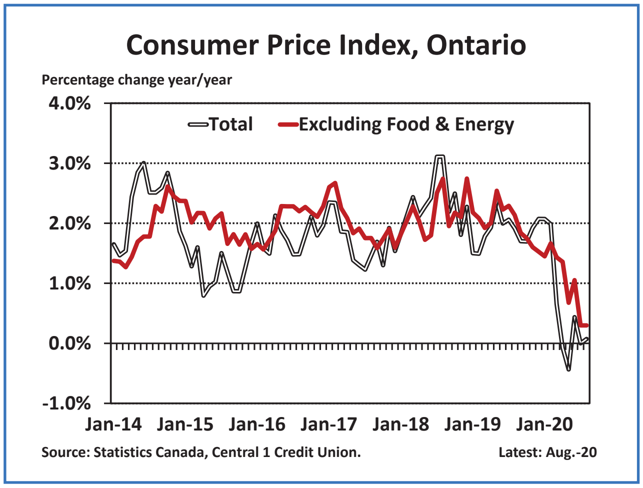
Ontario Economic Briefing

Volume 26 • Issue 37 • Week of September 14 - 18 2020 | ISSN: 1981-355

Highlights:

- Headline inflation up 0.1% in August due to higher cost of goods, services, food, and shelter
- Average home price growth tempered by greater supply in the market
- Higher sales of car and car parts helped lift manufacturing sales in July
- Retail sales growth begins to slow
- New car sales rose in July but by a slower clip



Inflation moves up 0.1 per cent in August

August headline inflation saw almost no change (up 0.1 per cent) due to price increases in some areas and decreases in others.

With the economic restart well underway, consumers were eager to head back to shops, salons, restaurants, and other social activities.

Services prices increased 0.4 per cent (up from 0.3 per cent growth in July). Goods prices accelerated (decreased 0.4 per cent following a 0.6 per cent decrease in July) - largely because of stronger price growth in semi-durable and non-durable goods.

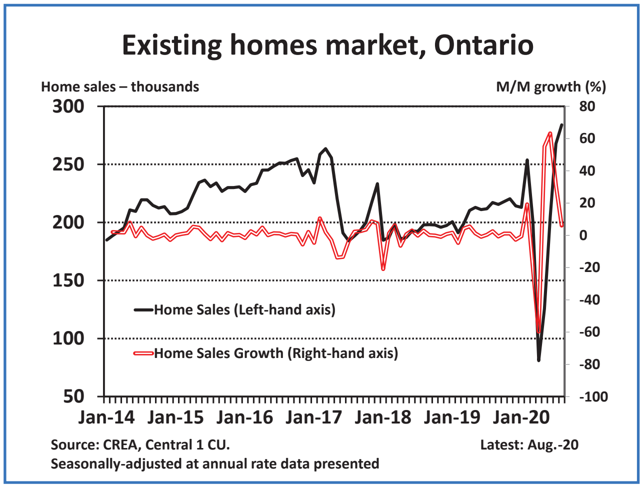
Shelter prices were up 1.9 per cent following a 1.5 per cent increase in July, largely due to increased utility and fuel costs pushing living costs up for renters, while owned accommodation costs remained relatively unchanged from last month.

Health and personal care were up 0.3 per cent following a 0.5 per cent decline in July.

Clothing and footwear were down one per cent in August following a 1.6 per cent decline in July.

Recreation, education, and reading was down 4.4 per cent following a 5.6 per cent decline in July.

Overall food prices decelerated (up 1.7 per cent in August after a 2.1 per cent growth in July) largely due to lower prices of food purchased from stores. The price of food purchased from restaurants picked up 1.9 per cent following a 1.6 per cent increase in July, likely as restaurants are passing on added costs to consumers for personal protective equipment, increased fruit and vegetable costs and including tips in the final bill.



Prices for gasoline and fuel accelerated as demand picked up from the public and from businesses gradually getting back online after the lockdown. The more moderate year-over-year price decline in August stemmed from weaker gas prices in August 2019.

General prices accelerated in Toronto and Ottawa in August and remained unchanged in Thunder Bay.

Home sales up 6.1 per cent in August but growth decelerating after July surge

Home sales in Ontario increased at a slower rate of growth, 6.1 per cent in August to 23,668 units after increasing 30.7 per cent in July. This was likely due to the pool of potential buyers dwindling as anyone willing to take the plunge into homeownership has now done so.

With the strong pick-up in sales since the restart, the gap in year-to-date sales continued to shrink in August with total sales trailing last year by 1.4 per cent.

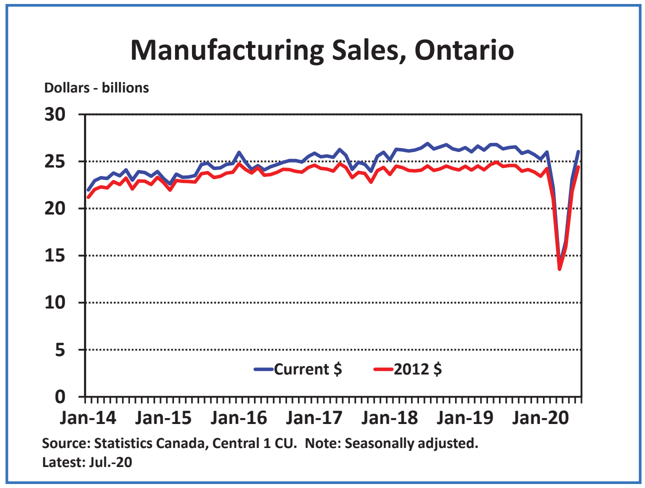
A tight market and strong price growth since the restart have brought out more new listings and provided some slack to the market. New listings increased an additional 18.6 per cent in August to 34,903. For only the second time this year, month-over-month new listings growth outstripped sales growth. Despite the recent growth in supply over the first eight months of 2020, new listings continue to lag last year's activity by 13.5 per cent.

More supply in the market has provided potential buyers increased choice and this has tempered average price growth. The average home price in Ontario moved up four per cent in August to $753,764 after moving up 8.6 per cent in July and 10.1 per cent in June. Current months of inventory remained unchanged from last month at 1.3 months. Moreover, the sales-to-new-listings-ratio (SNLR) moved down in August to 67.8 per cent from 75.8 per cent in July. While still a tight sellers' market the move down in the SNLR points to a market that has greater slack. Year-to-date average price remained 15.3 per cent ahead of last year's pace at 682,832.

Apart from greater slack in the market from more supply, another possible reason for the recent deceleration in average price could be compositional changes. According to the Canadian Real Estate Association's (CREA) constant-quality home price index of the six markets surveyed, decelerations occurred in the two expensive markets of Greater Toronto (1.5 per cent in August from 2.4 per cent in July) and Ottawa (2.3 per cent in August from 2.8 per cent in July) but increased for the other markets of Guelph (up 3.1 per cent), Barrie (up 1.6 per cent), Oakville-Milton (up 1.7 per cent), Hamilton-Burlington (up 2.2 per cent) and Niagara Region (up 2.5 per cent). Tight market conditions with intense bidding wars are the current norm. Potential buyers want to take advantage of low mortgage rates and a sense of not wanting to miss out this window has compelled a growing share of buyers to look at more affordable markets outside the largest two cities. Remote work also supports this shift. Some anecdotal evidence points to workers moving as far as London or Windsor from Toronto with the ability to work remotely shifting the work culture.

Apart from the Greater Toronto Real Estate Board which posted sales growth of 12.9 per cent in August other large boards posting strong month-over-month sales growth included:

- Kitchener-Waterloo (up 11.2 per cent)
- Ottawa (up 1.2 per cent)
- Durham (up 1.3 per cent)



- Mississauga (up 8.1 per cent)
- York Region (up 11.8 per cent)
- Windsor-Essex (up 22.2 per cent)

With summer now over, the rush to purchase homes should subside as the pool of potential buyers dwindled significantly over the last couple of months and any potential buyers still saving for a down payment will want to wait out the Fall and Winter seasons which will be fraught with significant uncertainty from a public health perspective and more importantly a long-term economic outlook perspective.

Manufacturing sales increased 12.8 per cent in July

Manufacturing sales have now increased three consecutive months with July sales moving up an additional 12.8 per cent to $26.0 billion following a 39.9 per cent increase in June. As the sector continues to gradually increase capacity and supply chains come gradually return manufacturers can get ahead of sales backlogs. Durable good sales increased 18.3 per cent and non-durable good sales increased 4.7 per cent. Ontario's manufacturing sales is gradually returning to pre-pandemic activity, year-to-date sales are now 17.5 per cent behind last year's pace a sizeable improvement from June where sales were lagging last year by 20.7 per cent. With five months left in the year it is unlikely total year-end sales will be able to match last year but if capacity continues to increase and plants can remain open, barring any second wave lockdowns, it is possible to close the gap considerably.

Higher sales of motor vehicles and motor vehicle parts were primarily responsible for the gains. Many auto assembly plants in Ontario shortened their scheduled shutdowns and maintenance and increased capacity, which reduced the inventories that had accumulated during March and April.

Petroleum and coal product sales rose 3.5 per cent in July on higher prices and volumes.

Sales in the plastic and rubber product industry increased for the third consecutive month, rising 24.0 per cent in July, partly on increased demand for plastic and rubber auto parts.

Following two consecutive monthly increases, sales in the primary metal industry declined 1.7 per cent in July. Primary metal manufacturing has lagged other industries during the recent recovery, in part due to metal pricing and lower domestic demand.

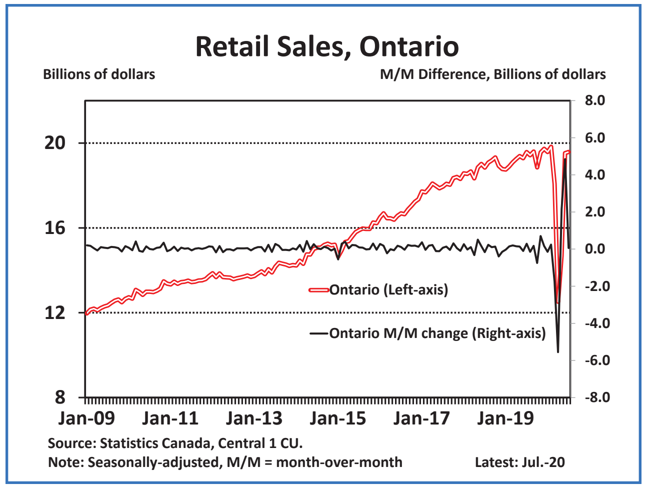
Manufacturing sales volumes increased in the three metro areas surveyed in July. Toronto sales increased 14.9 per cent, sales in Ottawa-Gatineau increased 4.6 per cent and sales in Hamilton increased 1.9 per cent. Excluding these three markets sales in the rest of Ontario increased 10.5 per cent in July.

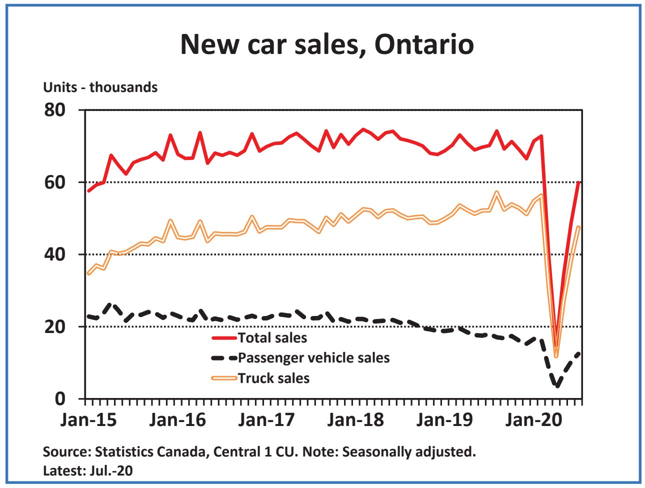
Retail sales growth decelerates in July

The rebound in retail sales since the restart seems to be ending as July sales showed only 0.3 per cent increase to $19.6 billion, coming after a sales rebound of 17.2 per cent in May and 33.0 per cent in June. Even with the anemic, by recent comparison, growth in sales July's sales are now neck and neck with adjusted sales volumes from February before the pandemic lockdowns started. Year-to-date, retail sales volumes still lag last year's pace by 8.3 per cent.

Retail sales growth in Toronto also decelerated in July moving up 3.9 per cent to $7.9 billion after moving up 37.8 per cent in June. Moreover, removing Toronto sales, the rest of the province fell two per cent in July contributing to the very muted growth. Year-to-date, sales in Toronto are 11.5 per cent behind last year's pace and in the rest of the province, excluding Toronto, sales are 5.9 per cent behind last year's pace. Toronto was one of the last regions in Ontario to move to phase three of the reopening plan. This likely supported the stronger rate of growth in this metro area relative to the rest of the province in July.

Sales of motor vehicles and auto parts, food and beverage stores, and gasoline stations increased in July. With the virus still not fully suppressed, many consumers decided to purchase a used or new car to travel to and from work in a safer manner rather than risk taking public transit. A greater number of drivers on the roads also likely increased the demand for gasoline. And finally, with many households focusing on essential goods food sales remained strong.





After being inside for weeks the novelty of being able to partake in some level of normal activity via shopping may be wearing off. Moreover, with the need for many households to get back on track financially savings rates likely went up and others started making payments on other areas like consumer debt and mortgages taking away excess money for non-essential expenditures such as consumer goods and entertainment.

New car sales increased in July by 23.3 per cent but average new car price fell 6.3 per cent

New car sales continued to increase in July but at a slower pace than the previous two months. After moving up 42.5 per cent in June, sales in July moved up 23.3 per cent. Sales continue to improve based on increased supply as auto plants catch up on work backlogs and get more units out the door and due to increased demand. Low interest rates and more potential drivers wishing not to use public transit have supported increased sales.

Sales in July were lifted by 22.0 per cent more sales of passenger vehicles and 24.0 per cent more sales of trucks.

Even with the three consecutive months of robust sales growth from May to July it is highly unlikely that even a stellar second half of sales will catch up to last year's total. Currently, year-to-date sales of new cars are down 30.6 per cent from last year. Sales of passenger and truck vehicles are down by 42.5 per cent and 26.4 per cent, respectively.

The average price of a new car fell 4.2 per cent in July to $44,515. Trucks accounted for nearly 80 per cent of total sales in the month but lower prices of trucks, which fell 6.3 per cent pulled down overall average price. Passenger vehicle average price increased 4.5 per cent.

Sales are likely slowing down as the group of potential buyers is dwindling. Many that would have taken advantage of the lower interest rates likely already have.

In the short-term sales are likely to slow down further in the Fall and Winter as fewer people will go to showrooms in the snow and cold conditions.

Edgard Navarrete
Regional Economist
Central 1 Credit Union
enavarrete@central1.com / P 905 282 8501
www.central1.com