Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

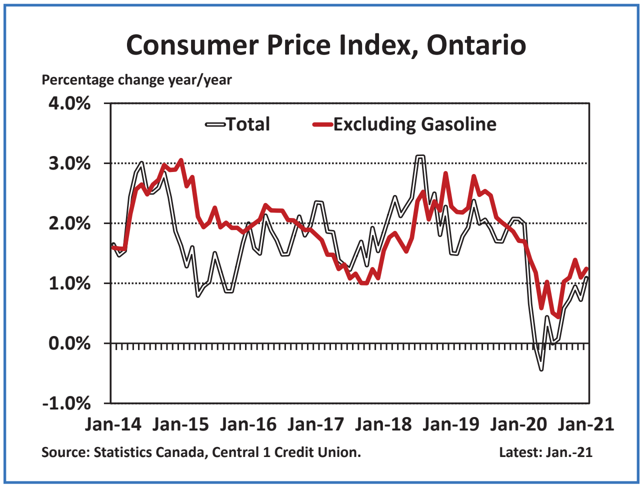
- Overall inflation moved up 1.1 per cent, with many sectors reporting higher prices in January;
- Inflation forecast to come in at 1.7 per cent in 2021; significant ground still to be made up;
- New housing starts market begins 2021 on fire – up 25.3 per cent;
- Ontario average resale home price continues to outperform expectations;
- Manufacturing sales fell 0.7 per cent in December and sales fell every month in the fourth quarter;
- Retail sales volumes declined in December halting seven months of consecutive growth.

Inflation moves up 1.1 per cent in January

Headline inflation came in at 1.1 per cent in January, up from 0.7 per cent in December (all figures presented are year-over-year comparisons unless otherwise stated). Broadly speaking, prices moved up for most goods while some services reported lower prices, particularly some services with constant and regular contact with the public.

Energy prices continued to fall (down 4.9 per cent in January following a 3.5 per cent decrease in December). This was largely due to lower prices for electricity (down 13.7 per cent in January following 0.5 per cent growth in December) and a slower rate of price growth for natural gas (up 5.5 per cent in January from 10.4 per cent growth in December). The rate of growth for gasoline and fuel oil and other oils accelerated in January offsetting some of the dropof other energy prices. Excluding energy, inflation moved up 1.5 per cent in January following a 1.1 per cent increase in December.

Headline inflation moved up due to higher prices for food, household operations costs, transportation costs, and recreation, education and reading costs. While food prices for goods purchased in stores increased, most of the inflation in the food sector came from restaurant purchases.



Gasoline prices continued to accelerate due to supply restrictions. Gasoline exporting countries have cut down production to counter the lower demand for gasoline during the pandemic as fewer people are travelling to work using public or private transportation. As a consequence of gasoline prices increasing, transportation costs are up. Recreation costs also increased pushing up prices in recreation, education and reading.

Shelter costs slowed down (up 1.4 per cent in January after moving up 2.3 per cent in December) largely due to water, fuel, and electricity costs.

Some semi-durables such as clothing saw prices slide which pulled down clothing and footwear. With social and economic life largely frozen due to the pandemic the need for clothing and footwear purchases has waned. Producers of these goods are likely offering price rebates to maintain some revenue streams like so many other businesses are having to do during this pandemic.

Finally, health care and personal care prices were unchanged in January as health and personal care price growth slowed down or declined in the case of health care costs.

The province has established lower energy prices, and this has helped households during the pandemic by keeping some housing costs down. Recently, much talk about online food delivery applications has occurred. Many bars and restaurants trying to survive the pandemic are seeing profit margins shrink as the commission paid to these online applications is significant.

The passing on of these costs to the consumer may be the reason for prices of food purchased at restaurants moving up.

With increased restrictions still in place at the time this consumer price index survey occurred, many businesses offering personalized services were affected. Businesses offering health services (i.e., massage therapy, chiropractors, physical therapy) likely lowered prices to try and create some revenue streams.

Of the three metro areas surveyed by the consumer price index, prices moved up in Ottawa-Gatineau and Toronto but remained unchanged in Thunder Bay.

It is expected that as the pandemic is gradually brought under control due to vaccines and public health measures working together, the economy will also gradually open in 2021. According to our latest Ontario forecast, inflation is forecast to come in at 1.7 per cent this year so significant ground still to be made up from where inflation currently stands.

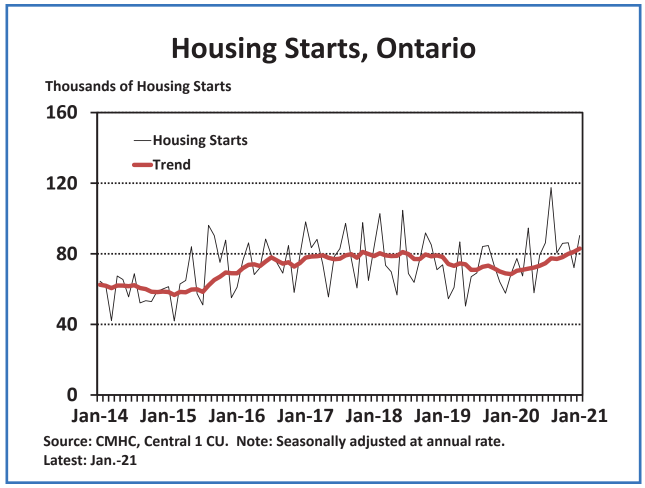
After a weak December new home construction rebounded strongly in January

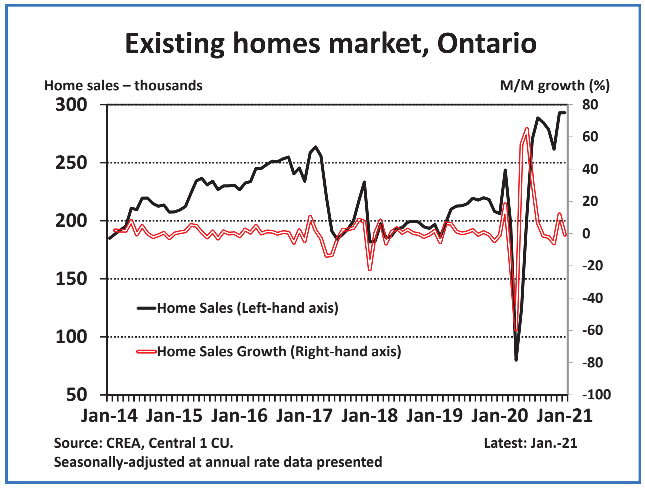
After a very weak December that saw new home construction at seasonally adjusted at annual rate (SAAR) fall 16.4 per cent, the market more than rebounded in January with SAAR starts moving up 25.3 per cent to 90,343 units. Moreover, only looking at January SAAR starts from 2018 to 2020, the current pace of new home construction is 19.6 per cent above the average pace.

New home construction was robust in metro areas accounting for over 97 per cent of all new home construction in Ontario in January and moving up 28.5 per cent month-over-month to 87,802 units SAAR. Very strong growth in the single-detached home (up 23.9 per cent) and condo apartments (up 40.2 per cent) accounted for most of the construction gains in January. Other segments such as, semi-detached homes (up 11.7 per cent) and row/townhomes (up 4.6 per cent) also posted increased new home construction.

Year-over-year total SAAR new housing starts are up 31.4 per cent and in metro areas only up 31.5 per cent.

Housing starts increased in nearly all metro markets in Ontario with a few exceptions. Only four markets posted weaker new home construction:





- Guelph (down 74.8 per cent)
- Hamilton (down 41 per cent)
- Ottawa-Gatineau (down 21.2 per cent)
- St. Catharines-Niagara (down 7.1 per cent)

New housing starts in Toronto increased 17.4 per cent. In several smaller metro areas new housing starts increased by triple-digit per cent growth.

The new single-detached home average and median contract prices continued to climb in January. The average price increased 9.3 per cent to $1.013 million month-over-month (up 19.6 per cent year-over-year) and the median price increased 4.2 per cent to $767,432 month-over-month (up 14.3 per cent year-over-year). Moreover, the month-over-month gap between average price and median price is diverging evidence some compositional effects are at play. New home buyers in the single-detached segment interested in expensive homes with perhaps a larger mix of custom homes in that portfolio.

New home construction was likely supported by a very mild January. The weather not being as much an issue as previous years allowed developers to get back to work sites and continue chipping away at the backlog of projects yet to break ground.

Our latest Ontario forecast calls for a substantial drop in new home construction in 2021 (down 9.3 per cent to 73,100 units)[1] . New housing starts are a lagging indicator and represent purchases sometimes many times prior to 2021. Some lingering economic uncertainty for most of 2021 will tamp down new home purchases until the pandemic is firmly in the rear-view mirror.

Price growth was the major story for Ontario's resale homes market in January

Despite a slight weakening in activity month-over-month for sales and a strong contraction in new listings to start 2021, average price continues to outperform expectations. On a month-over-month basis sale fell 1.5 per cent in January after a very strong December which saw sales rise 11.0 per cent. New listings fell 18.2 per cent in January, the largest month-over-month drop since September 2020.

Meanwhile average price growth continued a strong upward trajectory that began in November (two per cent growth), December (3.2 per cent growth) and continued in January (up 7.4 per cent to $830,205). Overall, of the 44 real estate boards surveyed sales fell in nearly 60 per cent of them in January. Of the largest real estate boards sales continued to climb in Kitchener-Cambridge-Waterloo (up 2.7 per cent), Greater Toronto (up two per cent), Mississauga (up 2.5 per cent), and York Region (up 7.8 per cent). Greater Toronto accounted for nearly half of the sales in Ontario in January. Stronger sales of low-rise housing, especially single-detached homes, which typically have higher asking prices, in Greater Toronto and in the previously mentioned boards continued to keep average price growth significantly above trend.

Ontario is starting to slowly reopen in February after COVID-19 cases and positivity rates are trending down. At the time this January data was collected, the province was still under a state of emergency and in lockdown. This likely was the cause for weaker month-over-month sales and new listings. Fewer potential buyers and sellers were keen to list during such a difficult period to make transactions happen.

1 https://www.central1.com/wp-content/uploads/2021/02/ECON_EA_ONT_202101_PUBLIC.pdf

Now that the economy is slowly reopening again, and if Ontario can avoid a third wave of COVID-19 cases, then the market is setting itself to have a very strong 2021 fueled by low interest rates and a strong desire for homeownership. Seasonally-adjusted at annual rate, home sales in January are now higher than the peak in 2017 just before the government stepped in with new policies to slow down the market.

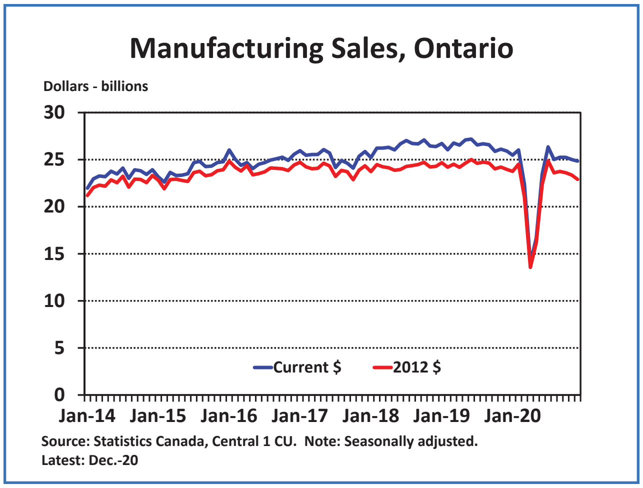
The constant quality housing price index (HPI) surveys seven real estate boards every month. In January, the HPI month-over-month growth averaged 3.2 per cent for the seven regions up from 0.9 per cent from a year ago. HPI growth in the areas surveyed was as follows in January:

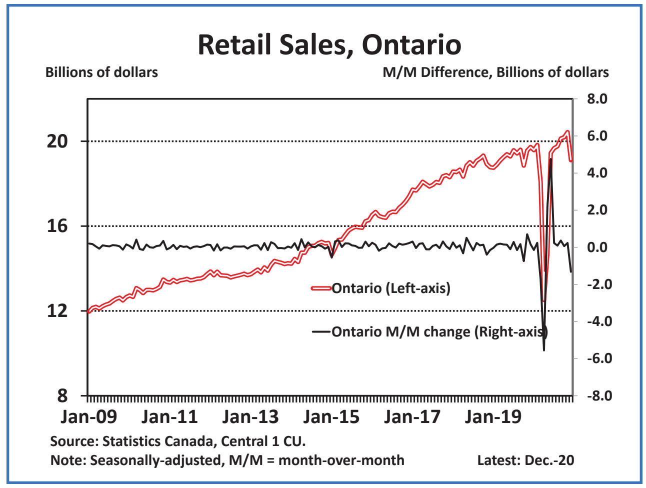
- Ottawa (1.7 per cent, up 0.2 per cent from December)
- Greater Toronto (up 1.7 per cent, up 0.5 per cent from December)
- Guelph (up 2.9 per cent, up 0.2 per cent from December)
- Barrie (up 3.6 per cent, up 1.8 per cent from December)
- Oakville-Milton (up 5.6 per cent, up 3.1 per cent from December)
- Hamilton-Burlington (up 3.1 per cent, up 0.2 per cent from December)
- Niagara Region (up four per cent, down 0.2 per cent from December)

Stronger HPI growth in areas such as Barrie and Oakville-Milton continue to highlight the exodus of residents from dense urban cores to the suburbs and rural areas during this pandemic. Strong demand continues to bid up prices significantly.

A widespread drop in activity pulled manufacturing sales down 0.7 per cent in December

Manufacturing sales continued to slide in December making it three consecutive months of weaker sales. In December, sales fell 0.7 per cent to $24.8 billion adding to the 0.9 per cent decline in November and the 0.1 per cent decline in October. Durable sales increased 0.1 per cent which was not enough to offset the 1.8 per cent drop in non-durable sales. Moreover, the contraction in sales in December was wide ranging with 15 of 21 industries posting lower sales volumes in December.





Among large industries, sales increased in December for transportation equipment (up 2.5 per cent) and petroleum and coal products (up 0.7 per cent) but fell in all others such as:

- Food (down 0.9 per cent)
- Chemical (down five per cent)
- Plastics and rubber products (down 5.4 per cent)
- Fabricated metal products (down 0.2 per cent)
- Machinery (down 0.5 per cent)

Transportation equipment sales rose on stronger demand for new autos and parts while petroleum and coal product sales volumes increased on higher prices.

Several of the large sectors that posted weaker sales had posted sales growth in either of the previous two months so the drop in sales is quite a reversal in fortunes. Public health restrictions ramped up in December ultimately leading to another lockdown of the economy by December 26 to try and control the spread of COVID-19. The survey results likely do not capture the lockdown late in the month but do capture the other restrictions and with increased barriers production and sales suffered.

As expected with this area of the economy facing increased restrictions unfilled orders have started to pile up.

With December data available here is a recap of manufacturing sales in Ontario in 2020 relative to 2019:

- The effects of the pandemic were severe as total manufacturing sales fell 12.1 per cent.
- Durable goods sales fell 15.7 per cent while non-durable sales fell 6.2 per cent.
- As expected with public health restrictions in place for much of 2020 and rolling lockdowns nearly all industries posted weaker sales (14 of 21 industries surveyed).
- The only major industry to post strong sales gains in 2020 was food manufacturing (up five per cent)
- Transportation equipment manufacturing had a difficult year with sales sliding 23.9 per cent.

Retail sales volumes fell 3.5 per cent in 2020 due to the pandemic

In Ontario, retail sales slowed down considerably in December (down by 6.5 per cent) ending a run of seven consecutive months of growing sales from May to November. Increased public health measures, especially in the second half of the month, and the reintroduction of lockdown measures really extinguished any growth in sales. Many businesses were deemed non-essential and forced to close their doors to in-store shopping, while essential retailers were allowed to remain open with stiffer physical distancing measures in place.

In the Toronto metro area, retail sales fell 9.6 per cent to $7.2 billon. Excluding Toronto, sales in the rest of the province also fell in December, down 4.4 per cent to $11.9 billion.

With December data now available here is a recap of how 2020 shaped up compared to 2019:

- Ontario retail sales fell 3.5 per cent; and,
- Sales in the Toronto metro area fell 7.4 per cent and in the rest of Ontario exciuding Toronto sales fell 0.8 per cent.

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