Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

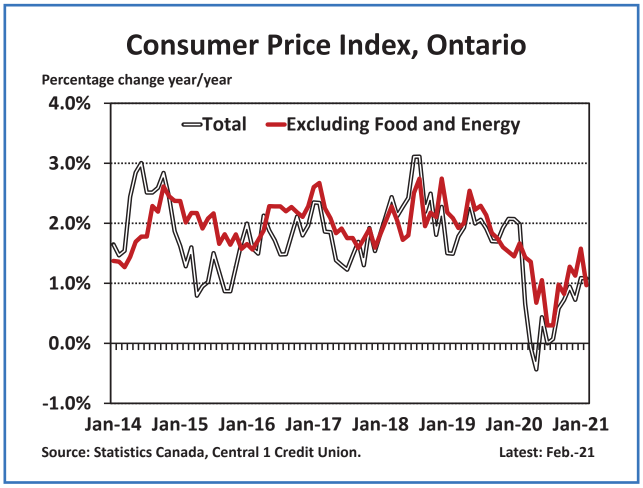
- Inflation remains unchanged in February at 1.1 per cent;
- Ontario resale housing market frothy;
- Continued urban exodus results in strong new housing starts outside Greater Toronto Area but housing starts down 14 per cent in metro areas of GTA due fewer condo and semi-detached starts;
- Manufacturing sales bounced back in January;
- Stringent public health measures in January affecting non-essential retail lowered sales volumes 2.6 per cent

Inflation unchanged in February

Ontario's headline inflation in February remained unchanged at 1.1 per cent from the previous month as some areas posted strong price growth while others slowed down or declined. Specifically, semi-durable goods prices declined, and prices of services slowed down. Goods prices increased, led by higher prices for durable and non-durable goods.

The latest rate of inflation is still below Central 1 Economics' estimate for a 1.7 per cent inflation rate in 2021 but the current economic slack is expected to be made up by late summer or early autumn when economic activity will substantially ramp up as sufficient people are vaccinated and consumer and business confidence rebounds, while the most stringent of public health measures are lifted and households begin spending the savings they have acquired during the pandemic.

Energy prices posted a very strong jump in February moving up one per cent after a 4.9 per cent decrease in January. Much of the growth in energy prices came from gasoline, electricity and fuel oil and other fuels. Supply restrictions of petroleum are keeping gasoline prices elevated. Government supports for some utilities during the pandemic are slowly being peeled back and consumers are footing the bill for higher prices.



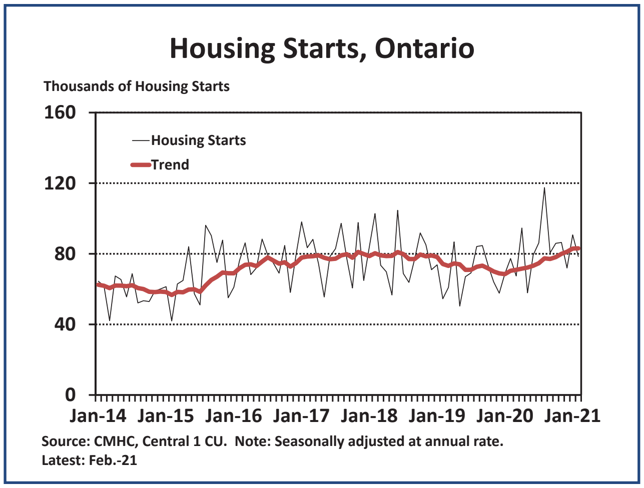
Food, a significant component of non-durable goods, saw prices increase for supermarket and restaurant purchased food, with supply chain issues also being passed onto consumers. Excluding energy and food, headline inflation comes in at 1.0 per cent which is much slower than the 1.6 per cent posted in January.

Recreation and public transportation prices slid in February. Remote work and stringent public health measures are affecting the bottom lines of these two areas. Businesses hoping to keep some trickle of revenue active may be offering substantial discounts to potential clients.

Clothing prices also slid. With public health restrictions shuttering nearly all social activity and people working remotely in large numbers, the demand for new clothing has waned. Business owners in this area are likely offering substantial rebates on clothing goods, like those in recreation, to maintain some revenue growth.

Housing starts fell 13.5 per cent in February largely from fewer condo apartment starts in large urban markets

The boom in new home construction in all areas of Ontario posted in January was short-lived. After increasing 26.1 per cent in January to 90,738 units, seasonally adjusted at annual rate (SAAR) starts in February slid down 13.5 per cent to 78,470 units SAAR. With two months of data now available, year-to-date new housing starts are still 15.8 per cent ahead of last year's pace largely on the boom from



January. Very possibly market realities are starting to catch up with this segment. As affordability erodes further in both the resale and new home markets, demand for new homes will subside. In 2021, Central 1 Economics is calling for a 9.3 per cent decline in new home construction.

New housing starts in metro areas declined 13.9 per cent in February largely from a significant drop in condo apartment starts (down 31.8 per cent) and semi-detached homes (down 24.1 per cent). Single-detached starts (up 13.5 per cent) and row/townhome starts (up 4.9 per cent) both increased but not sufficiently to offset losses in those other two areas.

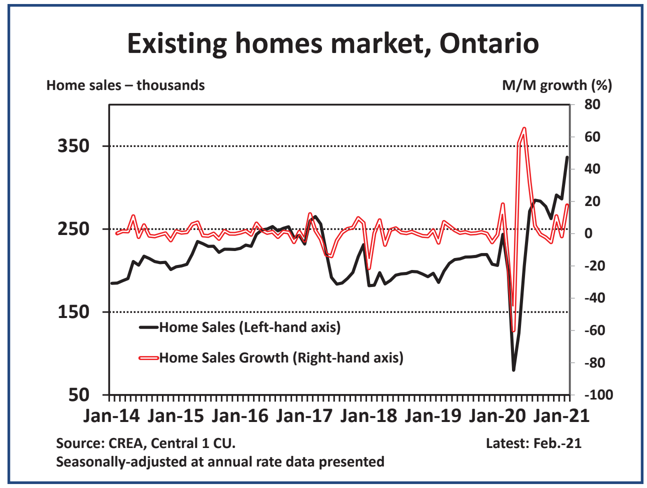
Housing starts activity in large metro markets was a mixed bag in February with markets farther away from Toronto doing much better likely supported by the urban exodus and the search for affordable new low-rise housing options. Below is a snapshot of how some markets fared:

- Barrie, down 73.5 per cent
- Hamilton, up 224.0 per cent
- Kitchener-Cambridge-Waterloo, down 88.1 per cent
- London, up 141.2 per cent
- Oshawa, up 92.8 per cent
- Ottawa-Gatineau, up 35.1 per cent
- Toronto, down 34.0 per cent

The new single-detached home average and median contract prices fell by 9.1 per cent and 0.6 per cent respectively in February. With greater demand for new low-rise housing farther away from the Greater Toronto Area average and median price growth declined.

Ontario's resale market remains frothy in February

Ontario's resale homes market sprang to action in February, easily offsetting the weaker sales and new listings posted in January. Month-over-month sales moved up 17.6 per cent, a considerable increase which eclipsed the 10.9 per cent jump in December 2020 and offset the decline in January. New listings also jumped considerably in February, moving up 33.6 per cent after falling 20.3 per cent in January.



Despite the strong new listings growth posted in February, which outstripped sales growth, the market remains tight and in a sellers' market position. The sales-to-new-listings-ratio (SNLR) in February was 80.1 per cent, down from 91.0 per cent in January. Since May 2020, the SNLR has averaged 74.5 per cent. The market is very frothy now.

With two months of data now available, the market is starting 2021 very strongly. Barring any further shocks or lockdowns, 2021 may be a banner year for the resale homes market. Over the first two months of 2021, sales and new listings are ahead of last year's pace by 38.5 per cent and 17.9 per cent, respectively.

Increased supply in the market helped alleviate price pressures. In February, the average price for a resale home came in at $845,269, up two per cent and a much slower rate of growth from the 6.3 per cent posted in January. Sales composition is a factor tempering gains. Potential drivers are driving farther away from large urban markets looking for affordable low-rise options. Over the first two months of 2021, average price remains substantially ahead of last year's pace (25.3 per cent).

Market strength in February was wide-ranging with only three real estate boards posting weaker month-over-month sales activity. In fact, average month-over-month sales growth averaged 21.7 per cent per real estate board. Low mortgage rates, elevated savings, family wealth transfers, home sale profits and remote work continues to drive housing demand. Many regions that had seen this sales growth in some time are now facing a surge in demand from out-of-town demand.

By real estate board the following large ones posted strong sales activity in February:

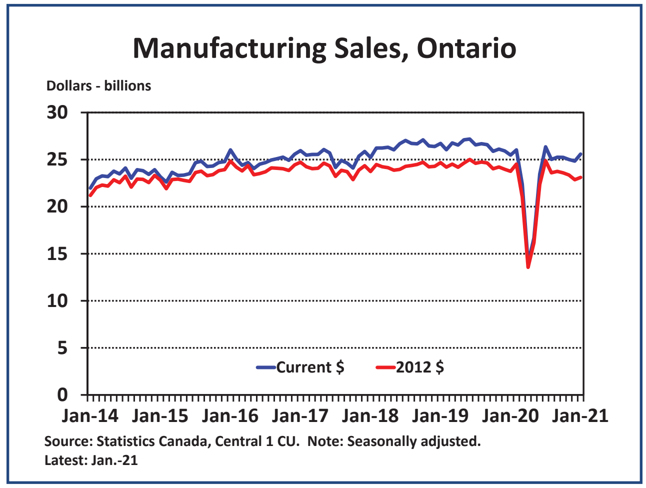
- Ottawa, up 7.2 per cent
- Toronto, up 15.9 per cent
- Durham region, up 56.5 per cent
- Mississauga, up 13.3 per cent
- Windsor-Essex, up 6.9 per cent
- Hamilton-Burlington, up 15.3 per cent
- Kitchener-Waterloo, up 20.1 per cent
- London-St. Thomas, up 24.3 per cent

The constant quality housing price index (HPI) surveys seven real estate boards every month. In February, the HPI month-over-month growth averaged 4.3 per cent for the seven regions up from 3.4 per cent in January and 1.3 per cent a year ago. The highest month-over-month growth was reported in Barrie (up 6.1 per cent) and the lowest month-over-month growth was reported in Toronto and Oakville-Milton both reporting 3.4 per cent growth. As expected, as affordability erodes, further regions farther from the Greater Toronto Area are experiencing a boom in activity. At the current pace, 2021 may be a record year for the resale homes market with double-digit growth come the end of 2021 for sales and price growth.

Ontario manufacturing sales stopped skid in January posting strong sales

Manufacturing sales stopped the recent skid and moved up 3.0 per cent in January to $25.6 billion due to strong growth to both durable (up 2.8 per cent) and non-durable sales (up 3.3 per cent). Sales are nearly back to pre-pandemic activity coming in at 98.3 per cent sales volumes from pre-pandemic activity.

Year-over-year total manufacturing sales are ahead of last year's pace slightly (up 0.4 per cent) with durable sales up 1.0 per cent while non-durable sales are lagging slightly: down 0.4 per cent.



Sales volumes increased broadly by subsector with a few exceptions among them large areas such as beverage and tobacco sales (down 5.3 per cent), machinery sales (down 1.3 per cent) and transportation equipment sales (down 5.0 per cent).

Losses in these areas were more than offset by strong sales of the following:

- Food, up 3.5 per cent
- Chemicals up 6.0 per cent
- Plastics and rubber products up 10.3 per cent
- Fabricated metal products up 1.7 per cent

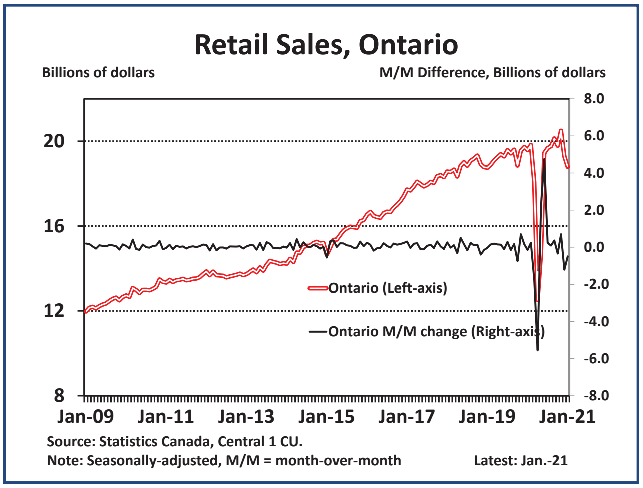
With more technology going into every new car a recent global semiconductor chip shortage has affected production of new cars and thus lowered manufacturing of transportation equipment and sales.

Unfilled orders have increased likely a symptom of firming demand but supply chains not keeping pace with this demand.

The manufacturing sector looks to be firming but supply chain risks and added costs due to strong demand could affect production. Not to mention the risk of the pandemic still hangs over society and with COVID-19 variants of concern (VOCs) cases increasing in Ontario if the situation is not brought under control soon another general lockdown may be enacted by policy makers again, the third since the start of the pandemic in March 2020, snuffing out any momentum attained in this segment.

Retail sales fell 2.6 per cent in January

Stringent public health restrictions in Ontario, with much of the province under lockdown, continued to affect the retail sales sector. January retail sales volumes in Ontario slid an additional 2.6 per cent adding to the 5.9 per cent drop posted in December and year-over-year sales in Ontario are down 4.0 per cent.



In the Toronto metro area retail sales fell an inch, down 0.2 per cent, after posting a 6.5 per cent drop in December. Excluding Toronto, retail sales in the rest of the province fell an additional 4.0 per cent in January adding to the 5.5 per cent drop in sales in December. Year-over-year sales in Toronto are down 10.4 per cent and excluding Toronto sales in the rest of Ontario are down 2.8 per cent.

With non-essential retailers such as clothing and footwear stores closed to in person shopping in January, retail sales fell largely on lower sales of these items.

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