Ontario Economic Briefing

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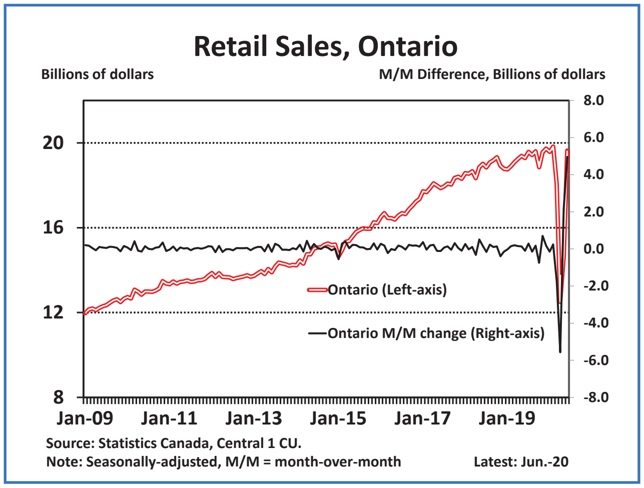
Highlights:

- Retail sales in June now back up to pre-pandemic levels from January
- Housing market remains very tight, average prices climb an additional 8.4 per cent in July
- Inflation remained unchanged in July; stronger inflation for goods offset by a slower pace of inflation for services.
- New car sales continue to rebound strongly in June, up 41.5 per cent



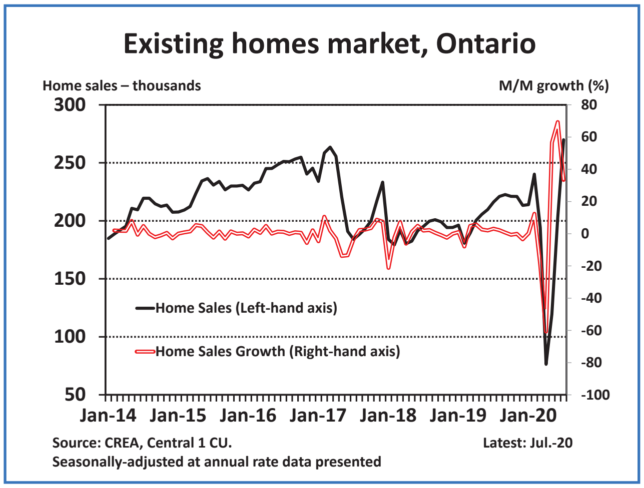
Retail sales increased 33.8 per cent in June to $19.6 billion

Retail sales continued to rebound in June in Ontario supported by greater easing of restrictions and consumers eager to get back to some level of normal activity. Sales moved up an additional 33.8 per cent to $19.6 billion, meaning the growth in month-over-month sales is now higher than pre-pandemic levels in February. In Toronto, retail sales also increased substantially month-over-month (up 34.8 per cent to $7.4 billion). Excluding Toronto, sales in the rest of Ontario increased 33.2 per cent to $12.2 billion.

Year-to-date, sales are still lagging last year's total by 10.2 per cent. Over the remainder of the year it will be interesting to see if consumer spending will hold up even as supports are slowly removed or tweaked to support households, but at a decreasing rate.

Sales from large sectors such as motor vehicle and parts (up 7.3 per cent year-over-year), food and beverage stores (up 11.8 per cent year-over-year), health and personal care stores (up 9.1 per cent year-over-year), building material and garden equipment (up 2.3 per cent), and, electronic and electronic equipment stores (up 4.3 per cent) helped lift total sales in June.

With greater time at home and the inability to travel, people are changing purchase preference spending more money on their homes likely supported by e-commerce or curbside pickups.



Ontario housing market continues to defy expectations

Ontario's housing market remained on fire in July, marking three straight months of recovery. Sales moved up another 33.4 per cent to 22,493 units. Furthermore, the pace of sales in July was so strong at seasonally adjusted at annual rate (SAAR) that currently sales are trending stronger than before the health crisis lockdowns and nearly as strong as the pace last set in March 2017.

Last month sales year-to-date were lagging 11.7 per cent. With the activity recorded in July sales in Ontario have recovered sizeable ground and now over the first seven months of 2020 lag last year by 5.9 per cent.

Key drivers of higher sales include low mortgage rates, pent-up demand from many households left relatively unscathed from the economic hardships from the pandemic, and a greater need from buyers for more space and low-rise housing.

New listings continued to increase in July moving up 12.1 per cent which would be substantial and provide significant slack to the market if it were not this year. Despite strong new listings growth recently over the first seven months of 2020 new listings are still lagging last year by 17.7 per cent. Sales have been able to progressively close the gap year-to-date compared to new listings. Programs such as CERB and mortgage deferrals continue to insulate households from financial hardships and the need to sell their homes. Moreover, fear of being exposed to the virus continues to keep potential sellers from even entering the market despite the current market activity.

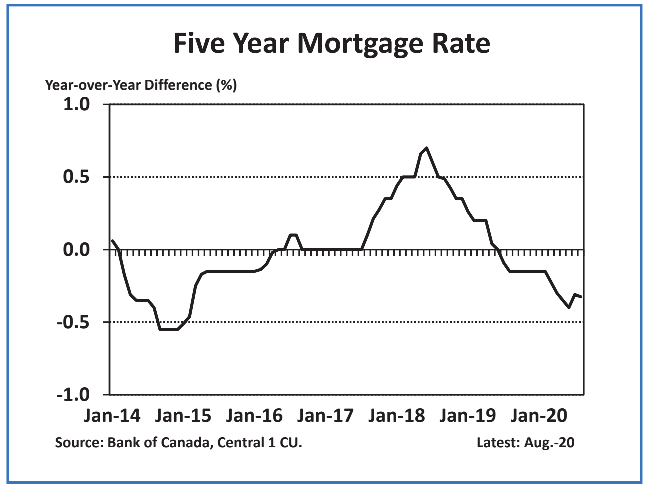
Tightness in the market is benefitting average prices. The sales-to-new-listings-ratio moved up from 65.5 per cent in June to 78 per cent in July, well into a sellers' market. Months of inventory dropped down to 1.3 months of supply in July, a further decrease from 1.7 months of supply in June and well below the long-term monthly average: 3.5 months of supply. Average prices in July moved up an additional 8.4 per cent to $723,626. Year-to-date, average price growth remained 13.3 per cent ahead of last year's pace.

Most real estate boards in Ontario posted increased price growth in July over June with a few exceptions:

- Cornwall (down 0.8 per cent)
- Guelph (down 2.6 per cent)
- Kingston (down 0.1 per cent)
- Muskoka/Haliburton (down 4.5 per cent)
- Orillia (down 11.1 per cent)
- Sault Ste. Marie (down 5.4 per cent)
- St. Catharines (down 2.1 per cent)
- Tillsonburg (down 2.7 per cent)

The Canadian Real Estate Association's (CREA) constant-quality housing price index (HPI) increased for all seven markets surveyed in Ontario with a few reporting increased pace of price growth month-over-month. In July, the pace of price growth increased Ottawa (up three per cent), Greater Toronto (up 2.7 per cent), Guelph (up three per cent), and Niagara (up 2.1 per cent).

In July, all of Ontario's real estate boards recorded strong sales growth, in some cases, high double-digit growth month-over-month. Year-to-date, only a handful of real estate boards continue to be 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 15.5 per cent)
- Durham (up 8.7 per cent)
- Grey-Bruce (up 6.8 per cent)
- Muskoka/Haliburton (up 11.3 per cent)
- Parry Sound (up 28.9 per cent)
- Tillsonburg (up 8.5 per cent)

Many of the markets in the list above are largely cottage country markets. With very attractive mortgage rates and many current homeowners flush with money likely many are taking advantage to enter the vacation home market.

This year posts many challenges for expectations and forecasts due to significant uncertainty. Last month, Central 1 economics was expecting a significant correction in home sales in 2020. The current trend of activity has forced expectations to adapt. A deep correction in the range of 10 to 30 per cent is no longer expected for 2020 barring a strong re-emergence of the virus in the Fall-Winter forcing the economy back into hibernation.

Headline inflation remained unchanged in July

July was a month of countervailing forces for prices in Ontario with unchanged headline inflation the net result. The pace of inflation picked up for goods, mainly through semi-durable and non-durable goods, and slowed down for services.

Food prices continued to climb up 2.1 per cent (up 0.2 percentage points) driven by higher prices for fruits and vegetables (up 3.3 per cent) which offset lower prices for meat products. Excluding food, prices fell 0.4 per cent in July down from 0.2 per cent up in June.

Greater consumer spending lifted prices for semi-durables such as clothing and shoes, and health and personal care. Recreation, education, and reading prices continued to fall (down 5.3 per cent in July from 2.4 per cent down in June).

Shelter prices slowed down (1.5 per cent growth in July - down from 2.0 per cent growth in June) largely from rental (prices increased 0.3 per cent in July - down from 1.9 per cent growth in June). Consumers paid higher prices for household furnishings and equipment (up 2.0 per cent in July from 0.3 per cent up in June).

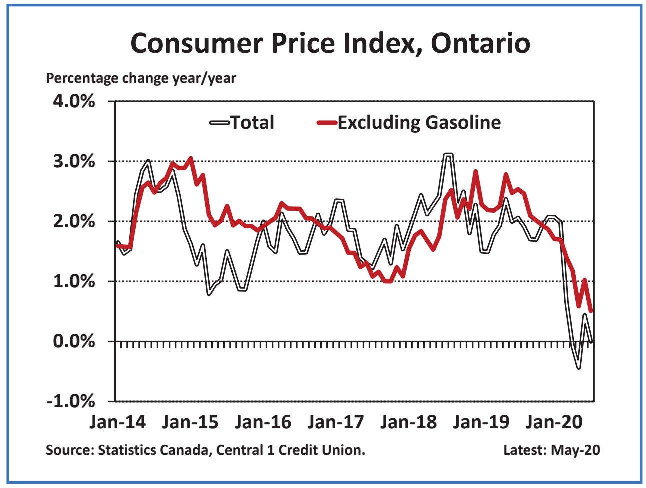
Cost of transportation decreased (down 1.0 per cent in July from 0.2 per cent growth in June) due to significantly lower public transportation costs (down 3.6 per cent in July from 6.7 per cent growth in June). Energy prices continued to slow down in July largely due to lower natural gas and gasoline prices.

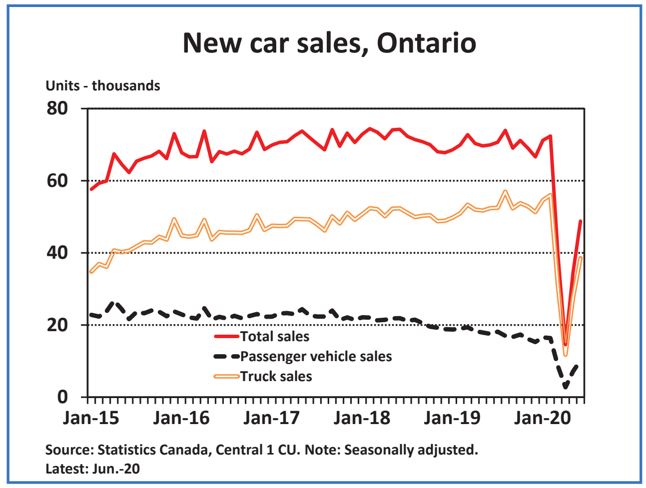
With the economy opening further and consumers flush with money after spending only on essentials like food from mid-March to mid-May they are now making up for lost time purchasing consumer goods like clothing. The pandemic has affected agricultural food production, fewer workers and increased costs are affecting supply and costs are being likely forwarded to consumers at supermarkets. Concerns over meat supply in previous months and its effects on prices are slowly fading as plants gradually return on board. Pork and beef production have increased lowering prices while chicken production is not yet fully back up helping to lift prices through greater demand for chicken.

Since the restart, home sales have been on a torrid pace and some of that activity is starting to come through in prices of complementary goods such as household furnishings and equipment. Households moving to homeownership from rental or current homeowners moving up are spending on goods for their new homes.

Fewer students, immigrants, and job losses for young workers, especially in services, is slowing down the demand for rental in Ontario. Anecdotal evidence points to increased vacancies which is pushing down rents.

Prices fell in Toronto and Thunder Bay and slowed down in Ottawa (up 0.9 per cent in July from 1.2 per cent up in June).





New car sales continue to rebound, likely buoyed by low interest rates

New car sales continued to climb in June moving up an additional 41.5 per cent to 48,804 units adding to the 136.9 per cent growth in May once the economy restarted and plants could reopen. While last month all the sales gains occurred strictly for new trucks in June, both passenger vehicle sales (up 44.3 per cent) and trucks (up 39.7 per cent) contributed to total sales. Likely lower interest rates are helping car sales. Like the housing market where relatively unscathed households are taking advantage of current rates and jumping into homeownership other households are doing the same with new car purchases.

Despite the strong gains in sales over the last two months total sales are still severely behind last year's total sales. Over the first half of 2020 total car sales are only a third of the total recorded last year where in any other year this would be closer to 50 to 51 per cent. Likely there is pent-up demand for new cars out there, but plant pandemic plant closures are still weighing on supply. Year-to-date car sales are down

33.3 from last year. It will take a phenomenal second half of activity for total car sales to get back to last year's total (average over 93,000 sales a month) which is looking unlikely.

The average price of a new car increased 3.1 per cent in June to $46,263 on increased sales of trucks. Total truck sales accounted for nearly 77 per cent of the net increase in sales. Year-to-date, the average price of a new car remained 5.1 per cent ahead of last year's pace.

One area to keep a close eye going forward is the newly imposed aluminum tariffs the U.S. has placed on Canada. Some of the added production costs from these new tariffs may get passed onto consumers at some point, either in production or the final point of sale at auto dealership showrooms. Depending to the extent that increased costs are passed onto consumers even with low interest rates on the margin some consumers may return to the sidelines and opt to purchase a new car several periods later.

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