Ontario Economic Briefing

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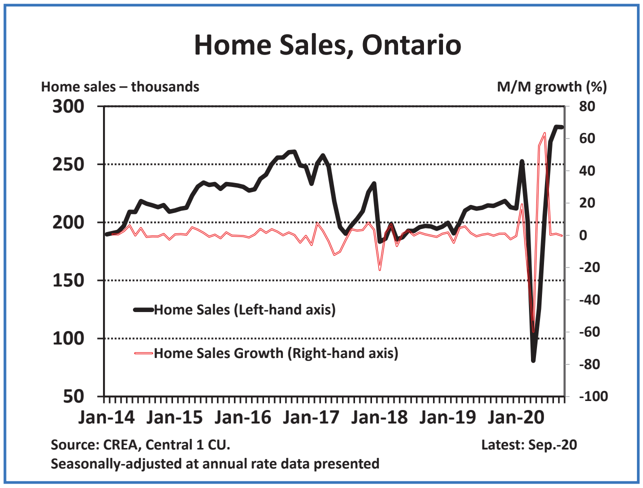
Highlights:

- Home sales growth begins to likely plateau after summer surge
- Manufacturing sales declined by 4.8 per cent in August
- Second quarter stats show Ontario's real output fell 12.3 per cent because of COVID-19



Ontario's average home price fell 1.7 per cent in September despite very tight market

Ontario home sales growth continued to slow down slightly in September perhaps signaling that the low mortgage rate fueled rush to buy is ending. Sales moved down 0.1 per cent in September over August while new listings fell 15.3 per cent month-over-month. Despite slowing down sales in September still are quite above trend for a typical September.

Any first-time home buyers which were considering entering the market have now done so, and the lack of supply in the market may now be hurting sales as potential buyers eager to purchase are not doing so because they cannot find the right home for their needs. Only more data will tease out the true trend in the market.

The market tightened up further given very low supply with the sales-to-new-listings-ratio (SNLR) moving up to 79.1 per cent from 67.1 per cent in August. Yet, despite a very tight market, which usually leads to robust price growth, the average home price in Ontario fell 1.7 per cent in September to $740,197. Moreover, the slide in price growth in September put an end to four consecutive months of price appreciation since the Summer rush to purchase started in May.

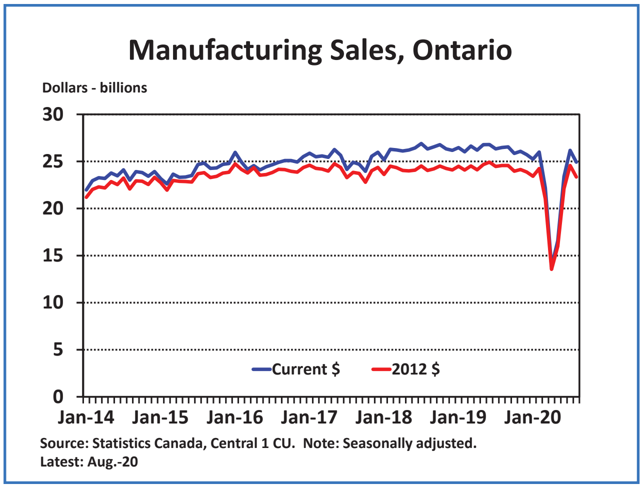
Over the first nine months of 2020, sales are now 2.4 per cent ahead of last year's pace. The very strong pickup in activity over the Summer has taken the market out of the hole caused by the stay at home orders in the Spring which nearly shut down all housing market activity. New listings remained 11.2 per cent behind last year's pace and average price remained 16.1 per cent ahead of last year's pace given a very tight market and not much supply.

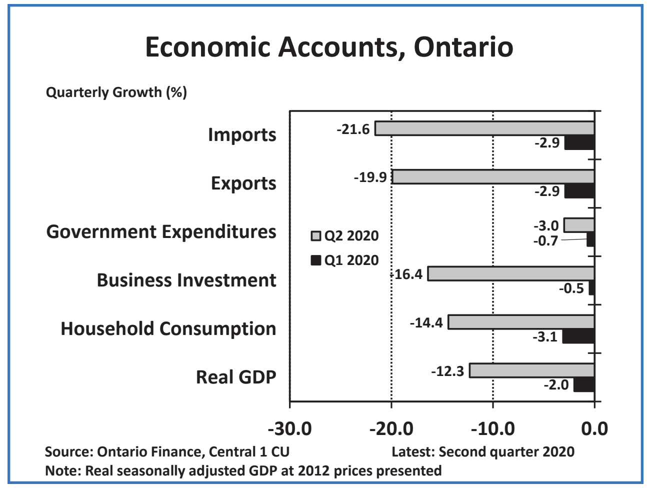
The Canadian Real Estate Association (CREA) surveys six real estate boards and constructs a monthly constant quality housing price index (HPI). In September over August the HPI decelerated for nearly all the seven markets except the Ottawa real estate board. The most significant month-over-month decelerations occurred in Guelph, Niagara Region, and Oakville-Milton. The HPI in the Greater Toronto real estate board decelerated minimally in September.

Sales in Ontario's largest board, Greater Toronto, fell in September by 5.3 per cent which helped to keep overall sales growth nearly unchanged in the month. Moreover, of the over 40 real estate boards in Ontario, month-over-month sales fell in 19 or just over 43 per cent of them. An increased share of sales in other boards outside of the Greater Toronto, which has the highest average home prices, likely explained the slide in average price growth in September despite having a very tight market.

Many buyers are opting to go outside dense urban centres such as Toronto to buy more house at a lower price tag while taking advantage of attractive mortgage rates to keep monthly mortgage payments very comfortable.

The onset of a second wave of COVID-19 in October and regional closures in areas such as Ottawa, Peel Region, and the City of Toronto will very likely have





adverse effects on the resale market moving forward especially if these closures are extended beyond the 28 days initially suggested by government.

Manufacturing sales fell 4.8 per cent in August

Manufacturing sales in Ontario fell 4.8 per cent in August putting an end to three consecutive months of strong sales growth from May to July. The decline in August came from both fewer sales of durable goods (down 6.7 per cent) and non-durable goods (down 1.6 per cent). Over the first eight months of 2020, manufacturing sales are still tracking below last year's total by 15.8 per cent.

In August, sales declined in nine of 21 industries, led by large sectors such as food (down one per cent), plastics and rubber products (down 14.5 per cent), machinery (down 1.7 per cent), and transportation equipment (down 13.9 per cent).

An uncertain recovery, even before the emergence of the current second wave of COVID-19 in parts of Ontario in October, continues to affect investments thus lowering sales of machinery and transportation equipment. With some accommodation and food service businesses unable to survive the pandemic and having to make the hard decision to close permanently and fewer people working outside the home, the demand for commercial-grade food is dwindling.

Over the first eight months of 2020 only six of 21 sectors continue to outperform last year's total revenues. Many of these six sectors are in non-durable goods such as food, beverage and tobacco, and textiles pointing to a shift in consumer demand as tough times shifts people's focus from non-essential to mostly essential purchases.

Unfortunately, Ontario is currently facing a second significant wave of COVID-19 infections. A few hotspots have already reverted to some closures to stem the spread of the virus. Likely more regions will face the same fate as Peel Region, City of Toronto, and Ottawa and revert to some modified closures. Extended closures will only dampen any potential growth in sales in the months to come, putting a greater number of businesses at risk.

Ontario's economy contracted by an annualized 40.9 per cent in the second quarter

Ontario Finance this week released its quarterly economic account estimates for the second quarter of 2020. As expected, the contraction to economic activity was robust. Real gross domestic product (GDP) declined 12.3 per cent in the second quarter, the largest quarter-over-quarter contraction on record and follows a two per cent contraction in the first quarter of 2020. At a seasonally adjusted annual rate, real GDP fell by 40.9 per cent in the second quarter.

With much of the economy under strict stay at home orders and only essential businesses open, much of Ontario's economic activity came to a standstill in the second quarter. Household consumption fell sharply (down 14.4 per cent) from a general contraction of spending. Services fell sharply (down 17.1 per cent) on closures of shops, bars, restaurants, and less travel. Durable good expenditures fell (down 20.6 per cent) on fewer sales of new cars and car parts as auto plants were shuttered as well as auto showrooms. Semi-durable and non-durable goods expenditures fell by 14.5 per cent and 4.7 per cent respectively on fewer sales of goods such as shoes, accessories, clothing and gasoline and diesel as cars remained parked.

Business investments were curtailed significantly or shelved. Business fixed gross capital formation – or the increase in physical assets – slid down 16.4 per cent in the second quarter after slipping 0.5 per cent in the first quarter. Machinery and equipment (down 22.1 per cent), residential (down 16.4 per cent) and non-residential structures (down 16.4 per cent) all fell significantly again due shuttered plants, shops, and other non-essential businesses such as construction sites.

Spending at all three levels of government combined on goods, services and capital declined by three per cent in the second quarter adding to the 0.7 per cent contraction from the first quarter.

Exports (down 19.9 per cent) and imports (down 21.6 per cent) both declined in the second quarter as borders remained closed, stalling supply chains and resulting in consumers tightening their belts and focusing only on essential goods such as food.

Third quarter economic account estimates are expected to be better. The economy started to open gradually in May and throughout the Summer allowing businesses to start making some profits and production to get back online at auto plants, among others. Beyond those gains some structural unemployment should provide drag to the recover until the health crisis is firmly in the rear-view mirror.

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