Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

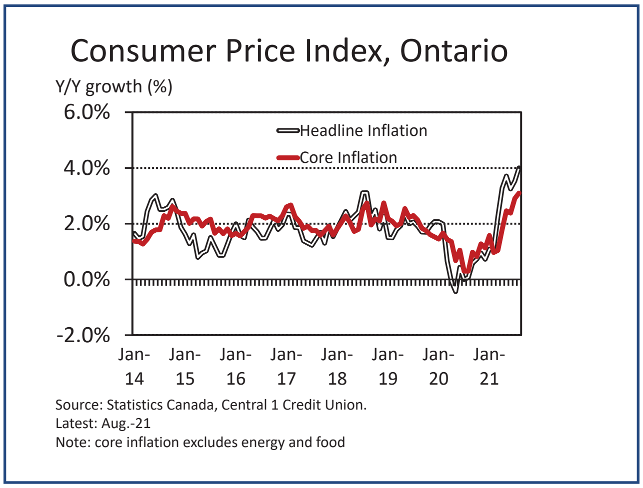
- Headline inflation increased 4.0 per cent in July; core inflation (excluding food and energy) up 3.1 per cent.
- Energy and shelter key inflation contributors with transportation costs amplifying inflationary pressure.
- Home sales down for fifth consecutive month but prices keep climbing
- Increased sales in smaller markets driving up prices as buyers hurry to enter market before missing out
- New home construction continues to rise in Ontario
- Manufacturing sales increased for second consecutive month in July
- Despite ongoing recovery, a sizeable portion of capacity remains untapped by manufacturers in Ontario

Ontario's CPI inflation continued to accelerate in August

Ivy Ruan, Economic Research Associate

Canadian inflation continued to surge in August with the Consumer Price Index (CPI) rising 4.1 per cent in August, up from 3.7 per cent in July and the strongest print since March 2003.

Consistent with the national results, headline inflation in Ontario increased 4.0 per cent (unadjusted) year-over-year in August, intensified by recent price pressures from areas such as energy, shelter, and transportation. Core inflation, which excludes food and energy prices, in Ontario increased 3.1 per cent year-over-year.



Inflation elevated in the metro areas of Toronto (up 3.3 per cent), Ottawa-Gatineau (up 4.8 per cent), and Thunder Bay (up 4.4 per cent) from last August. Inflated rental costs (up 6.1 per cent) continued to contribute to the increasing shelter costs in Thunder Bay area, whereas costs on owned accommodation (up 13.1 per cent) in Ottawa-Gatineau resulted the growth in the area. Toronto's rental costs remained stable (down 0.2 per cent) compared to last year, and the majority of the inflationary pressure came from costs of owned accommodation (up 3.8 per cent) and utilities prices (water, fuel, natural gas, and electricity; up 5.6 per cent).

Year-over-year, energy prices in Ontario rose by 19.1 per cent in August. Gasoline prices (up 31.3 per cent) contributed significantly to the overall energy price inflation. Household utilities prices increased 6.0 per cent compared to a year ago. Among all categories, fuel oil and other fuels saw the highest increase, climbing 23.1 per cent from last August, and natural gas reported a 14.8 per cent year-over-year increase. Provincial public transportation costs were up by 15.2 per cent from August 2020, while the cost for private transportation was up by 8.0 per cent. Meanwhile, with easing public health restrictions and the new school year starting, increased demand for domestic and international travel led to price increase in transportation and traveler accommodation. The traveler accommodation price index in Ontario reported a 21.2 per cent increase from last year.

Shelter costs (up 4.8 per cent) remained one of the main factors contributing to the provincial inflation uptick compared to August 2020. Rental costs stayed relatively consistent from a year ago (up 0.4 per cent). The provincial guideline on rent increases for 2021 was set at 0 per cent and 1.2 per cent in 2022. However, rental demand from immigrants and international students would increase rental prices as new tenants are not subject to rent controls when signing a new lease. With immigration up to pre-pandemic levels year-to-date, demand for leases is ever increasing in Ontario particularly large markets which welcome new residents when first settling in Ontario. Homeowner's replacement cost index was up by 13.7 per cent more compared to a year ago. Growing demand and construction costs continued to drive the price inflation in the housing market.

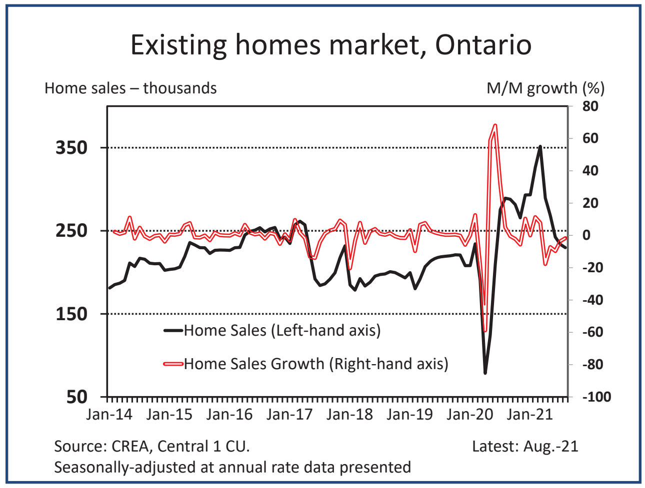
The cost of food and durable goods in Ontario climbed 2.6 per cent and 5.9 per cent respectively from August 2020. Food prices increased largely for food purchased from restaurants. With restauranteurs facing increased food and other costs these increases are trickling over to higher menu costs. Going forward, the base-year effects of overall lower levels in 2020 would continue to play a vital role when interpreting the year-over-year movements of price indices in all categories. Pressure on gasoline prices remained volatile as some offshore production was suspended due to Hurricane Ida. There are also concerns about unstable gasoline demand, which might vary significantly upon changes on public restrictions to curb the delta variant. That said, steady reopening plans will keep up the momentum for travel and in-person services, leading further upward pressure on prices.

Sales activity fell in Ontario for the fifth consecutive month

Edgard Navarrete, Regional Economist

The Canadian Real Estate Association (CREA) released its latest market data for August. Ontario's resale homes market continues to moderate with sales (down 1.7 per cent) and new listings (down 2.1 per cent) continuing to slide now for five consecutive months with August's data now in the books.

Despite the recent period of moderation, the market remains quite tight as new listings continue to decline at a faster clip than sales. New listings in Ontario are now trending below 2018 supply. According to the sales-to-new-listings-ratio (SNLR) in August which came in at 72.5 per cent (up from 72.2 per cent in July) the market continues to trend in sellers' market



territory. Tight market conditions continue to lift prices as the average selling price moved up 1.6 per cent in August up from 1.1 per cent in July. The average price in Ontario now sits at $866,628. Moreover, months of supply now dipped below 1.0 month in August for the first time since March 2021.

Over the first seven months of 2021, sales (up 38.9 per cent), new listings (up 22.8 per cent), and average price (up 24.0 per cent) all remain substantially ahead of last year's pace in part due to base year effects Despite the recent moderation over the last five months sales and price remain elevated when compared to the last couple of years prior to the pandemic.

Low mortgage rates, fear of losing out mentality, and remote work, are all keeping buyers in the market while engaging in bidding wars to acquire.

Of the 44 real estate boards surveyed each month by CREA sales fell in 29 of them. Despite the general downshift in sales activity in August a deeper dive into the data shows some markets did quite well in August, particularly smaller markets farther away from dense urban areas. Not surprisingly, remote work continues to benefit smaller markets as buyers leave large cities. Among the smaller regions posting strong double-digit sales growth in August included:

- Brantford (up 10.4 per cent)
- Huron-Perth (up 16.1 per cent)
- Kawartha Lakes (up 31.7 per cent)
- Peterborough (up 17.1 per cent)
- Renfrew (up 30.9 per cent)
- Thunder Bay (up 11.0 per cent)
- Welland (up 21.3 per cent)

By contrast, all large boards in the surrounding area of Toronto (Toronto, Durham, and Mississauga, York Region) posted significant sales contractions, along-side Ottawa, and Kitchener-Waterloo. The relative unaffordability and competition in these markets could be compelling buyers to leave these regions.

CREA reports a composite, constant-quality, housing price index (HPI) for seven real estate boards in Ontario. In August the composite HPI moved up in four of the seven markets:

- Oakville-Milton (up 2.1 per cent)
- Hamilton-Burlington (up 1.3 per cent)
- Niagara Region (up 1.5 per cent)
- Ottawa (down 0.7 per cent in August from 0.8 per cent down in July)

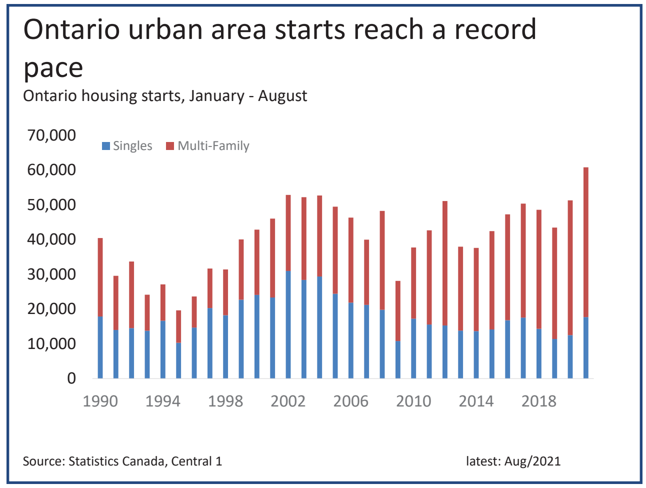
The pool of potential buyers is shrinking in Ontario, but this pool will continue to bid up prices and raise the unaffordability bar even further particularly in large markets like the Greater Hamilton Toronto Area and Ottawa as many hurry to enter the market before rates move up in late 2022 and immigration flows increase and make competition for fewer homes more intense.

New home construction continues upward momentum in August

Bryan Yu, Chief Economist

Ontario housing starts rose for a sixth consecutive month in August to extend a robust albeit choppy pattern in new home construction. Urban- area housing starts reached a seasonally adjusted annualized pace of 99,760 units according to the latest data from Canada Mortgage Housing and Corporation (CMHC). This was 10 per cent higher than July's pace of about 90,000 units but down 14 per cent on a year-over-year basis. Nevertheless, housing starts are typically volatile due to impacts of large scale townhome and apartment projects. Multi family housing starts contributed to the entirety of the monthly increase.

Among metro areas, gains were concentrated outside the Toronto Census Metropolitan Area (CMA). Specifically, annualized starts rose 42 per cent (2,900 units) in Ottawa, 172 per cent in Hamilton (5,189), and surged in Peterborough and Brantford. Toronto starts were flat, while activity pulled back in both London and Guelph.



Despite a negative year-over-year performance, housing construction is robust. Year-to-date starts rose 19 per cent despite the challenges of operating in a pandemic environment. While this lagged national growth of 29 per cent, it still marks the strongest start to the year for urban area starts driven by detached starts. Detached starts rose 41 per cent, while multi-family starts rose 11 per cent.

More noteworthy is the geographic reach of the increase. Toronto CMA starts have declined this year by four per cent, with gains led by mid- sized areas like London (up 110 per cent), Guelph (up 125 per cent), Kitchener- Cambridge- Waterloo (up 69 per cent) and Hamilton (up 48 per cent). That said, there have been broad gains across small and rural markets as pandemic drivers such as remote work, early retirements and demand for recreational properties likely fueled a movement of individuals away from the large and expensive urban cores into already undersupplied suburban and smaller urban areas. These factors have led to a boom in construction across the province as builders struggle to meet demand.

Going forward, demand may start to ease as the pandemic wanes and resale demand cools, but housing construction is likely to remain steady given insufficient resale market inventory. Immigration is also set to pick up which will further support demand.

Manufacturing sales climbed an additional 1.1 per cent in July

Edgard Navarrete, Regional Economist

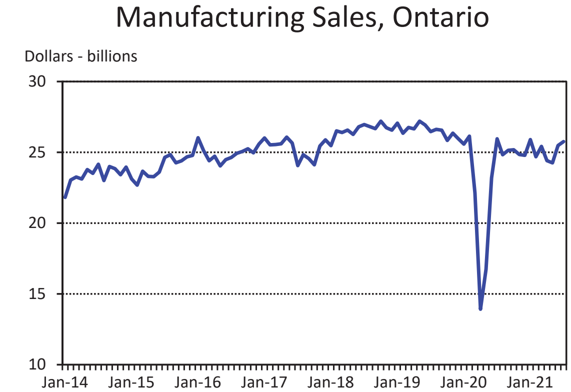
Manufacturing sales continued to climb in July albeit at a slower pace. Sales moved up 1.1 per cent in July to $25.8 billion dollars adding to the 4.3 per cent growth in June. With July's numbers in the books manufacturing sales have moved up two consecutive months after a very shaky start to the year where sales moved up and down over the first five months mostly on economic uncertainty brought about by the ongoing pandemic and supply chain issues stalling production.

Non-durable manufacturing remained nearly unchanged in July moving up only 0.2 per cent while durable manufacturing increased 2.4 per cent.

Over the first seven months of 2021 manufacturing sales, despite all the uncertainty and supply chain issues have managed to remain 14.5 per cent ahead of last year's pace mostly due to a weaker 2020. Durables (up 14.6 per cent) and non-durables (up 14.4 per cent) remained considerably ahead of last year's pace. Overall, manufacturing sales have not yet returned to a typical pre-pandemic pace. For example, the average monthly gap in manufacturing sales comparing 2019 to 2021 is about $1.6 billion. A sizeable portion of capacity remains untapped for many manufacturers despite the ongoing rebound.

In manufacturing intensive metro areas sales declined in Ottawa-Gatineau (down 5.5 per cent) and Hamilton (down 5.7 per cent). In Toronto manufacturing sales increased 6.0 per cent in July helping to offset losses in Ottawa-Gatineau and Hamilton. Sales in Ontario excluding these three metro areas fell 1.1 per cent in July. Therefore, the rebound in Ontario production in July is wholly due to a growth in Toronto.

Over the first seven months of 2021 manufacturing sales in the three metro areas remained ahead of last year's pace by double-digit margins. Excluding these three markets year-to-date sales in the rest of Ontario remained 19.0 per cent ahead of last year's pace.



Source: Statistics Canada, Central 1 CU. Note: Seasonally adjusted.
Latest: Jul-21

Manufacturing sales increased in several large key sectors contributing to the growth in July among them:

- Plastics and rubber products (up 6.8 per cent)
- Fabricated metals (up 3.7 per cent)
- Machinery (up 4.1 per cent)
- Transportation equipment (up 8.4 per cent)

Auto and auto parts sales have bounced back supported by recent increase in domestic and international demand particularly from the U.S. Despite the recent rebound though sales in the transportation equipment segment are still weak as supply chain issues persist.

In Hamilton, sales fell on lower sales of computer and electronic products and chemicals. Sales in Toronto increased in July, on higher sales in 12 of 21 industries, led by motor vehicles and motor vehicle parts. Very strong domestic and international demand for new cars, stoked by the pandemic, led to increased production and sales.

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