Ontario Economic Briefing

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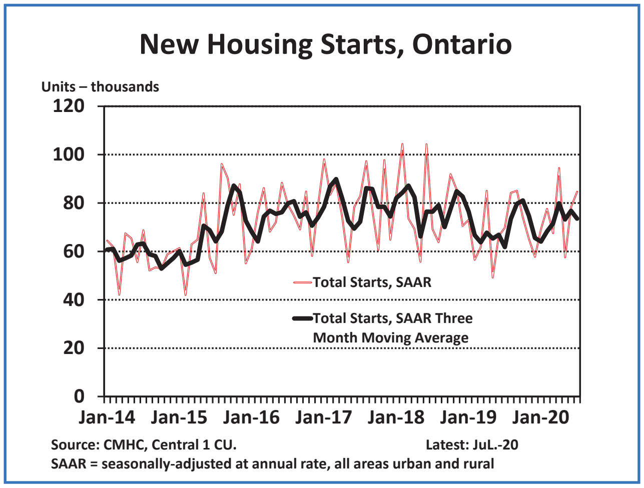
Highlights:

- Ontario housing starts trending 14.7 per cent ahead of last year's pace; up eight per cent in July
- Housing sector uncertainty remains high due to possible second wave of COVID-19
- Manufacturing sales continued to increase in June; up 35.8 per cent



Housing starts moved up an additional eight per cent in July

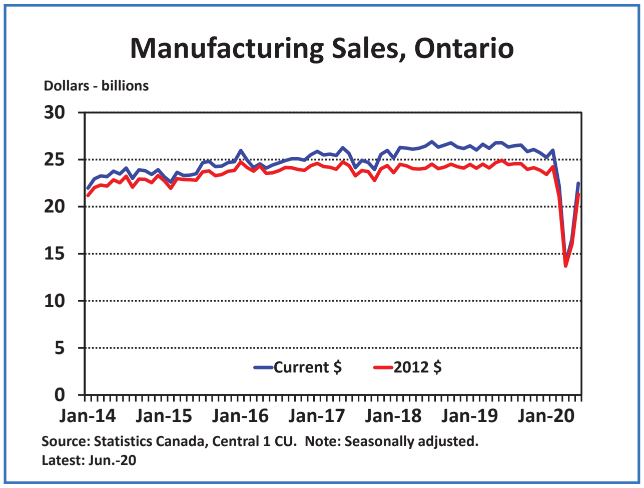
Housing starts in all areas of Ontario continued to rebound post the economic restart, moving up an additional eight per cent in July to 84,677 units at seasonally adjusted at annual rate (SAAR). This growth added to June's 36.2 per cent increase in housing starts.

June and July's rebound has resulted in housing starts trending 14.7 per cent ahead of last year's pace over the first seven months of 2020.

New housing starts in urban areas continued to increase in July and accounted for nearly all the home building activity in Ontario (98 per cent). Month-over-month, housing starts in all urban areas increased by 8.5 per cent supported by strong growth in single-detached housing construction (up 21.4 per cent) and condo apartments (up 6.7 per cent). Semi-detached home construction fell 10.7 per cent and row/town-home construction remains nearly unchanged (up only 0.5 per cent). Year-to-date, total housing starts in all urban areas are tracking 14.5 per cent ahead of last year's pace.

Housing starts declined in almost half of Ontario's 15 metro areas. In fact, most of the new construction occurred in Toronto, Ottawa-Gatineau, London, and Hamilton with just over 80 per cent of the building activity in July occurring here.

The seasonally adjusted average and median contract price for a new single-detached home decreased 14.3 per cent and 10.3 per cent respectively in July. Year-over-year the average and median price both de-



creased by 9.4 per cent and 7.1 per cent, respectively.

Homebuilders continue to chip away at the backlog of projects left ready to go before the pandemic. The pace of activity in the remaining months of 2020 should taper off slightly as the realities of the economy catch up with this sector. Gains made over the last two months will be in danger of being erased if Ontario should see a significant second wave of COVID-19 infection in the Fall and Winter, resulting in further economic shutdowns. Uncertainty remains high over the remaining five months of 2020.

Manufacturing sales continue to rebound in June

The manufacturing sales recovery which began in May continued into June at a much stronger pace. Total manufacturing sales increased 35.8 per cent to $22.5 billion adding further to the 18.7 per cent increased sales reported in May. Both non-durable sales (up 10.8 per cent to $9.2 billion) and durable sales (up 60.7 per cent to $13.3 billion) contributed significantly to the increased sales in June. Yet, despite the strong start to the recovery over these last two months year-to-date sales remained 20.4 per cent behind last year's pace. Weak sales to start to the year and the two months where much of production was shuttered over March and April weigh heavily on the year-to-date total and likely will for the rest of the year barring impressive sales activity over the second half of 2020.

Canadian manufacturing sales increased in June by a record 20.7 per cent to $48.7 billion. Ontario accounted for nearly half this one-month record sales total (46.2 per cent). Many plants operated at greater capacity utilization rate allow more sales to be fulfilled and sent out the door. Ontario sales in June are nearly 87 per cent of the way back from sales in February before the pandemic.

Like in May, the recovery in sales continued to be broad-based. Sales increased in 18 of 21 industries, led by transportation equipment (up 196 per cent) mainly from increased motor vehicle (up 289.9 per cent) and motor vehicle parts (up 200.7 per cent). Other large areas to post robust increases in sales included: plastics and rubber products (up 33.8 per cent), petroleum and coal products (up 35.8 per cent), fabricated metal products (up 18.5 per cent), and primary metals (up 16.3 per cent).

The growth in transportation equipment posted in June was due to more plants continuing to come on board after being shuttered over March and April. Despite the pick-up on the restart year-to-date sales are still down 40 per cent compared to last year. It will be interesting to see if the proposed aluminum tariffs imposed by the U.S. on Canada will dampened the growth thus far in this sector.

Petroleum and coal production sales continued to increase on higher prices and volumes. Refineries increased production from increased fuel demand across Canada as provinces continued to ease restrictions and implemented economic recovery plans in June.

Manufacturing sales increased in the Toronto and Hamilton metro areas by 26.8 per cent and 39.6 per cent respectively. Sales in the Ottawa-Gatineau metro area declined by 2.3 per cent. Outside of these three metro areas surveyed sales in the rest of Ontario increased substantially (up 59.4 per cent).

The recovery over the last two months likely reflects past sales. Plants are playing catch-up on orders left unfinished when they shuttered. It is unclear whether businesses will continue to spend on products once the backlog of orders is dealt with, given so much uncertainty in the air over the last half of the year. Central 1 economics expects a contraction in business investment as businesses remain cautious until the health crisis is fully under control.

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