Economics | Current Economic Trends

Ontario Economic Briefing

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Economics

Highlights:

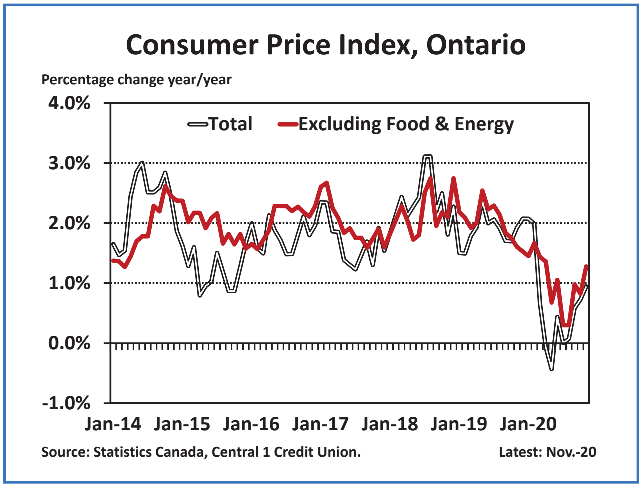
- November inflation reading overshoots expected consensus reading
- 75 per cent of Ontario's real estate boards posted weaker home sales in November
- Housing starts move up very modestly (0.5 per cent) in November
- Manufacturing sales remained nearly unchanged in October, up only 0.2 per cent
- Retail sales slid in October on weaker sales of clothing and accessories, auto and auto parts, and general merchandise

Inflation up 0.9 per cent in November

November headline inflation increased 0.9 per cent year-over-year (all calculations presented in this section are year-over-year comparisons) largely as a result of a jump in services (up 1.9 per cent in November from 1.2 per cent in October) which offset some moderation in goods (down 0.3 per cent in November from down 0.1 per cent in October). Goods prices fell on weakness in semi-durable goods (down 2.3 per cent) and non-durable goods (down 0.9 per cent) that comfortably offset the gains to durable goods (up 1.9 per cent in November slower than the 2.0 per cent in October).

Energy prices continue to be a drag on inflation. Energy prices fell in November by 5.7 per cent almost a full per cent (0.9 per cent) lower than October on weaker gasoline prices and a slower rate of inflation to electricity and natural gas. Water prices remained unchanged from last month. Excluding energy and food prices, inflation increased 1.3 per cent in November - up from 0.8 per cent last month.

The rate of inflation of food slowed down in November due to a deceleration of prices of food purchased in stores. Shelter costs remained unchanged despite a deceleration of prices for water, fuel, and electricity. Restaurants facing increased costs for personal protective equipment, insurance, and other miscellaneous costs such as delivery (i.e., Doordash, Skip the Dishes, Uber eats) during this pandemic are likely passing those costs onto the consumer.



Clothing and footwear prices increased (down in November 2.6 per cent from down 4.3 per cent in October) on strong growth to clothing accessories, watches, and jewelry and clothing material, notions, and services.

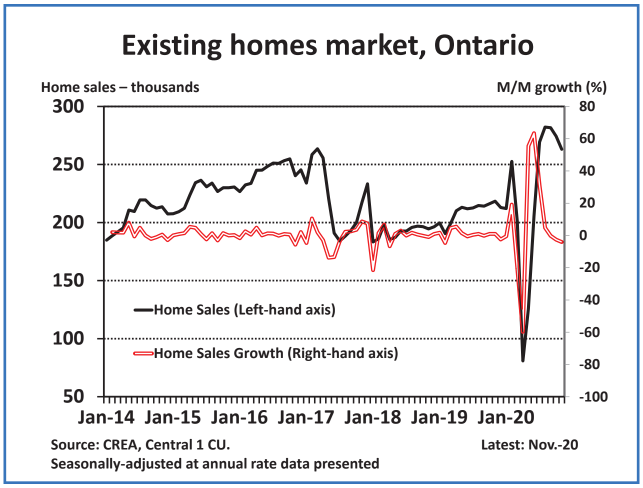
Transportation prices fell on lower prices for private transportation likely driven by lower prices for gasoline off-setting rise in other costs such as auto insurance.

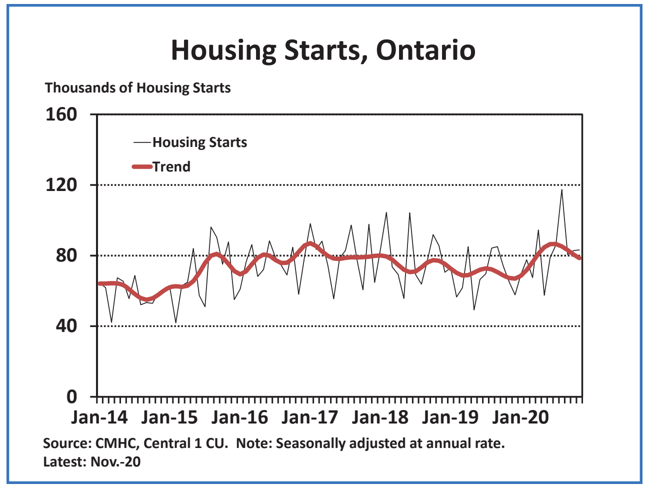
Recreation, education and reading prices increased robustly on higher recreation costs. With people now largely sheltering at home for an eighth month increased up take of recreation services such as streaming television services has increased costs for providers that are being passed onto the client.

General prices accelerated in all three Ontario markets surveyed. The greatest absolute jump in overall prices occurred in Thunder Bay followed by Toronto and Ottawa-Gatineau.

Housing market continues to slow, sales down three consecutive months

Year-to-date home sales in Ontario are up 6.4 per cent compared to last year largely due to the strong rebound in homebuying activity from May to August fueled by low mortgage rates, remote work, and greater need to leave the dense urban centres for the suburbs or rural areas to gain more space while keeping mortgage debt manageable. Yet, within the context of the last few months, the housing market in Ontario is showing signs of slowing down. In November, home sales declined 4.1 per cent month-over-month marking





three straight months that home sales have moderated. Moreover, of the 44 real estate boards in Ontario home sales declined in 75 per cent of those boards in both very large and small real estate boards.

Supply continues to be an ongoing issue in 2020. After posting an increase of new listings of 3.9 per cent in October supply fell again in November by 2.5 per cent. Year-to-date, new listings are down 6.2 per cent. The fall in supply in November could be a symptom of greater restrictions imposed by the province to stem the spread of the virus and seller caution. Many sellers worried about having open houses and viewings in their homes likely have taken their homes off the market for the time being.

A greater contraction in home sales relative to the contraction of new listings provided very slight slack to the market. The sales-to-new-listings-ratio (SNLR) was 72.4 per cent in November down slightly from 73.6 per cent in October. Year-to-date, the SNLR has averaged 70.9 per cent. An SNLR reading above 60 per cent tends to coincide with a sellers' market. Average home prices moved up 1.9 per cent in November to $745,854. Year-to-date, the average home price is 16.6 per cent ahead of last year's pace.

According to the Canadian Real Estate Association's (CREA) constant-quality home price index (HPI) of the seven markets in Ontario surveyed the rate of price growth slowed down or stay the same in four of the seven markets. The HPI accelerated in Greater Toronto (up from 0.4 per cent in October to 0.8 per cent in November), Oakville-Milton (up from 0.1 per cent in October to 1.4 per cent in November), and Niagara Region (up from 2.0 per cent in October to 2.2 per cent in November).

Month-over-month activity in Ontario's large real estate boards was as follows:

- Hamilton-Burlington (down 8.0 per cent)
- Kitchener-Waterloo (down 5.6 per cent)
- London-St. Thomas (up 9.0 per cent)
- Ottawa (down 8.4 per cent)
- Greater Toronto (down 2.1 per cent)
- Durham Region (down 8.6 per cent)
- Mississauga (up 3.7 per cent)
- York Region (down 1.1 per cent)
- Windsor Essex (down 6.0 per cent)

These real estate boards together accounted for 61.8 per cent of the net fall in sales in November. Sales activity is slowing down as the pool of potential buyers has been greatly depleted now after the rush to purchase a home over the summer months passed coupled with greater restrictions in big markets keeping many potential buyers homebound unable to go shop around a home.

With the second wave of the COVID-19 virus stronger than the first wave it likelier that restrictions will continue to increase rather than decrease over the Fall and Winter months. The vaccine campaigns that started in December will help control the spread of the virus, but real changes will not be seen until mid to late 2021. We expect home buying activity to remain muted at best over the next few months.

The pace of new home construction slowed down in November

Housing starts continued to increase in November, albeit at a much slower pace, moving up 0.5 per cent to 83,208 units at seasonally adjusted at annual rate. Canadian housing starts in November moved up 14.4 per cent with the rest of Canada, excluding Ontario, reporting 23.1 per cent more housing starts. Ontario accounted for 33.8 per cent of Canada's new housing starts in November down from the previous month (38.5 per cent in October) and from the long-term monthly average (35.6 per cent). Despite this month's weaker growth over the first eleven months of 2020 Ontario housing starts remained 16.3 per cent ahead of last year's pace.

In metro areas exclusively, housing starts also moved up only 0.5 per cent month-over-month due to fewer starts of single-detached homes (down 2.3 per cent) and condo apartments (down 7.8 per cent) that offset gains to rows (up 29.9 per cent) and semi-detached homes (up 36.5 per cent). Year-to-date metro area starts are up 16.0 per cent due to strong building activity for all housing types except rows which are down 8.2 per cent from last year's total thus far.

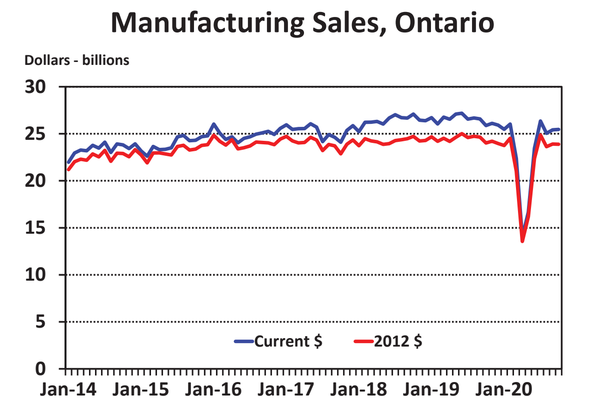
In November, most metro markets (60 per cent or nine) posted weaker housing starts activity which tempered overall growth in the province. Large areas such as Toronto (down 3.7 per cent), Oshawa (down 29.8 per cent), Hamilton (down 59.6 per cent) and Kitchener-Cambridge-Waterloo (down 23.9 per cent) posted fewer starts month-over-month.

Several of the metro markets that posted weaker starts in November are found in the Greater Golden Horseshoe area (GGH) this is not a coincidence given stricter measures in many of this markets imposed by the province coupled with the colder weather now that fall and winter is here potentially reducing the number of workers on site and slowing down projects from getting completed or new ones breaking ground.

The average contract price of a new single-detached home in Ontario declined 1.2 per cent in November adding to the 0.8 per cent decline in October. Since May 2020, month-over-month average contract price has fallen four of the last seven months. On the other hand, the median contract price continued to rise modestly in November moving up an additional 1.6 per cent. For the period May to November 2019 compared to the same period in 2020 the average and median contract prices are down 1.4 per cent and 0.9 per cent, respectively. Even though people are purchasing new homes the price of those homes is slightly declining perhaps due to compositional shifts, greater purchases outside urban centres.

Over half of Ontario's manufacturing subsectors posted weaker sales in October

Manufacturing sales remained nearly unchanged in October posting very modest growth of 0.2 per cent after growing by 1.5 per cent in the previous month. Of the 21 subsectors surveyed over half (11 posted weaker month-over-month sales) among them several large sectors which offset gains in other areas. Non-durable good sales slid 0.4 per cent in October while durable good sales inched up 0.6 per cent.



Source: Statistics Canada, Central 1 CU. Note: Seasonally adjusted.
Latest: Oct.-20

Over the first ten months of 2020 manufacturing good sales are down 13.4 per cent compared to the same period last year with non-durable and durable good sales down 6.9 per cent and 17.5 per cent, respectively. Ontario manufacturing has awakened since the economic restart in May, but it has not been able to surpass last year's sales numbers still for any of the months since May. The year-over-year sales volume gap per month from May to October has averaged 10.8 per cent.

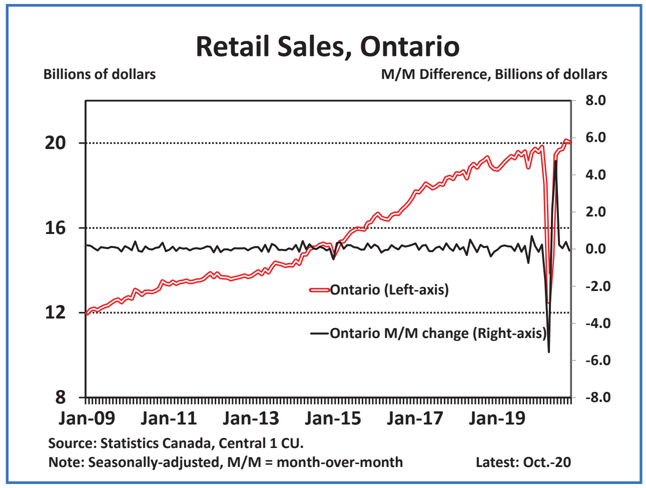
Within non-durable goods food manufacturing continued to increased moving up an additional 0.2 per cent along with plastics and rubber products (up 5.0 per cent) but unable to offset sales losses in other areas such as petroleum and coal products (down 4.4 per cent), chemicals (down 3.5 per cent) and clothing (down 11.1 per cent). Chemical sales fell on lower demand for resin, synthetic rubber and artificial and synthetic fibres, and pharmaceuticals and medicine. Growth in car production helped lift plastics and rubber product sales. Food manufacturing continued to rise on household demand for food even though demand from hotels and restaurants stagnates given increased restriction and closure orders from the province.

Durable good sales were largely lifted from increased sales of transportation equipment (up 1.3 per cent), primary metals (up 0.8 per cent), computer and electronic products (up 7.8 per cent), and wood products (up 2.1 per cent).

Demand for new cars has supported sales of transportation equipment, primary metals, and computer and electronic products. Residential and non-residential building activity has helped push sales of wood products and metals up.

Of the three manufacturing sectors surveyed in Ontario, sales increased in Hamilton (up 1.8 per cent) but declined in both Toronto (4.2 per cent down) and Ottawa-Gatineau (2.4 per cent). Manufacturing sales declined in Toronto due to lower production in the aerospace product and parts industry, as well as lower sales in the machinery industry.

The rest of the fall and winter seasons will pose potentially strong headwinds for Ontario manufacturing. A strong second wave of COVID-19 infections may lead to stronger restrictions and even a province-wide lockdown. Should stronger restrictions materialize production may come to a standstill. Added to this is the risks to international supply chains affecting production here at home as other trade partner nations are themselves facing issues stemming the spread of the virus.



Retail sales stalled in October

Retail sales in Ontario fell (down 0.4 per cent) for the first time since April putting an end to a run of five consecutive months of sales growth, coinciding with a record number of COVID-19 cases and stricter public health measures within the province. Sales in the Toronto metro area fell 1.2 per cent, in all other areas of Ontario, excluding the Toronto metro area, sales inched up 0.1 per cent, not enough to offset losses in Toronto.

Over the first ten months of 2020 retail sales in Ontario are still lagging last year's pace by 4.4 per cent. Over the same period sales in Toronto are down 7.4 per cent. In all other parts of Ontario, excluding the Toronto metro area, sales are down 2.3 per cent year-to-date.

Sales in Ontario fell largely on weaker sales at general merchandise stores (down 1.6 per cent), clothing and clothing accessories stores (down 2.8 per cent), and motor vehicle and parts dealerships (down 2.3 per cent). Sales at gasoline stations inched up 0.3 per cent.

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