

Highlights:

- Headline inflation increased 0.4 per cent in June
- Retail sales increased over 14 per cent to \$14.3 billion in May
- New car sales leapt up 132.3 per cent in May

Prices increase in Ontario in June as economy slowly opens

Ontario's headline inflation increased by 0.4 per cent in June due to the reopening of the economy and higher prices for services (up 1.3 per cent) and durable goods (1.8 per cent).

Prices moved up in all three metro markets surveyed in June.

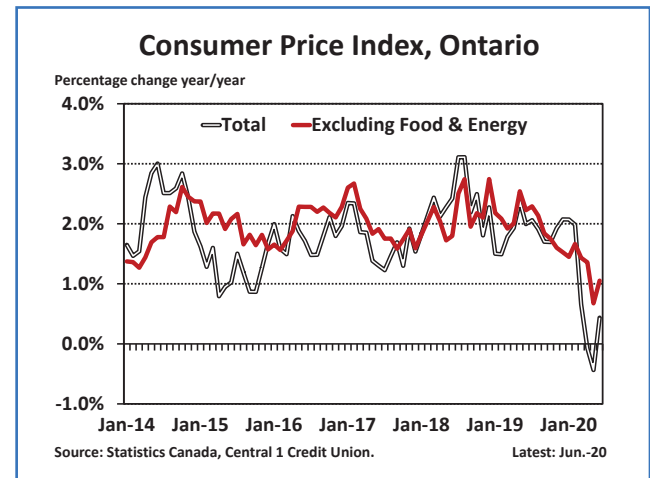
- Thunder Bay; up to -0.2 per cent in June from -1.3 per cent in May;
- Toronto increased 0.3 per cent; up from -0.4 per cent in May; and,
- Ottawa-Gatineau increased 1.2 per cent; up from 0.3 per cent in May.

While all other subcomponents in the goods sector still posted negative price growth inflation is present in those prices too as the pace of deflation is slowing down considerably.

With the COVID-19 pandemic still adversely affecting normal economic activity, only very recently have supply chains slowly returned online which is affecting supply for goods such as cars or inputs into production of services or other goods which lifts prices for final consumers.

Excluding food and energy which are two areas dampening inflation, prices moved up 1.1 per cent in June up from 0.7 per cent in May due to a general firming up of inflation, most notably in services.

Shelter prices moved up two per cent (up from one per cent in May) largely due to an uptick in rental unit costs from higher prices for utilities such as energy, water, other fuels such as gas, and higher monthly rents in an



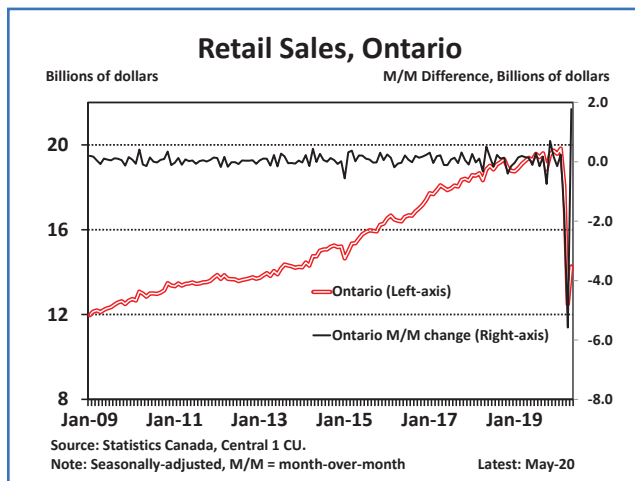
already very tight rental market with limited vacancies. Owned shelter price growth remained flat. The pace of growth of food prices slowed to 1.9 per cent (from 2.2 per cent in May) likely due to increased production. With a greater number of seasonal workers allowed to cross the border to work the farms greater fruit and vegetable production put downward pressure on food prices. Beef prices continued to rise, likely still affected from plant closures early in the pandemic and supply-side issues as cattle producers culled production given a grim beef price outlook.

Public transportation prices increased further (up 6.7 per cent in June from 5.8 per cent in May) likely due to upward pressures on gasoline prices and some passing on of COVID-19 retooling costs of public transportation systems in the province to a reduced pool of riders.

Electricity prices jumped 1.9 per cent; up from 13.1 per cent down in May in Ontario as the provincial government introduced higher electricity prices on June 1, after significantly lowering prices in March in response to the COVID-19 pandemic.

Retail sales rebounded by 14 per cent

Retail sales rebounded in May after several sectors were given the green light to open and numerous restrictions related to COVID-19 were eased. Retail sales increased by 14.2 per cent to \$14.3 billion. Sales in Toronto increased by eight per cent (to \$5.3 billion). Excluding Toronto, sales in the rest of Ontario moved up 18.2 per cent (to \$9 billion). Despite the growth month-over-month many consumers are not fully confident to shop in person as they were before the pandemic and e-commerce is growing as a result.

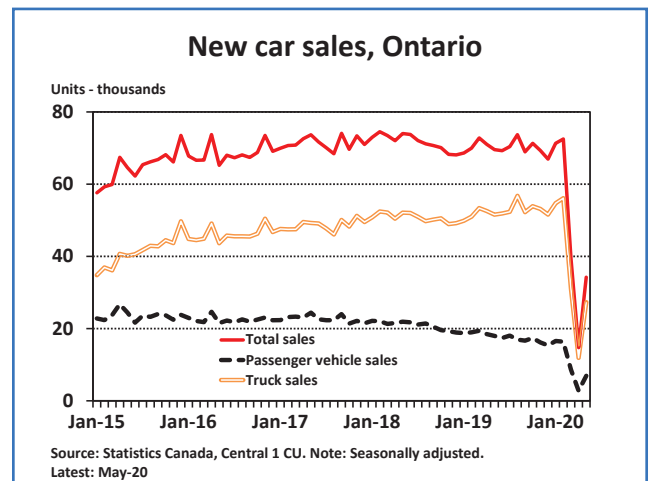


Over the first five months of 2020, retail sales are still lagging last year's pace by 13.4 per cent. Barring another wave of the virus in the Fall/Winter, retail sales should be on the recovery path for the remainder of 2020. Although sales will continue to rise, they will not be able to offset the significant losses from March and April and Central 1 economics still expects a drop in retail prices in the eight to 11 per cent range this year.

Large sectors such as motor vehicle and parts dealers, food and beverage stores, health and personal care stores, gasoline stations, and general merchandise stores helped to lift retail sales in May coinciding with the phased-in reopening of the economy.

New car sales up 132 per cent in May but lagging last year's total

After new car sales fell significantly for two consecutive months, they roared back to life in May moving up 132.2 per cent to 34,320 units (all figures seasonally adjusted unless otherwise noted), lifted by strong rebounds to passenger vehicle sales (up 147 per cent and making up 20.2 per cent of sales) and truck vehicles (an aggregate group comprising light trucks, heavy trucks, and buses), up 130.9 per cent and making up 80.8 per cent of sales). Despite the rebound in May, as dealership showrooms reopened, the deep losses over the previous two months are still weighing on the year-to-date tally. Over the first five months of 2020 new car sales in Ontario remained 34 per cent below last year's pace. Moreover, even with the rebound in May sales, 2020's year-to-date total makes up only 27.6 per cent of last year's total sales. A gap in sales of over 609,000 units remains to get back to last year's total sales. For Ontario to make up this gap it would have to sell just over 87,000 units monthly for the rest of 2020. For comparison, the monthly sales average from January 2000 to May 2020 is just under 61,000. Therefore, it seems highly unlikely total car



sales in 2020 will even reach the total attained last year. Despite low interest rates which make new auto financing more affordable for consumers and showroom deals to move more units the current economic situation of high unemployment, increased household debts, and substantial uncertainty about the future will dampen new car demand as people shy away from luxury or non-essential items and focus on the essentials like food, shelter and servicing existing debt.

The average price of a new car fell 5.7 per cent to \$44,779 in May. The average price for passenger vehicles and trucks fell by 5.2 per cent (to \$36,639) and 5.7 per cent (to \$46,799) respectively. Year-to-date, the average price of a new car remained 3.1 per cent above last year's pace. Year-to-date price growth will diminish for the rest of 2020 as prices will be cut to try and regain some of the year's losses.

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