Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Ontario's 2020 headline inflation came in at 0.7 per cent; weakest year for inflation since 2009.
- COVID-19 health restrictions handcuffed Ontario new home construction in December
- Year-to-date Ontario manufacturing sales see annual decline of 12.7 per cent.
- Ontario retail sales increased 0.9 per cent in November ahead of the holidays.
- Ontario new home construction sector un-scathed by pandemic
- Ontario third quarter GDP up 9.4 per cent but economic growth to be modest until the end of 2nd wave.

2020 headline inflation came in at 0.7 per cent; weakest year for inflation since 2009.

Ontario's inflation rate cooled to 0.7 per cent in December, down from an already low 0.9 per cent the month before.

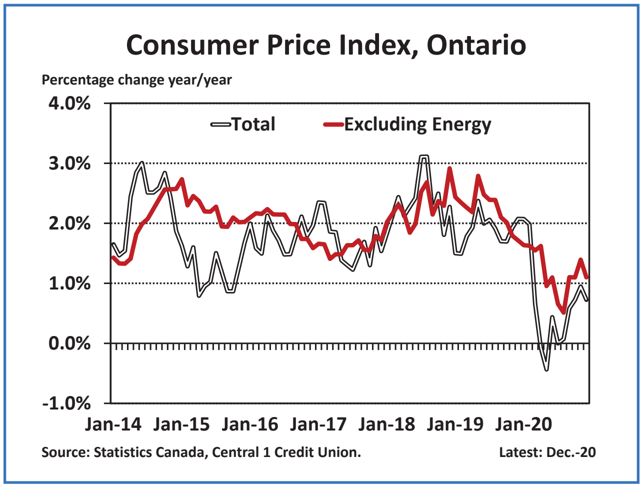
The deceleration in services prices (which saw a 1.4 per cent growth in December, slower than the 1.9 per cent growth in November) resulted in December's headline inflation rate growth slowing to a 0.7 per cent rise.

December goods prices came in unchanged from year-ago estimates (gaining from the 0.3 per cent drop in November) due to an acceleration across durable, semi-durable, and non-durable goods.

Energy prices accelerated in December from last month largely due to higher prices for gasoline and fuel oil and other fuels. Electricity, water, and natural gas prices remained unchanged from year-go estimates.

Excluding energy, prices decelerated to 1.1 per cent in November from 1.4 per cent in November. Crude oil production restrictions by OPEC have kept prices elevated.

Food and shelter prices decelerated in December while prices for household operations, furnishings and equipment increased due to higher prices for household operations which was likely cause by the jump in price for fuel oil and other fuels.



On a year-over-year basis, fresh vegetables rose at a slower pace in December than in November, while prices for fresh fruit fell year over year. According to Statistics Canada: "*Favourable weather conditions in growing regions in the United States and Mexico contributed to the increased supply of fresh fruit and vegetables. Redirected supply from the food service industry also increased supply at retail outlets*[1]."

Services such as health and personal care and recreation, education and reading saw prices accelerate in December. The price of transportation declined further due to a significant contraction in public transportation costs.

With December data now available an annual comparison can be done. Headline inflation in 2020 was 0.7 per cent, the lowest rate since the 0.4 per cent posted in 2009. Areas like food and shelter prices saw their rates of growth slow down considerably largely from cheaper food prices at restaurants and food stores and cheaper rental accommodation prices. There has been a rental exodus resulting in more units available and landlords offering perks to potential new tenants. Transportation and recreation, education, and reading prices fell 0.1 per cent and 1.9 per cent respectively in 2020 as fewer people travelled for work and play and many small and medium enterprises from restaurants to cinemas remained shuttered for most of 2020. Moreover, a greater prevalence of working remotely and online meetings made many workplaces more

1 https://www150.statcan.gc.ca/n1/daily-quotidien/210120/dq210120a-eng.htm?HPA=1

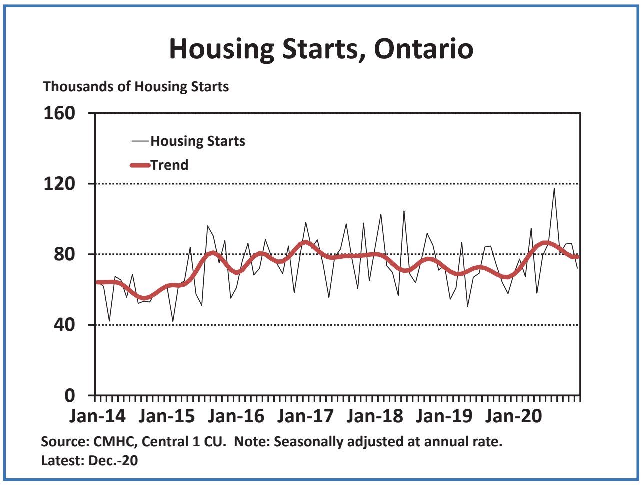
casual. The need for work clothes fell therefore clothing and footwear prices fell 1.7 per cent in 2020.

Energy prices fell 7.7 per cent in 2020, a further fall from the 2.8 per cent reduction in 2019 on weaker gasoline and electricity prices. Ontario kept electricity prices range bound in 2020 for a substantial portion of the year to help businesses and households offset increased costs elsewhere as more people remained homebound and businesses saw weaker revenues due to restrictions.

General prices decelerated in December in all three Ontario markets surveyed. The greatest absolute slide in overall prices occurred in Thunder Bay followed by Ottawa-Gatineau, and Toronto.

New home construction sector ends 2020 in a whimper, new housing starts fell 16.4 per cent.

In December, seasonally adjusted at annual rate (SAAR) new housing starts declined substantially in all areas of Ontario, according to Canada Mortgage and



Housing Corporation (CMHC). They fell by 16.4 per cent to 72,070 units SAAR, capping off a weak fourth quarter of activity where, after October (up 6.5 per cent), starts under-performed in November (up 0.5 per cent) and in December. This fourth quarter weakness is directly attributable to the increased COVID-19 restrictions due to the second wave which is affecting the supply chains of key resources for building sites. As of the writing of this report, construction sites still hold an exemption under new second wave restrictions to keep working[2].

In metro areas, new housing starts fell 17 per cent due to fewer new housing starts in all housing types, from single-detached homes (down 18.3 per cent) to semi-detached homes (down 37.3 per cent), rows (down 21.5 per cent), and condo apartments (down 12.1 per cent).

Despite a weaker fourth quarter over the course of 2020, total new home construction bucked the general trend of the economy, increasing by 16.5 per cent in metro areas. Strong growth was observed in single-detached homes (up 17.1 per cent), semi-detached homes (up 42.8 per cent) and condo apartments (up 25.2 per cent). Semi-detached home starts fell 9.3 per cent.

In December, of the province's 15 metro areas surveyed, housing starts moved up only in the following four:

- Guelph (up 857 net new housing starts);
- Hamilton (up 1,750 net new housing starts);
- Kitchener-Cambridge-Waterloo (up 1,28 net new housing starts); and,
- St. Catherines-Niagara (up 257 net new housing starts).

Over the course of 2020, as outlined above, the new home construction sector did very well and was unscathed by the pandemic. It is likely that public health restrictions slowed down what would have been a record year across all metrics once the economy opened in May post the virus' first wave. New housing starts (up 16.3 per cent), units under construction (up 10.1 per cent), and completions (17.6 per cent) all outperformed the long-term trend since 1990 and more recently the post-recession trend from 2010 to 2019. Condo apartments accounted for most units started (54.3 per cent), units under construction (75.2 per cent), and nearly most completions (48.5 per cent) in 2020. Much of this high-density vertical living construction occurred in Ontario's largest urban centres of Toronto, Ottawa-Gatineau, London Ontario, and Kitchener-Cambridge-Waterloo which are areas with strong inflows of new residents, largely from immigration. With such inventory coming on board, condo apartments will face significant drag. Investors may face short term challenges as people move to the suburbs in larger numbers and closed borders constrain inflows of immigrants, foreign students, and tourists.

The average length of construction for all new home types increased in 2020 by 1.9 months to 19.3 months due to the public health restrictions.

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2 https://globalnews.ca/news/7574440/ontario-coronavirus-construction-new-restrictions/

The new single-detached home average and median contract price increased 12.5 per cent and 9.3 per cent year-over-year respectively in December, the highest reading for both in 2020. The surge in contract prices likely reflected the strong demand for low-rise housing earlier in the year.

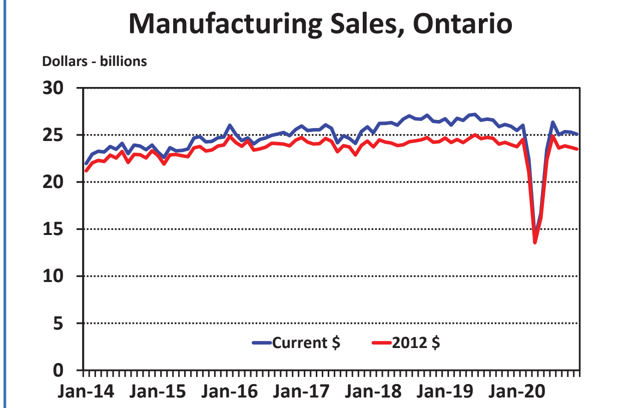
Sluggish transportation equipment sales led Ontario's November total sales decline.

Following a 0.2 per cent decline in October, sales in Ontario decreased 0.8 per cent to $25.1 billion in November on lower sales of durable goods (down 2.6 per cent) offsetting gains in sales of non-durable goods (up 2.0 per cent). Of the 21 subsectors surveyed, only four posted weaker manufacturing sales in November which included a major sector: transportation equipment manufacturing (down 8.1 per cent and accounting typically for about 28 per cent of all manufacturing sales in Ontario). Other areas that saw sales decline included textile product mills manufacturing (down 6.7 per cent), paper manufacturing (down 0.2 per cent) and non-metallic mineral products (down 0.8 per cent).

Sales declined in most transportation equipment industries in Ontario. Decreases were most pronounced in the motor vehicle (down 5.4 per cent), motor vehicle parts (down 6.4 per cent) and aerospace product and parts (down 31.7 per cent) industries. Many consumers are tightening their belts and forgoing big-ticket items like a new car which is affecting domestic and international demand for transportation equipment. Moreover, with tourism only a fraction of what it was pre-pandemic, major airline companies are axing plans for new plane purchases which is influencing overall transportation equipment sales.

Year-to-date, manufacturing sales still lag 2019 sales by 12.7 per cent. Since July, month-over-month manufacturing sales growth has averaged a 1.2 per cent decline per month. Substantial economic uncertainty continues to restrain business investments and consumer demand. Inventories are rising. Year-to-date, both durable (down 16.6 per cent) and non-durable goods (down 6.3 per cent) are lagging 2019 total sales substantially.

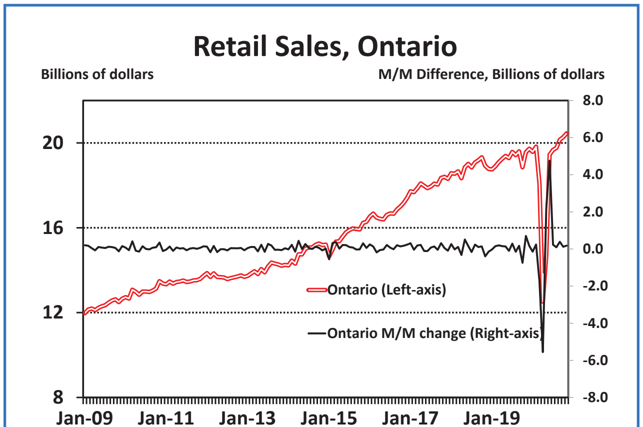
In Toronto, sales decreased 1.4 per cent to $10.6 billion in November, on lower sales in the food (down 3.0 per cent), aerospace product and parts (down 13.6 per cent), and motor vehicle parts (down 4.8 per cent) industries. Sales in Ottawa–Gatineau rose 1.7 per cent to $713.6 million in November, following two consecutive monthly declines, on higher sales in the miscellaneous (up 7.1 per cent) and computer and electronic product (up 10.8 per cent) industries.



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

Food and beverage sales and some early holiday shopping supported retail sales growth in November.

Retail sales increased 0.9 per cent in November marking seven consecutive months of retail sales growth. E-commerce continues to surge, aiding to the growth in retail sales even in the face of public health restrictions for most of 2020 and slowing in-person transactions for most businesses. Moreover, as the holiday season approached many people decided to purchase their gifts earlier, thereby driving November sales growth. But most of the gains in retail sales in November came from food and beverage stores.



Source: Statistics Canada, Central 1 CU.
Note: Seasonally-adjusted, M/M = month-over-month
Latest: Nov.-20

Sales in the Toronto metro area moved up in November by 0.3 per cent. Excluding Toronto, sales in the rest of Ontario moved up 1.3 per cent.

Over the first 11 months of 2020, retail sales in Ontario are still lagging last year's pace by 3.8 per cent. Toronto sales and rest of Ontario sales are also lagging by 7.0 per cent and 1.5 per cent, respectively.

Household consumption, business investment, and exports help lift third quarter real GDP by 9.4 per cent.

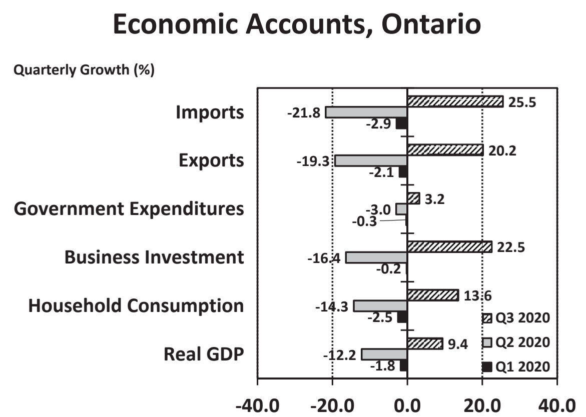
Ontario Finance this week released its quarterly economic account estimates for the third quarter of 2020. As expected with the post first wave economic reopening and the summer months allowing for more physical distancing COVID-19 caseloads fell allowing players in the economy to gain back some confidence and participate to a greater degree in the economy. Real gross domestic product (GDP) rebounded by 9.4 per cent nearly undoing the 12.2 per cent contraction of the second quarter. Year-over-year third quarter real GDP lagged the corresponding quarter in 2019 by 5.5 per cent. At a seasonally adjusted annual rate, real GDP increased by 43.3 per cent in the third quarter.

The 9.4 per cent jump in real GDP in the third quarter was supported by greater household consumption (up 13.6 per cent), business investment (up 22.5 per cent), and exports (up 20.2 per cent).

Consumer spending on durable goods increased by 41.3 per cent, largely reflecting motor vehicle purchases. Greater risk associated when taking public transportation, especially in COVID-19 hotspots in Ontario compelled many Ontarians to make the investment and purchase a new or used car at greater numbers. Anecdotal evidence during the pandemic suggest roads are busier with more traffic. Household spending on semi-durable goods also rebounded, rising by 33.4 per cent, while spending on services (up 9.9 per cent) and non-durable goods (up 4.5 per cent) also rose in the quarter.

Business investment moved up on stronger residential construction (up 37.2 per cent) and purchases of machinery and equipment (up 18.4 per cent). Greater capacity at building sites allowed residential housing developers to continue chipping away at the backlog of new housing still to break ground. Moreover, greater demand for renovation spending, as homeowners unable to move to a new home renovated their existing homes to allow for greater space, also supported residential housing construction in the quarter. Low interest rates allowed some businesses to make investments in machinery and equipment to prepare for the post-pandemic rebound in 2021.

Both exports (up 20.2 per cent) and imports (up 25.5 per cent) rebounded robustly on greater international and domestic trade as COVID-19 pandemic restrictions eased over this period at home in Ontario and in other parts of the world allowing supply chains to come back online.



Source: Ontario Finance, Central 1 CU Latest: Third quarter 2020
Note: Real seasonally adjusted GDP at 2012 prices presented

A stronger than expected COVID-19 second wave compelled government to implement greater restrictions that will create significant drag on the economy in the first quarter of 2021. The light at the end of the tunnel will likely not begin to be seen in Ontario until April or May once a greater number of Ontarians are inoculated. Economic growth will be modest at best until then.

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