



Highlights

- Inflation up 1.5 per cent from same three-month period (January – March) last year.
- Gasoline prices increased by 42.2 per cent in March, doubling February – March inflation to 2.2 per cent.
- Housing starts up 45 per cent in March largely on very strong numbers in the multi-family segment.
- Real GDP growth up 2.1 per cent in the fourth quarter.

Strong growth in food and energy prices continues to drive inflation.

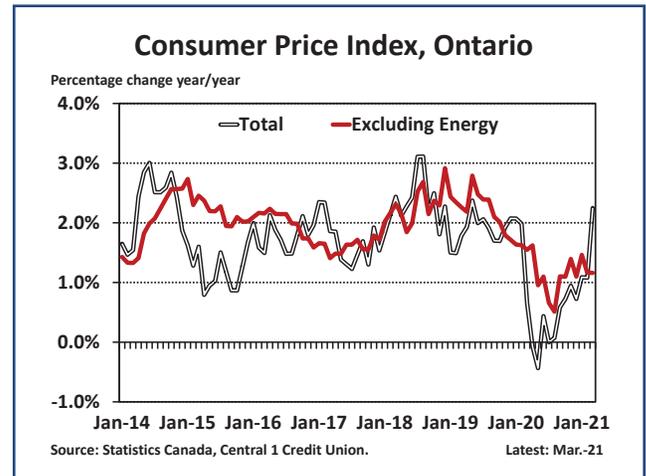
Headline inflation doubled between February and March to 2.2 per cent led by very strong growth in goods which were up a total of 3.8 per cent. This growth was mainly through non-durable goods, up 6.0 per cent, and durable goods, up 4.0 per cent. Prices for semi-durable goods slid further in March, down 3.9 per cent after falling 3.1 per cent in February. Inflation in services moved up 1.2 per cent in March which was the same rate of growth in February.

Moreover, a strong leap in energy prices, up 21.4 per cent in March, also provided a strong lift to inflation. Excluding energy prices, Ontario inflation came in one per cent lower at 1.2 per cent.

Year-to-date, over the first three months of 2021 inflation is up 1.5 per cent from last year.

Gasoline demand has increased substantially as the global economy continues to gradually return to full output but petroleum exporting nations continue to restrict supply causing a strong jump in prices year-over-year. Moreover, last March 2020 gasoline prices were much lower, so a lower base year effect also adds to the strength of the price jump this year. Gasoline prices moved up 42.2 per cent in March. Of all the elements in the basket of goods surveyed monthly by the Consumer Price Index gasoline by far posted the strongest jump in March.

As a result of increased gasoline costs, transportation costs increased significantly in March moving up 7.0 per cent.



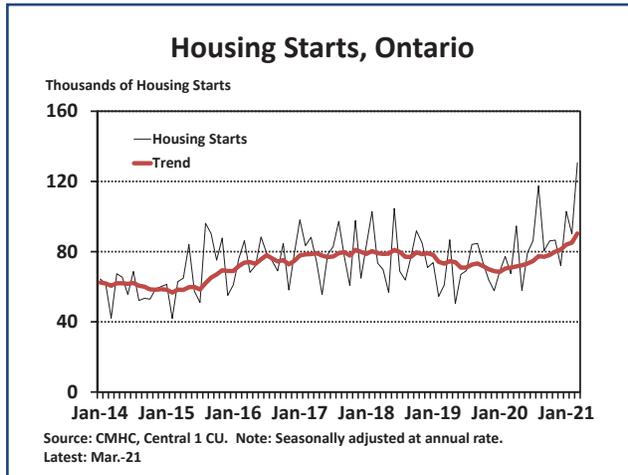
Food prices moved up 2.0 per cent with prices for food purchased from restaurants climbing 3.1 per cent which accounts for the inflation in non-durable goods. With many restaurants and bars shuttered, delivery is a significant source of revenue for these establishments during the pandemic's third wave. Many food delivery applications that have allowed these establishments to stay afloat during this time have punitive fees per delivery that are being passed on to the final consumer.

Shelter prices moved up 2.8 per cent in March, up from 1.7 per cent in February largely from increased utilities costs and replacement costs associated with shelter. Water, fuel, and electricity prices moved up 5.0 per cent in March after posting a 2.7 slide in February. Electricity prices moved up 4.9 per cent in March after the provincial government removed fixed pricing on February 22, 2021, resulting in higher prices for on peak and mid-peak electricity consumption. Also, as costs for building materials and demand for single-family homes continued to grow, the homeowners' replacement cost index, linked to new home prices, increased 8.3 per cent in March.

Prices for personal services and recreation continued to slide or slow down with much of social and economic life shuttered and many consumers sheltering at home. Recreation, education, and reading prices fell an additional 0.7 per cent. Personal care service prices moved up 0.2 per cent in March a much slower rate of growth from the 0.9 per cent growth posted in February.

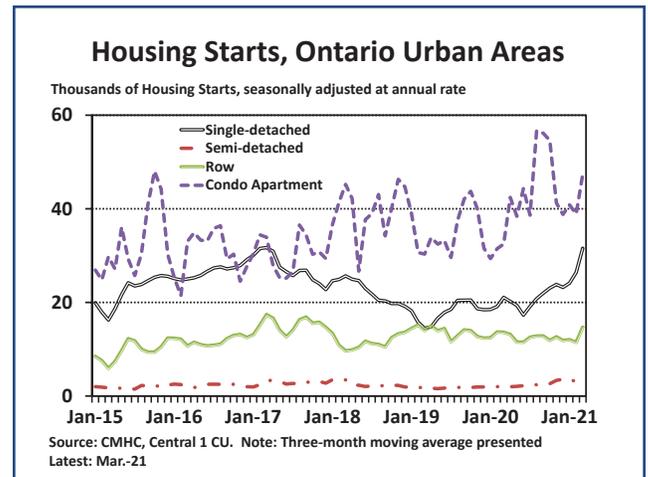
Overall prices in the metro areas of Toronto (up 1.7 per cent), Thunder Bay (up 2.1 per cent) and Ottawa-Gatineau (up 2.7 per cent) continued to climb in March with the largest absolute occurred in both Toronto and Ottawa-Gatineau which saw prices move up by 0.9 per cent.

New home construction activity heated up substantially in March.



Ontario new home construction activity really heated up in March following the short-lived decline posted in February, increasing 45 per cent to 130,684 units at seasonally adjusted annualized rate (SAAR). This is the largest month-over-month SAAR value in the series' history since it was first collected in January 1990. Moreover, the boom in new home construction outpaced the national pace substantially as nationally new home construction increased 21.6 per cent. With March data now in the books, year-to-date housing starts in Ontario are 51.6 per cent ahead of last year's pace. Compared to pre-pandemic activity, construction in March is 1.7 times higher than the activity posted in February 2020.

In metro-areas only, new housing starts increased at a faster clip, up 49.5 per cent month-over-month to 119,049 units SAAR. New home construction increased for all housing types with significantly increased construction of rows, up 69.0 per cent, and condo apartments, up 79.4 per cent. Construction of single-detached and semi-detached homes increased by 12.3 per cent and 23.3 per cent, respectively. Construction in urban areas accounted for 91.1 per cent of all new home construction in Ontario in March compared to 88.4 per cent in February. The share of urban core new home construction is starting to go up again, likely as homebuilders are focusing on an



increased number of multi-family projects such as row homes and condo apartments.

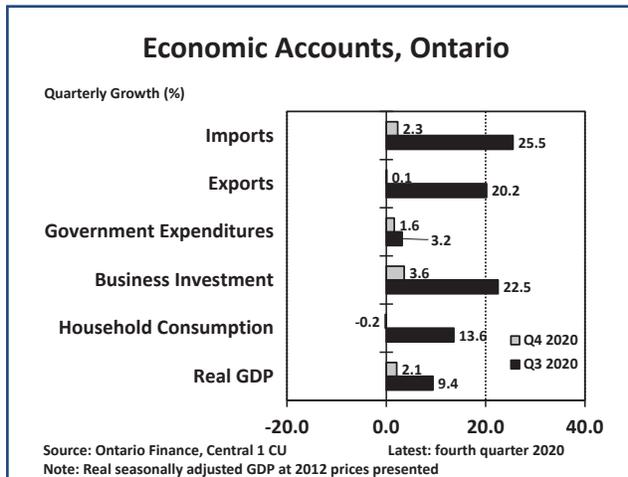
Of the 15 metro markets surveyed, new housing starts increased in over half (eight markets). Toronto accounted for most of the jump in new construction (53.4 per cent share) due to strong condo apartment numbers. Apart from Toronto, the following markets also posted strong month-over-month new home construction numbers:

- Greater Sudbury, up 5,019 units
- Kingston, up 2,480 units
- Kitchener-Cambridge-Waterloo, up 3,126 units
- Oshawa, up 1,306 units
- Ottawa-Gatineau, up 3,327 units
- St. Catharines-Niagara, up 1,681 units
- Thunder Bay, up 1,227 units

The new single-detached home average contract price increased 2.4 per cent in March while the median price fell by 0.8 per cent. Year-to-date, the average new single-detached home contract price is 7.0 per cent ahead of last year's pace while the new single-detached home median price is 11.9 per cent ahead of last year's pace.

Building supply and labour shortages likely played a role in slowing down the market in February which for the time being are not an issue. Homebuilders have a large backlog of projects still in the planning phases waiting for groundbreaking to occur especially in large urban metro markets such as Toronto, Ottawa-Gatineau, and London. The spring and summer months should usher in a time of brisk activity for homebuilders as they play catch up before the market cools over the second half of 2021.

Ontario real GDP growth decelerated in the fourth quarter on weaker exports and household consumption.



Ontario Finance recently released its quarterly economic account estimates for the fourth quarter of 2020. Real gross domestic product (GDP) increased 2.1 per cent in the fourth quarter, a much slower rate of growth compared to the 9.4 per cent growth posted over the third quarter. Year-over-year, Ontario's fourth quarter real GDP was 3.7 per cent below the level in the fourth quarter of 2019. At a seasonally adjusted annual rate, real GDP increased by 8.6 per cent in the fourth quarter.

Fourth quarter growth came from stronger business investment (up 3.6 per cent), government expenditures (up 1.6 per cent) and imports (up 2.3 per cent) which offset weak household consumption (down 0.2 per cent) and exports (up 0.1 per cent).

Household consumption fell largely on fewer purchases of durable (down 1.3 per cent) and semi-durable goods (down 5.1 per cent). Purchases of services (up 0.4 per cent) and non-durable goods (up 0.7) were very modest. With public health restrictions keeping many areas of society shuttered, still households eschewed social activities such as going to restaurants and bars and increased food purchases to cook at home. Moreover, closed barber shops, gyms, sporting events and other activities kept a lid on purchases of services. Sales of motor vehicles and clothing also fell in the quarter.

Business investment was relatively strong in the quarter due to strong residential construction (up 3.5 per cent), new housing and renovations, and investments in machinery and equipment (up 12.1 per

cent). Attractive interest rates continue to appeal to some businesses looking to make investments in new equipment. Continued remote work and school has motivated some households to reconfigure the family home by creating home offices and study spaces at home and supporting renovation spending.

Many of Ontario's trading partner regions continued to fight the pandemic and their economies remained weakened slowing international exports (down 0.2 per cent) partially offset by interprovincial exports (up 0.8 per cent). Increased need for goods in the construction and machinery sectors supported imports in the quarter both international imports (up 2.9 per cent) and interprovincial imports (up 0.6 per cent). Worth noting, a sizeable portion of imports are medical in nature (i.e., vaccines, personal protective equipment).

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