Economics | Current Economic Trends

Ontario Economic Briefing

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Economics

Highlights

- Headline inflation moves up 3.7 per cent in May.
- Largest year-over-year inflation jump in more than ten years.
- Home sales continued to retrench in May but compared to last year market remains very tight.
- Only 1.0 month of supply in Ontario's resale homes market compared to 2.7 months of supply last May.
- Housing starts fell 8.3 per cent in Ontario in May.
- Supply chain issues pushed manufacturing sales down 5.5 per cent in April.

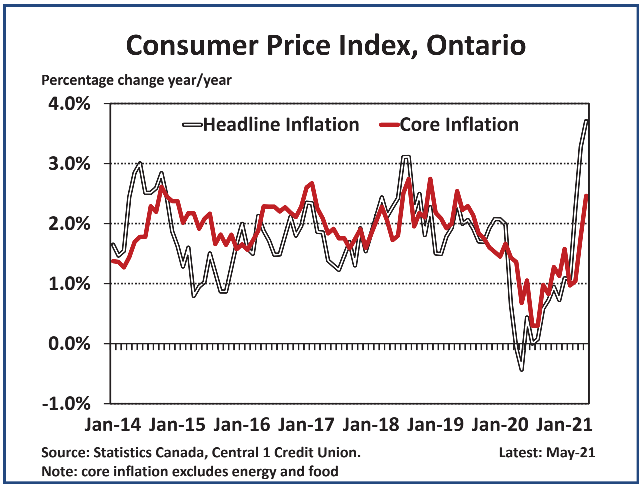
Inflation continues to rise in Ontario

Headline inflation in Ontario continued to climb in May supported by largely broad-based inflation in many areas with few exceptions. While national inflation moved up 3.6 per cent year-over-year in May, Ontario's headline inflation growth was slightly higher, coming in at 3.7 per cent. The current pace of inflation nationally and in Ontario is at a level not seen in more than ten years.

Inflation was led by goods, up 5.9 per cent. Prices for services moved up 2.1 per cent in May. Core inflation, which excludes food and energy, moved up 2.5 per cent.

Over the first five months of 2021, headline inflation is up 2.3 per cent from the same period in 2020 and core inflation is up 1.6 per cent from last year.

All major categories except transportation saw price growth accelerate. The largest net growth occurred in areas like shelter (up 5.2 per cent in May from 4.2 per cent in April), clothing and footwear (up 3.2 per cent in May up from 1.6 per cent in April), and food (up 1.3 per cent in May up from 0.5 per cent in April).

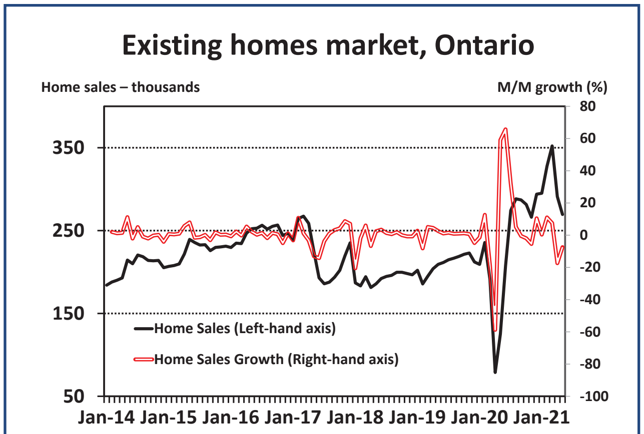


Increased costs for utilities and both rental and owned accommodations lifted overall shelter costs. Food prices increased on higher prices for food purchased at stores while prices for food purchased at restaurants remained relatively flat. A significant jump in prices for footwear and clothing lifted clothing and footwear and accessories prices.

The rate of inflation for gasoline slowed down in May as prices for this commodity a year ago were already starting to recover during the initial reopening of the economy. Electricity, water, and natural gas prices remained robust but stable in May with not much change from last month. Fuel oil, and other fuels saw prices increase 35.8 per cent in May up from 19.0 per cent in April by far posting the largest absolute increase of any category.

Lift in durable goods occurred largely from more expensive passenger vehicles. With computer semiconductor supply chain issues affecting production auto producers and vendors (i.e., auto dealerships) are likely passing on some of the increased costs to the final consumer due to sustained demand and constrained supply.

Overall prices in the metro areas of Toronto (up 2.9 per cent in May up from 2.4 per cent in April), Thunder Bay (up 4.7 per cent in May up from 3.4 per cent in April), and Ottawa-Gatineau (up 4.7 per cent in May up from 4.1 per cent in April) climbed yet again in May with the largest absolute increase occurring in Thunder Bay.



Source: CREA, Central 1 CU. Latest: May.-21
Seasonally-adjusted at annual rate data presented

Ontario's resale homes market continues to slide in May

The resale homes market continued to moderate in May with sales sliding an additional 7.4 per cent month-over-month to 22,456; this in addition to the 17.4 per cent slide posted in April. New listings have also turned a corner downward with an additional 8.5 per cent fewer new listings month-over-month in addition to the 10.9 per cent contraction in April. With a slightly larger contraction to new listings relative to the pull-back in sales the sales-to-new-listings ratio remained high coming in at 75.0 per cent in May up from 74.2 per cent in April. A sales-to-new-listings-ratio reading above 60 per cent suggests a market is in sellers' market territory.

Within the context of 2021, the market is cooling as the last two months suggest but the market still has a long way to cool to return to pre-pandemic activity, before this buying and selling frenzy took hold, fueled by well documented factors such as, low mortgage rates, desire for more space in the suburbs and smaller markets, and overall fear of missing out on buying a home in expensive markets especially by the 25 to 40-year-old cohort. Moreover, currently the market has one month of housing supply compared to 2.7 months of supply last May 2020 ensuring the market remains very tight and competitive still. More restrictive mortgage stress tests have modestly shaved purchasing power and largely affects buyers on the margins who were already struggling to enter the market. Other buyers will continue to enter the market largely unincumbered. Barring any abrupt and severe mortgage rate hikes or additional policy constraints (i.e., higher minimum mortgage payments or edicts barring foreign buyers), Ontario's housing market will stabilize at a new higher plateau of activity.

Average home prices in Ontario remained relatively unchanged, inching up an additional 0.04 per cent in May to $839, 927.

Year-to-date, sales (up 82.9 per cent), new listings (up 55.1 per cent) and average price (up 30.0 per cent) are all still significantly ahead of last year's pace. The market has certainly picked up due to base year effects.

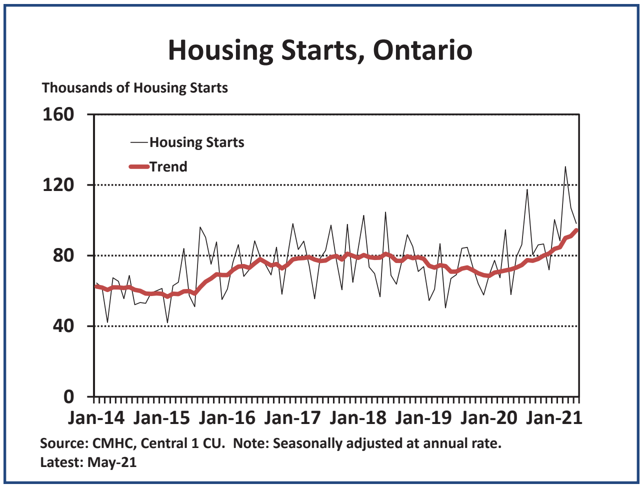
The constant quality housing price index (HPI) from the Canadian Real Estate Association (CREA) surveys seven Ontario real estate boards. In May, the HPI growth of these seven boards averaged 1.1 per cent a much slower rate of growth compared to April when HPI growth averaged 1.6 per cent. Increased substitution away from single-family to multi-family housing, driven by affordability concerns, and buyers leaving large metro areas for the suburbs and other regions continues to slow down average home price growth. In May, Toronto's HPI growth was 0.9 per cent compared to 2.2 per cent in Ottawa, 1.3 per cent in Guelph, and 1.2 per cent in Niagara Region.

By real estate board, of the 44 boards surveyed by CREA month-over-month sales activity recoiled in 32 of them with several large boards accounting for the large share of the contraction. Of the largest boards in Ontario sales increased in only two boards: Windsor-Essex (up 0.9 per cent) and Kitchener-Waterloo (up 1.0 per cent). Excluding the largest real estate boards, the average sales growth in May was 7.7 per cent in those areas. Surely, much of the growth in these areas is driven by increased remote work, affordability, and increased demand for cottages/vacation homes.

Economic reopening may draw more supply to the market (i.e. new listings) which will add some cold water to the market but not sufficiently enough to make a noticeable difference. Only increased new home building to meet demand or a significant retraction of demand may help rebalance the market in the long run.

Skilled labour and material shortages continue to dampen new home construction in Ontario

Like the resale homes factor new home construction in Ontario has been on a two-month slide with May data now in the books. According to the Canada Mortgage and Housing Corporation (CMHC), new housing starts in all areas of Ontario fell an additional 8.3 per cent in May to 98,185 total units at seasonally adjusted annual rate (SAAR). This adds to the 17.9 per cent recoil recorded in April.



Despite the month-over-month decline in building activity over the last two months Ontario starts are still significantly elevated compared to last year.

In urban areas, housing starts fell 9.4 per cent to 92,157 units due to a significant contraction to single-detached home construction (down 22.8 per cent), semi-detached home construction (down 28.1 per cent) and to a lesser extent condo apartment (down 1.4 per cent). Only townhomes/rows construction increased 2.5 per cent in May.

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

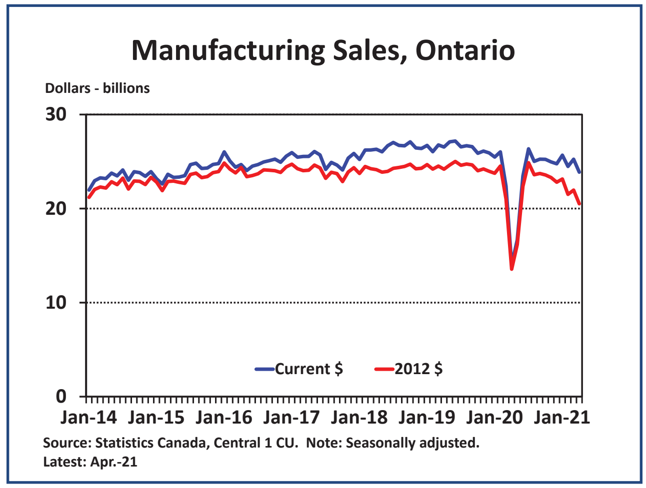
- Toronto (down 8.2 per cent)
- Hamilton (down 36.1 per cent)
- Kitchener-Cambridge-Waterloo (down 39.4 per cent)
- London (down 29.2 per cent)

Year-to-date, housing starts in urban areas are up 35.3 per cent of last year's pace with strong double-digit growth across the board.

Both the average and median new single-detached contract home price declined in April by 4.4 per cent and 0.8 per cent, respectively. Year-to-date, the average and median contract price are still ahead of last year's pace by 6.8 per cent and 10.8 per cent, respectively. As lumber prices continue to climb, new single-detached contract prices are expected to climb in the months ahead as homebuilders' offload all or most of these costs to homebuyers.

Skilled labour shortages and material supply constraints continue to dampen new home construction in Ontario. Moreover, given limited resources and the large backlog of condo apartments still to break ground homebuilders are putting more resources to starting and completing condo apartments and a possible reason for the decline of single-family new housing.

Lower production in a few key sectors pushed headline manufacturing sales 5.5 per cent down in April.



Ontario manufacturing sales fell dramatically in April, down 5.5 per cent to $23.9 billion, largely due to a decline in durable goods of 8.8 per cent, and to a lesser extent a slight recoil in non-durable goods, down 0.8 per cent. Of the 21 sectors surveyed sales fell in 11 among them a few large sectors which really pulled down headline sales.

Among major sectors, the following posted strong month-over-month contractions in April:

- Food (down 1.7 per cent)
- Petroleum and coal products (down 6.5 per cent)
- Plastics and rubber products (down 1.9 per cent)
- Transportation equipment (down 26.9 per cent)

Supply chain issues are affecting the manufacturing sector. For example, areas such as transportation equipment manufacturing are being affected by shortages of key inputs into their production (i.e., semiconductor shortages). Unrelated to these issues manufacturing of petroleum and coal fell as some refineries shut down for maintenance.

Sales in Toronto decreased 14.5 per cent to $9.1 billion in April, on lower sales of motor vehicles and motor vehicle parts. Motor vehicle sales dropped by nearly half (-49.7 per cent) in April as all auto assembly plants in Toronto lowered production because of the semi-conductor chip shortage.

Manufacturing sales, even with this month-over-month slowdown are pacing considerably ahead of last year's pace but still below pre-pandemic levels from 2019. Over the first four months of 2021, manufacturing sales are 13.0 per cent ahead of last year's pace with durables up 15.5 per cent and non-durables up 9.6 per cent.

With the contraction posted in April just for sales volumes to return to last year's total by the end of December, monthly sales would have to average $22.5 billion each month for the rest of 2021. An unincumbered manufacturing sector can certainly do that but supply chain issues can certainly put just returning to last year's total sales volume at risk. Numbers are expected to remain weak next month when May numbers are released and hopefully with Ontario beginning to reopen in mid-June, this can signal the last lockdown for the economy, and the gap can be made up the rest of 2021 as production and economic spending ramp up again.

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