Economics | Current Economic Trends

Ontario Economic Briefing

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Economics

Highlights:

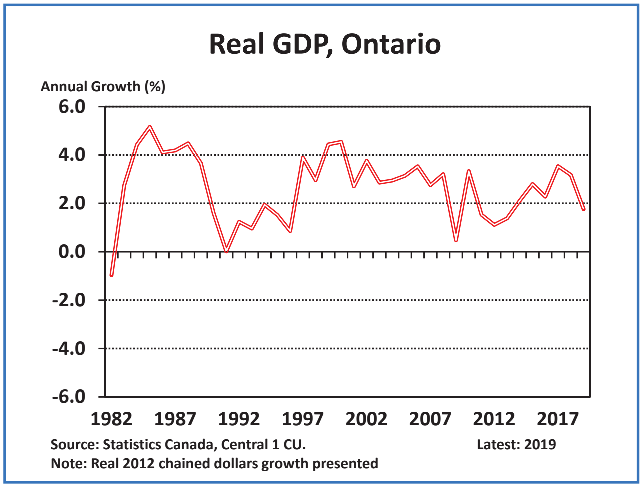
- Ontario real GDP growth slowed to 1.8 per cent in 2019 due to slower household expenditure growth and weaker business investment
- Residential building permits lifted in September 2020 due to overall greater building intentions of single and multi-family units

Ontario Real GDP growth slowed to 1.8 per cent in 2019

Statistics Canada released 2019 economic accounts for Ontario this week. According to the latest figures, real gross domestic product (GDP) increased by 1.8 per cent in 2019, a much slower pace of growth from 2018 which clocked in at 3.2 per cent.

Household expenditures which account typically for 70 to 75 per cent of real GDP increased by 1.9 per cent in 2019 after coming in at 2.9 per cent in 2018. While household spending for services remained nearly in line to last year, much of the moderation came from weaker expenditures for goods – in particular durable goods (up only 0.2 per cent in 2019 from 3.8 per cent in 2018), semi-durable goods (up 2.8 per cent in 2019 from 3.1 per cent in 2018), and non-durable goods (up 1.5 per cent in 2019 from 3.4 per cent in 2018). Fewer sales of automobiles, likely linked to gasoline prices and insurance costs, dampened durable goods sales. Also, slower expenditure growth by households for food and non-alcoholic beverages (0.3 per cent in 2019 from 4.2 per cent in 2018), and clothing and footwear (1.7 per cent in 2019 from 2.4 per cent in 2018) dampened growth in non-durable and semi-durable sales.

Housing, water, electricity, gas, and other fuel expenditures by households increased by 2.3 per cent in 2019, a much slower rate than the 3.3 per cent posted in 2018.



Overall gross fixed-capital formation declined by 0.7 per cent in 2019 from weaker gross fixed-capital formation by businesses (down 1.0 per cent in 2019) and non-profit institutions serving households' gross fixed capital formation (down 2.6 per cent in 2019). General governments gross fixed capital formation increased by only 0.8 per cent in 2019, not sufficient to offset losses in the other areas mentioned.

Slower business investment in non-residential structures and machinery and equipment (down 2.6 per cent in 2019) and intellectual property (down 1.1 per cent in 2019) was minimally offset by a 0.5 per cent increase to residential structures investments. Trade disputes with major trading partners (i.e., China) and potential trade disruptions from tariffs (i.e., U.S.) in 2019 likely dampened businesses' future expansion plans.

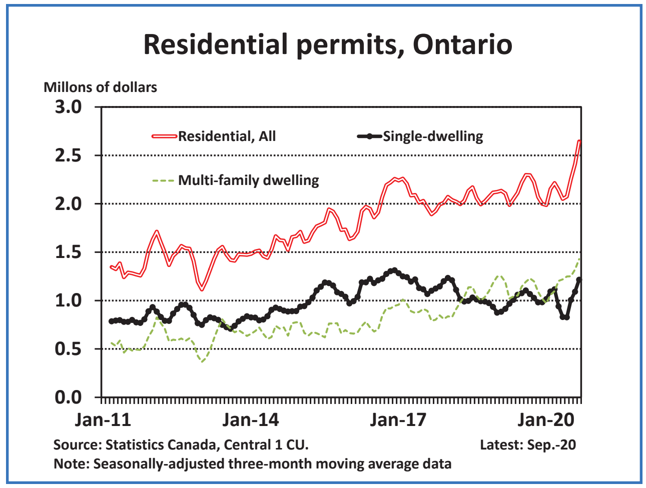
Robust exports growth (up 2.1 per cent in 2019 from 1.1 per cent in 2018) due to greater domestic and international trade helped narrow the difference with imports which grew by 0.6 per cent in 2019 (from 2.3 per cent in 2018). Net exports fell 62.2 per cent in 2019.

Inventories increased substantially in 2019 up 14.6 per cent after sliding down 3.9 per cent in 2018.

Household's disposable income growth slowed down in 2019 (up 4.7 per cent) from 2018 (up 5.4 per cent) which likely led to slower household spending and business investments growth.

Residential building permit volumes increased 9.6 per cent in September

Residential building intentions continued to increase in September. Permit volumes for residential building increased by an additional 9.6 per cent to $2.9 billion, the third straight month of growth, due to strong growth of single-dwelling permit volumes (up 18.0 per cent to $1.4 billion) and multi-family permit volumes (up 2.9 per cent to $1.5 billion). Over the first nine months of 2020, residential building permit volumes remained 6.4 per cent ahead of last year's pace. Single-dwelling and multi-family dwelling permit volumes remained 3.9 per cent and 8.7 per cent ahead of last year's pace, respectively.



Single-family dwelling permits have grown substantially since the restart in May averaging 24.6 per cent growth per month over the last five months. With many workers able to work from home during the pandemic and likely after it, the desire for greater space is causing a gradual shift from multi-family to single-dwellings and from urban to suburban where more green fields are available for new single-dwelling construction.

In Ontario's metro areas residential building permit volumes increased five per cent to $2.4 billion largely from growth in seven metro areas that offset declines in volumes in Toronto and eight other markets. Volumes increased in the following large markets:

- Ottawa-Gatineau up $171.0 net million
- Hamilton up $19.6 net million
- Barrie up $38.6 net million
- St. Catharines-Niagara up $47.8 net million.

Unlike other sectors construction sites can maintain adequate physical distancing to control viral spread causing outbreaks. This advantage should keep the construction industry humming along. One risk to the sector is not so much the virus but the lack of skilled labour available to chip away at the backlog of projects and the possibility of government offices closing down should non-essential businesses and offices need to close to control the virus. This would slow down the approval process for new construction projects and delay ground breakings.

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