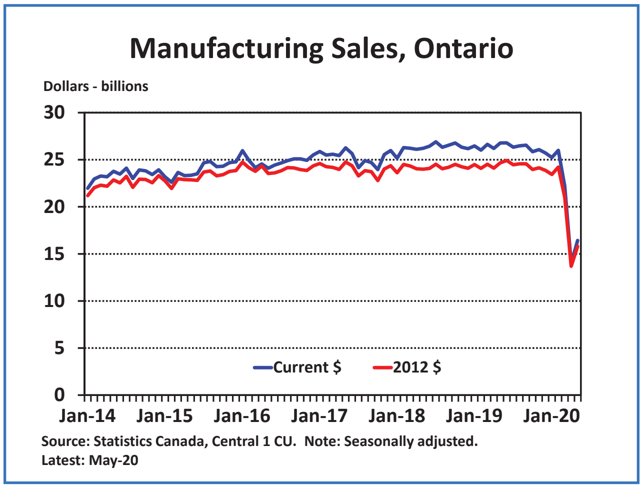
Average price in June increased a further 10.2 per cent to $667,827 due to a tight market, over the first six months of 2020, average price remained ahead of last year's pace by 11.7 per cent.

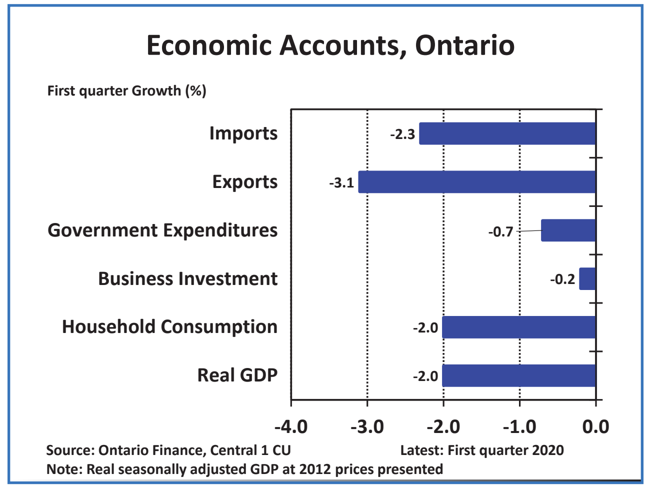
The Canadian Real Estate Association's (CREA) constant-quality housing price index (HPI) for the Toronto metro area declined a further 0.3 per cent in June. This marked three consecutive months of HPI declines. The HPI for the Ottawa-Gatineau (Ontario-part only) moved up 1.1 per cent month-over-month. While the Toronto metro's HPI has been falling the Ottawa-Gatineau metro's HPI has continued to climb. Toronto has one of the country's most expensive real estate markets, at a time when many buyers, especially first-time buyers and new immigrants, are looking to make their first purchase. These groups are likely looking in the periphery of the City of Toronto for that purchase or looking strictly at higher-density housing in the City of Toronto (i.e., townhomes and condo apartments).

In June, all of Ontario's real estate boards posted a very strong sales growth, in some cases, triple-digit growth, yet over the first half of 2020 only a handful of real estate boards have been largely insulated from the pandemic's effects and current year-to-date sales are still outpacing last year's tally. Those real estate boards are the following:

- Barrie (up 8.6 per cent)
- Durham (up 1.7 per cent)
- Grey-Bruce (up 2.6 per cent)
- Midland-Penetang (up 4.5 per cent)
- Muskoka/Haliburton (up 0.1 per cent)
- Parry Sound (up 14.4 per cent)
- Tilsonburg (up 2.4 per cent)

The strong growth over the last two months notwithstanding it will be interesting to see what the next six months hold for Ontario's home ownership market. The economy will likely very slowly recover from the pandemic affecting wages and job prospects and immigration all strong drivers of home ownership demand. Moreover, CMHC's new more restrictive mortgage insurance rules will exclude many first-time buyers adding another layer of dampening demand to an already weakened market.





Moreover, in large metros such as Toronto it will be interesting too to keep an eye on these markets how the rest of the year pans out. The working-from-home-revolution may be here to stay and with that people will not be bound to a specific geographic area but free to live anywhere and work remotely. Several large tech companies have already moved to this model (i.e., Shopify, Twitter, Facebook) and some financial institutions as well. If this becomes the norm for many non-client facing businesses this will benefit other markets to the detriment of large markets like Toronto. If an exodus out of big metro areas does occur it will be gradual.

For 2020, Central 1 economics is calling for a sizeable contraction of home sales in the range of 10 to 30 per cent. So much uncertainty over the next six months calls for a wide forecast range.

Further opening of the economy benefits manufacturing sales, rebound by 17.5 per cent in May

Manufacturing sales increased 17.5 per cent to $16.4 billion in May following a record 37 per cent decline in April, as many manufacturers resumed operations following full or partial shutdowns related to COVID-19 during the previous month. Nevertheless, total year-over-year sales still lagged by 38.6 per cent. Moreover, over the first five months of 2020, manufacturing sales remained 21.4 per cent off last year's pace.

Sales were up in 18 of 21 industries, led by transportation equipment manufacturing (up 195.5 per cent), food manufacturing (up 1.8 per cent), petroleum and coal products (up 37.1 per cent), plastics and rubber products (up 26.1 per cent), and fabricated metal products (up 9 per cent).

Sales in the transportation equipment industry rose in May, partially recovering from the record drop in April. The largest increases were in the motor vehicle and motor vehicle parts industries, as most plants re-opened and gradually resumed production by mid-May.

After four consecutive months of decline, sales in the petroleum and coal product industry increased in May. The gain reflected higher volumes and prices, as refineries ramped up production in response to increased fuel demand as provinces across Canada began re-opening their economies in May.

Sales of fabricated metal products rose in May following two consecutive monthly decreases. The gains were widespread but were more pronounced in the architectural and structural metal industry in tandem with the re-opening of the construction industry in several provinces in May.

With global supply chains gradually coming back on board and Ontario's economy continuing to open demand should rebound, and deep sales losses will partially be recovered for the remainder of 2020. This boost in pent-up demand is expected once the economy opens up again but the rest of 2020 will present challenges for manufacturing sales as many businesses battered financially from the pandemic will pursue meek investments or no investments at all putting downward pressure on total sales in 2020. Central 1 is currently calling for a 11.6 per cent contraction to manufacturing's contribution to Gross Domestic Product (GDP) in 2020.

COVID-19 pandemic severely affected household consumption and some business investments in the first quarter of 2020

Ontario Finance released this week its quarterly economic account estimates for the first quarter of 2020. As expected, once COVID-19 public health measures were enacted over the last two weeks of

March that was enough to outstrip any growth seen up until then from January to mid-March. Ontario's real GDP decreased by a seasonally adjusted two per cent in the first quarter of 2020 (all figures in this section are seasonally adjusted unless otherwise stated), after edging up 0.1 per cent in the fourth quarter of 2019. At seasonally-adjusted-annual-rate (SAAR) real GDP moved down 7.9 per cent. GDP moved down on lower household consumption, an area that accounts for nearly 60 per cent of GDP and partially from lower business investments in the form of business gross fixed capital formation which accounts for about 16 per cent of GDP. Ontario's first quarter GDP dip was the first quarterly decline since the second quarter of 2011.

With strict stay at home directives from Ontario public health to control the spread of the virus many households eschewed non-essential expenditures and concentrated on essentials such as food. Overall household consumption fell two per cent in the first quarter pulled down by lower household expenditures on services (down 2.6 per cent), semi-durable goods (down nine per cent), and durable goods (down 6.2 per cent). Non-durable good expenditures increased 4.1 per cent.

Business fixed gross capital formation – or the net increase in physical assets – edged down 0.2 per cent mainly from lower investments in machinery and equipment (down 2.5 per cent) only partially offset by gains to residential construction (up 0.1 per cent), non-residential structures (up 1.6 per cent), and intellectual property products (up 0.2 per cent). With supply chains severely compromised globally and the real prospect of a recession on the horizon due to the pandemic many businesses not only scrapped investments but also thinned out their payrolls.

Spending at all three levels of government combined declined by 0.7 per cent in the first three months of 2020, following a 0.3 per cent rise in the previous quarter.

Exports (down 3.1 per cent) and imports (down 2.3 per cent) both declined in the first quarter largely reflecting rail blockades, plant shutdowns and lower demand as a result of COVID-19.

Looking ahead, the real damage from the pandemic will be not be fully quantified until second quarter estimates are available sometime in the Fall. A severe drop in GDP, in the range of 40 to 50 per cent, is expected given the strictest of stay at home orders were in place from April to May. Post May the economy has started to gradually open using a regional approach for the second and third phases of reopening. Even with a return to most economic activity in the province Central 1 expects the bite to GDP from the first six months of the year to be too severe a downgrade to offset in the second half. Real GDP in 2020 is expected to fall by at least 7.4 per cent.

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