



Highlights

- Headline inflation highest since 2011 driven by a 35 per cent hike in gasoline prices and strong inflation growth in the goods-sector;
- Extent of inflation depends on wage growth which is currently stagnant;
- Significant contraction of resale home sales in April; time will tell if housing boom coming to an end;
- Housing starts down 17.7 per cent in Ontario as activity moderates in urban areas
- Increased sales at clothing and accessories stores and building materials and gardening stores lift retail sales in March

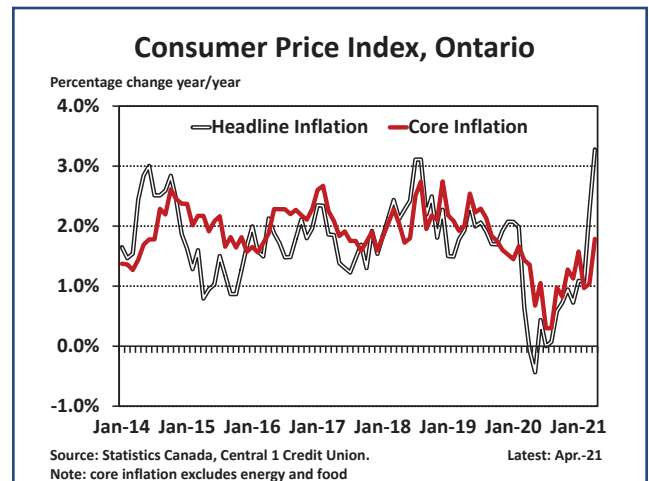
April's headline inflation highest in over nearly a decade

April's headline inflation increased by 1.1 per cent between April and March to 3.3 percent, its highest rate since June 2011 when inflation jumped to 3.6 per cent led by strong inflation growth in the goods-sector (up 5.5 per cent) with non-durable goods up 8.1 per cent and semi-durable goods up 1.0 per cent.

Inflation in the services sector moved up modestly (up 1.6 per cent in April from a previous 1.2 per cent in March). Core inflation, which excludes food and energy, moved up 1.8 per cent in April from 1.0 per cent in March.

Over the first four months of 2021, headline inflation is up 1.9 per cent from the same period in 2020 and core inflation is up 1.3 per cent from last year.

Energy prices continue to surge, moving up 35.4 per cent in April which follows a 21.4 per cent growth in March. The further gains to energy prices in April came from strong surges to gasoline (up 58.4 per cent), electricity (up 18.3 per cent), natural gas (up 17.1 per cent), and fuel oil and other fuels (up 19.0 per cent).



Food prices grew at a slower pace in April (up 0.5 per cent) largely from declining fruit and vegetable prices (down 1.5 per cent). The decline in fruit and vegetable prices puts an end to three consecutive months of strong inflation. Anecdotal evidence suggests meat prices are increasing and something to keep an eye on over the short run.

Shelter costs moved up robustly in April (up 4.2 per cent) from increased owned accommodation costs and water, fuel, and electricity costs. The homeowners' replacement cost index continued to increase. Moreover, higher building costs and demand for single-family homes contributed to an increase in prices for newly built homes.

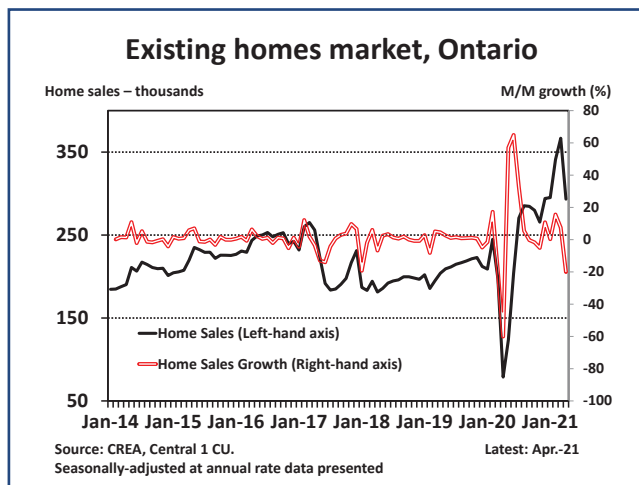
Consumers paid more for clothing, footwear, and accessories in April (up 1.6 per cent in April from 4.7 per cent down in March) largely due to much lower prices a year ago at the very height of the pandemic's first wave.

Overall prices in the metro areas of Toronto (up 2.4 per cent), Thunder Bay (up 3.4 per cent), and Ottawa-Gatineau (up 4.1 per cent) climbed yet again in April with the largest absolute increase occurring in Ottawa-Gatineau.

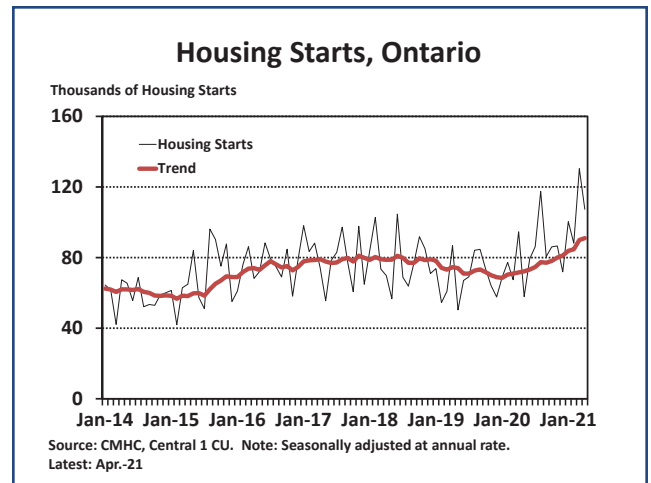
The extent to which we are entering a phase of increased and sustained inflation depends largely on wage growth. Labour slack in the economy is above trend given headwinds faced by many sectors during the pandemic forcing employers to trim payrolls. This slack will take some time to unwind likely keeping wages growth range bound.

Home sales contract 20 per cent in April

What a difference a month makes. Last month the discussion was centred around the idea that the resale homes market in Ontario could not lose steam and now it seems the market has hit a snag. This could be a one-time blip given March sales were a new record or it could be the start of a bigger trend as perhaps the pool of potential buyers has dwindled and with international and interprovincial migration down to a trickle will take some time to replenish. Add to that ever-increasing unaffordability as prices remain elevated and fewer still potential buyers will look to purchase a home. Worth noting, the decline in sales in April notwithstanding, sales in 2021 are still up substantially compared to last year which is why it is way too early to say if it is a blip or a new trend.



Sales are down 20.0 per cent in April, the largest month-over-month fall since the start of the pandemic. New listings are also down by 9.7 per cent. With much fewer sales relative to the drop in new listings the market has loosened considerably with the sales-to-new-listings-ratio (SNLR) in April at 72.8 per cent, down from 82.2 per cent in March and the lowest reading thus far in 2021. Moreover, when looking back at the historical data since January 1990, trends show that when the SNLR falls month-over-month during times of recession, the SNLR falls an average of 3.0 per cent. In 2017 when the provincial and federal governments meddled in the resale market with new policies the average SNLR drop was 4.8 per cent. In 2021, the SNLR has fallen twice in February (down 12.9 per cent) and now in April (down 9.4 per cent) the current average of an 11.1 per cent drop is the largest ever from January 1990 to now.



The average home price has also moderated 2.7 per cent to \$838,316. Again, like sales, the moderation in the average home price is the steepest since the start of the pandemic.

Year-to-date, sales (up 77.6 per cent), new listings (up 50.1 per cent), and average home price (up 28.6 per cent) are substantially ahead of last year's pace largely on such weak numbers posted in March and April 2020 due to the start of the pandemic in Ontario and public health restrictions and shutdowns that followed.

Contraction of sales was nearly province-wide in April with 41 of 44 real estate boards surveyed posting fewer sales. Large metro markets accounted for nearly all the contraction in sales (91.2 per cent share). The attractive mortgage rates are not sufficient to lift sales now with affordability now a major concern particularly in large metro markets even when potential buyers move down the totem pole substituting away from low-rise housing to multi-family housing. During this pick-up in activity even condo apartments have rebounded and appreciated considerably as fear of missing out pulled many buyers into the market perhaps considerably ahead of time.

Strictly looking at large metro markets sales fell by market as follows in April:

- Hamilton-Burlington (down 23.5 per cent)
- Kitchener-Waterloo (down 24.6 per cent)
- London-St. Thomas (down 20.3 per cent)
- Ottawa (down 22.4 per cent)
- Greater Toronto (down 19.7 per cent)
- Durham Region (down 29.8 per cent)
- Mississauga (down 20.0 per cent)
- York Region (down 21.5 per cent)
- Windsor-Essex (down 17.2 per cent)

The constant quality housing price index (HPI) surveys seven Ontario real estate boards every month. In April, the average HPI growth for these seven markets increased 1.7 per cent a much slower rate of growth than the 3.2 per cent average in March. Growth ranged from 0.5 per cent in Guelph to 3.8 per cent in Ottawa. Month-over-month HPI growth decelerated in all seven markets surveyed.

Decreased activity in urban areas slows down new home construction growth in April

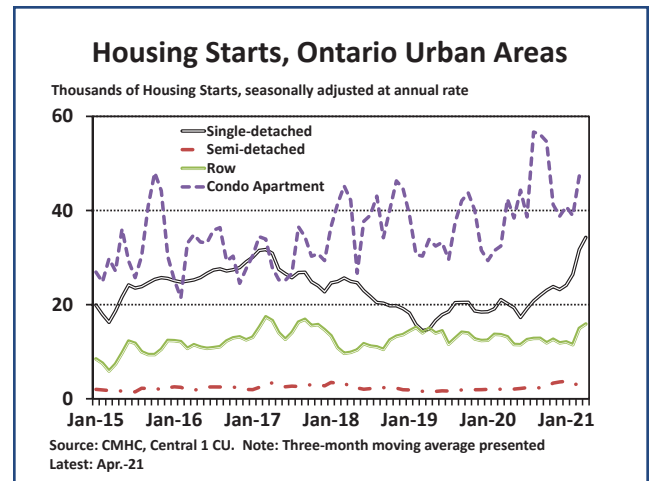
Ontario new housing starts have been on a roller coaster ride in 2021 with starts up one month and down the next. New housing starts construction can be quite erratic even outside of a pandemic but increased public health restrictions layered on top of an already erratic market adds a layer of volatility. In April, housing starts contracted 17.7 per cent to 107,357 units at seasonally adjusted at annual rate (SAAR) after a very strong growth in March that saw new housing starts increase 47.9 per cent. Housing starts declined in Ontario due to fewer multi-family starts in urban markets which typically can account for 80 to 90 plus per cent of all new home construction in the province.

In urban markets housing starts fell 15.1 per cent in April with nearly no growth to single-detached construction (up 0.2 per cent) and townhome (down 33.8 per cent) and condo apartment (down 20.2 per cent) construction considerably down. Semi-detached home construction increased 32.0 per cent in April. This segment of housing makes up a very small share of new housing construction typically to offset major swings in the other segments.

Of the 15 census metro areas surveyed in Ontario housing starts fell in 8 in April with the following large markets posting significantly weaker building activity month-over-month:

- Toronto (down 46.6 per cent)
- Ottawa-Gatineau (down 6.9 per cent)
- Oshawa (down 38.3 per cent)
- St. Catharines-Niagara (down 32.2 per cent).

Over the first four months of 2021, housing starts in Ontario remained 38.3 per cent ahead of last year's pace due to very strong growth in January and March and also much lower overall activity in 2021 compared to year ago levels as the pandemic was shutting down much of the province's economic activity including new



home construction sites. In urban areas, new home construction is 31.1 per cent ahead of last year's pace with all home segments significantly up compared to last year especially single-detached homes (up 64.4 per cent) and condo apartments (up 17.5 per cent).

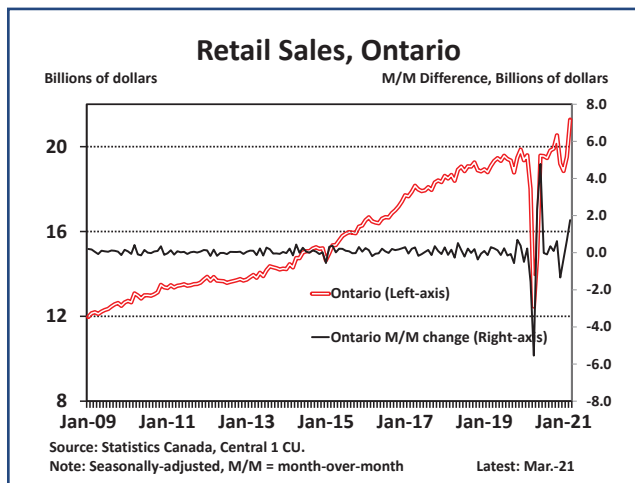
Both the average and median new single-detached contract home price moved up in April by 1.6 per cent and 2.1 per cent respectively. Over the first four months of 2021, the average and median contract prices have increased 8.0 per cent and 11.5 per cent respectively from year ago levels.

Skilled labour shortages, a large backlog of projects and to a lesser extent increased public health measures are likely the reasons for new home construction in Ontario down in April and oscillating up and down over the first four months of 2021.

Retail sales increased 9.0 per cent in March

Retail sales increased 9.0 per cent in March to \$21.3 billion adding to the 3.5 per cent growth in sales in February. The jump in retail sales was the largest since June 2020 when sales climbed 32.3 per cent. In the Toronto metro area retail sales also climbed significantly (up 6.8 per cent to \$7.9 billion) while in Ontario excluding Toronto retail sales moved up at a faster clip (10.3 per cent to \$13.4 billion). Toronto has faced tougher public health restrictions that much of the province under Ontario's regional framework at the time keeping some non-essential stores closed or with minimal capacity dampening sales volumes compared to the rest of the province.

Over the first three months of 2021, retail sales in Ontario remain 4.6 per cent ahead of last year's pace while in Toronto sales lag last year's pace by 4.8 per cent. In Ontario, excluding the Toronto metro area, retail sales are 11.8 per cent ahead of last year's pace.



By sector, retail sales increased in March largely from more sales at clothing and clothing accessories stores and building material and garden equipment and supply dealers. With households homebound for over a year and working and schooling from home the norm many started home renovation projects adding to the higher sales at building and gardening materials stores.

Increased restrictions that came into effect in April to stem the pandemic's third wave will have a dampening effect on sales numbers when they are released next month. Over the horizon as more people are vaccinated the economy will gradually open and pent up consumer demand will be released likely contributing to a very strong second half of the year for the retail sector.

Edgard Navarrete

Regional Economist

Central 1 Credit Union

enavarrete@central1.com / P 905 282 8501