Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Exports fell 1.2 per cent in January largely on weaker trade with the U.S.;
- Non-residential building permit volumes moved up 12.3 per cent in January but remained 1.6 per cent below pre-pandemic activity;
- Despite sustained period of growth since the pandemic's first wave, real GDP fell five per cent in 2020;
- Toronto's resale homes market remains hot, average price eclipses the $1 million threshold for the second consecutive month – affordability issues on horizon.

Exports fell 1.2 per cent in January

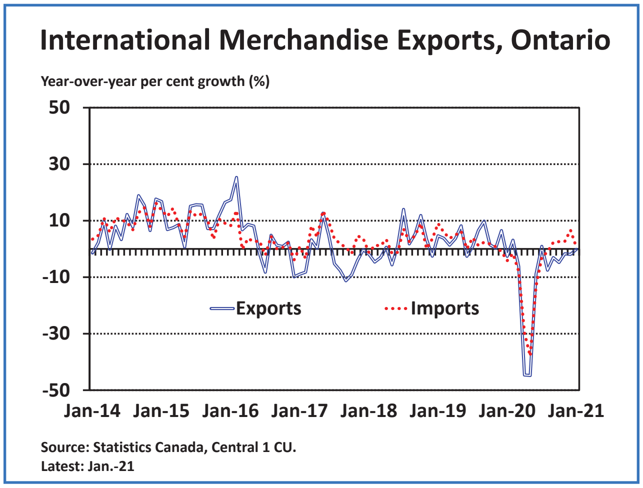
Ontario's seasonally adjusted export volumes fell 1.2 per cent in January, putting an end to two consecutive months of growth. Seasonally adjusted imports also fell by 5.5 per cent. Year-over-year, exports and imports remained ahead of last year's pace by 0.2 per cent and 0.8 per cent, respectively.

Trade with the U.S. fell two per cent in January while exports to the rest of the world increased 1.2 per cent. A strong dependence on trade with the U.S. meant that the fall in overall exports to our neighbours to the south more than offset the gains with partners in other parts of the world.

In January, half of the 12 sectors surveyed posted weaker export sales. The following large sectors posted significant fluctuations in January:

- Metal and non-metallic mineral products (down 8.3 per cent)
- Consumer goods (up 6.1 per cent)
- Motor vehicle and parts (down 9.6 per cent)
- Industrial machinery, equipment, and parts (up 2.9 per cent)

Exports of consumer goods rose largely on increased sales of miscellaneous goods and supplies. Increased sales of gold bars at retail (which are counted in the consumer goods category) – especially to the



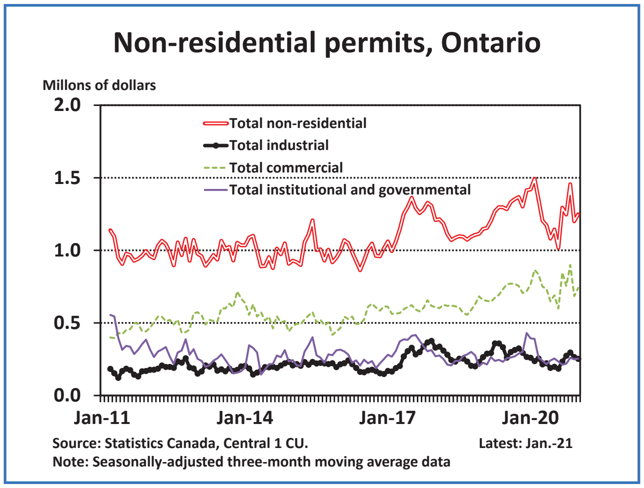
U.S. – also helped lift consumer goods exports in January. With interest rates expected to remain low for the foreseeable future, investors are ramping up purchases of other stores of wealth such as gold.

At the period that this survey was conducted, Ontario's economy was still being adversely affected by rigid public health conditions. It is expected that as the pandemic is brought under control and borders open, especially with Ontario and U.S. markets, exports should begin to rebound in 2021.

Non-residential building permit volumes rebound strongly to start 2021

Non-residential building intentions increased significantly in January, moving up 12.3 per cent after posting a 32.5 per cent contraction in December. Building permits are typically very erratic in trend but over the last few months growth has flipped flopped on a month-by-month basis. The increased economic uncertainty faced by particularly commercial and industrial businesses may be affecting the development of projects in some hard-hit sectors such as client facing services accounting for a gap between current activity and pre-pandemic activity. Compared to pre-pandemic activity in February 2020, non-residential building permit volumes remained 1.6 per cent below.

Following three consecutive monthly declines, industrial permits bounced back in January, moving up 26.0 per cent and coupled with the 14.7 per cent growth in commercial building intentions easily offset the 5.2 per cent decline in institutional projects and lifted overall building intentions in January. A couple of large



permits in Toronto for the Eglinton crosstown light rail accounted for most of the gain to industrial permits in January.

Ontario's metro areas accounted for nearly three-quarters of the non-residential permit volumes in January. While Toronto posted a decline of 0.7 per cent, largely due to increased public health restrictions the slack in Toronto was more than offset by growth in other large metro areas. Among them:

- Hamilton (up 145.5 per cent)
- Kitchener-Cambridge-Waterloo (up 31.1 per cent)
- Ottawa-Gatineau (up 15.0 per cent)
- St. Catharines-Niagara (up 19.1 per cent)

With greater COVID-19 vaccine supply in the pipeline it is likely that many businesses still relatively unscathed by the pandemic continue to feel bullish about the long-term economic prospect in the province. With interest rates remaining low, many likely feel this is the right opportunity to expand operations so that once the economy begins to fully open up they can take advantage of pent up consumer demand for goods and services after over a year of public health induced hibernation.

Real Canadian GDP moved up for eight consecutive months in December

Real Canadian gross domestic product (GDP) moved up an additional 0.1 per cent at seasonally adjusted at annual rate (SAAR) in December following a 0.8 per cent increase in November. With December's reading real GDP has now increased for eight consecutive months. This period of sustained recovery has helped carve away at the deep hole caused by the pandemic in the spring but much more needs to be done to return to pre-pandemic activity. Compared to pre-pandemic activity, in February 2020, real GDP is still down three per cent. Moreover, with annual data now available Canadian GDP fell five per cent in 2020.

The dichotomy of 2020 by sector continued in December, while the goods-sector continues to recover the services sector remains hard hit in the face of increased public health restrictions in many parts of the country including Ontario. Month-over-month goods-producing industries were up 0.6 per cent SAAR while services-producing industries edged down 0.1 per cent SAAR.

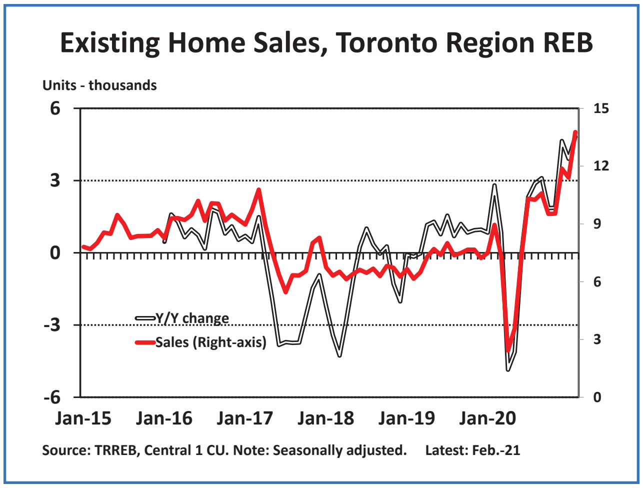
Manufacturing production fell 1.1 per cent SAAR in December after a strong November that saw production increase by 1.5 per cent SAAR. Weaker sales and inventories contributed to the largest month-over-month decline in the sector since the start of the pandemic. Again, public health restrictions not only in Canada but other nations are slowing down economic activity here at home. Supply chains remain slow causing orders to back up.

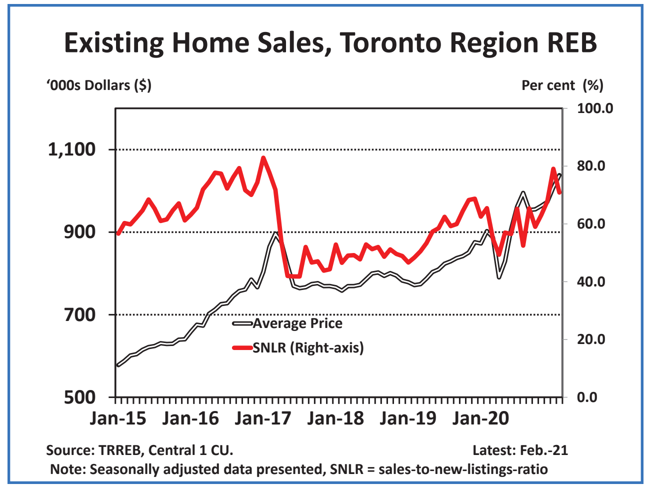
Both transportation equipment manufacturing and its subset, motor vehicle and parts manufacturing continued to slide for the third consecutive months in December falling by 0.8 per cent SAAR and one per cent SAAR respectively. Much of the drop in motor vehicle and parts manufacturing came from weaker new auto production. Low interest rates notwithstanding consumers are eschewing some big-ticket purchases such as a new car.

Toronto's resale homes market remains impervious to the pandemic

The Toronto Region Real Estate Board (TRREB) released February market data this week and the market continued to outperform expectations. The robust activity in the resale home market is driven by attractively low mortgage rates and the prospect of full-time work from home being the new normal post pandemic.

Home sales moved up 20.8 per cent in February and over the first two months of 2021 home sales are 53 per cent ahead of last year's pace. Worth noting: at this time last year the market had not yet been affected by the pandemic. At this current pace, year-to-date activity will continue to outstrip last year's pace significantly barring additional downward shocks in 2021.





With demand still strong, supply (or new listings) more than obliged in February. New listings increased 34.8 per cent. Over the first two months of 2021 new listings remained 31.9 per cent ahead of last year's pace.

Currently, the market looks to continue to heat up. For example, the sales-to-active-listings is currently 122.5 per cent. In February 2017, when the market was last overheating – before policy makers stepped in to pump the breaks – the ratio reached 139.6 per cent. Unrestrained, the market is within striking distance of reaching and eclipsing this previous pace. In the latest signaling by the Bank of Canada they have acknowledged that housing markets are starting to overheat but understand that the overall economic recovery excluding housing consumption will be protracted and expansionary monetary policy will remain in place for the foreseeable future. Central 1 does not expect an upward shift to the Bank of Canada's policy rate until 2023. Unaffordability concerns will be stoked significantly in 2021 perhaps leading to another year of significant exodus out of the city due to affordability erosion.

For the second consecutive month the average home price remained above $1 million coming in at $1.038 million in February up 2.9 per cent from January. Over the first two months of 2021 the average home price is 15.3 per cent ahead of last year's pace. At the same time in 2020 the average home price was 14.6 per cent ahead 2019 pace.

The seasonally adjusted constant quality housing price index (HPI) from TRREB moved up 3.4 per cent in February the largest month-over-month increase over the last 13 months, from January 2020 to February 2021. As expected, low-rise housing price appreciation leads most of the growth. Condo apartments prices are starting to grow but continue to do modestly.

Single-detached home HPI moved up 4.5 per cent in February up from 2.6 per cent growth in January while townhome/row HPI moved up 2.6 per cent in February up from 0.8 per cent in January. Condo apartment HPI moved up 0.7 per cent in February up from 0.4 per cent in January.

With a hot market affordability issues will become a major concern again in 2021. The strong move up in the HPI for townhomes/rows may be the start of buyers shifting to the next best low-rise option that is still affordable while allowing them to stay in the Greater Toronto Area (GTA). As noted above, for those potential buyers not tied to the GTA expect a strong exodus to other markets especially if remote work remains in place for the foreseeable future.

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