



Highlights

- New home starts slid 8.5 per cent in September.
- Headline inflation increased 4.4 per cent in September; core inflation (excluding food and energy) up 3.4 per cent.
- Growth of food and energy prices led the inflation upsurge.
- Retail sales continued to climb in August moving up 2.6 per cent
- Ontario real GDP fell in the second quarter as only government expenditures offset losses in all areas as the third wave was not yet under control

New home construction slowed down in September

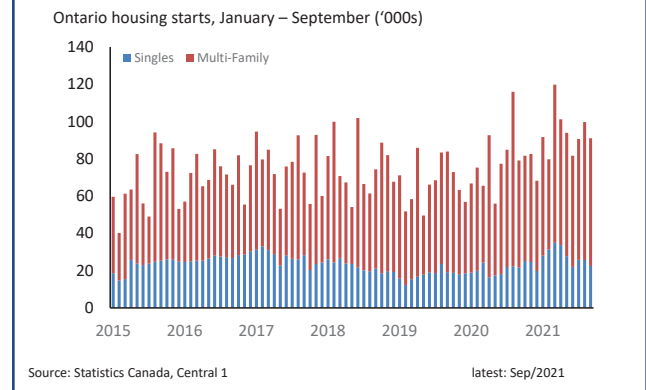
Edgard Navarrete, Regional Economist

This week the Canada Mortgage and Housing Corporation (CMHC) released September estimates for new home construction in Ontario. According to the latest reading, building activity slowed to 100,609 units at seasonally adjusted at annual rate (SAAR) in all areas of Ontario, down 8.5 per cent from the pace set in August and halting two consecutive months of growth.

Despite the recent slowdown, month-over-month compared to 2020 and also 2019, new home construction activity in Ontario remains robust. September figures were likely pulled down by the large backlog of units still to be completed, especially condo apartments in large urban markets which take usually longer to complete.

New home construction in urban areas declined 8.7 per cent month-over-month to 91,033 units in September as construction of all low-rise housing continued to decline for the second consecutive month. Construction of condo apartments fell 9.0 per cent in September following the preceding two months of strong growth.

Urban housing starts slow down in September



Despite the recent slowdown activity, Ontario's urban areas remains robust especially as people hurry to enter homeownership be it the resale market or through the new homes market. Over the first nine months of 2021 new home construction in Ontario's urban markets is up 19.1 per cent.

Of the 15 metro areas in Ontario new housing starts increased in only five: Toronto (up 19.1 per cent), Thunder Bay (up 52.2 per cent), St. Catharine's-Niagara (up 76.2 per cent), London (up 9.1 per cent), and Greater Sudbury (up 2,675 per cent).

Over the first nine months of 2021 the average and median contract price for a new single-detached home in Ontario remained 6.4 per cent and 13.1 per cent respectively, ahead of last year's pace.

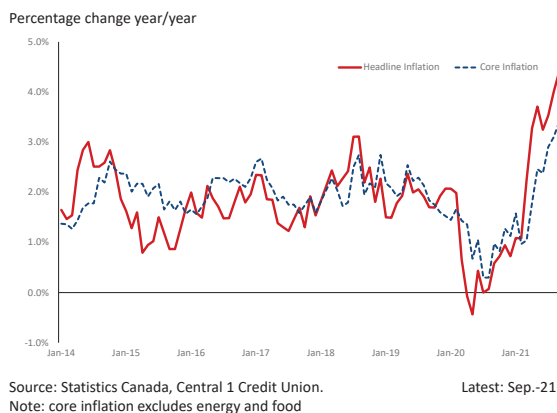
Price inflation continued to rise in September

Ivy Ruan, Economics Research Associate

Year over year, prices rose at a faster pace in September than in August in six provinces across Canada. Headline growth in the consumer price index (CPI) in Ontario came in at 4.4 per cent year-over-year, up from a 4.0 per cent gain in August. The provincial month-over-month CPI growth has been positive for four consecutive months, up 0.2 per cent from August.

Prices rose year over year in every major component in September, with notable gains in transportation prices (8.9 per cent), shelter prices (5.2 per cent) and food prices (3.7 per cent). Energy prices, including electricity, natural gas, fuels, and gasoline, were up

Price inflation continues to rise in September



20.7 per cent from last year. The base year effect from lower energy price levels in 2020, along with reduction of crude output led by major suppliers, continued to contribute to the noteworthy gain seeing today.

The gain in food prices in Ontario was led by prices for food purchased from stores, which rose 4.0 per cent year-over-year. Food purchased from restaurants was up 3.2 per cent. Like the national trend, meat price was the main factor driving the food prices purchased from stores, seeing a significant increase of 8.2 per cent from last September. Fruits and nuts (2.9 per cent) and dairy products (5.7 per cent) also rose year over year, while vegetables declined in September at 2.9 per cent.

After a brief decline in the rental index last month, month-over-month rental costs rose by 1.1 per cent. The monthly increase was expected as the demand for rental thrived as international students returned to schools in fall. Comparing to a year ago, rental costs increased 1.5 per cent in Ontario. Homeowners' owned accommodation costs grew 6.2 per cent year-over-year. Relative to September 2020, upward pressure on shelter prices continued because of higher construction costs and demand from consistently lower interest rates.

Price of traveler accommodation saw a halt in growth in September, which was down 1.8 per cent from last month. The end of summer vacation and the start of colder weather cooled down the tourism. However, comparing to a year ago, travelers still paid 20.7 per cent more for accommodations travelling to Ontario. Travel services in general costs 2.9 per cent lower than a year ago. More workers returning to the tourism industry and price adjustments done during the re-openings would allow travel costs to stabilize.

Retail sales climbed in August

Edgard Navarrete, Regional Economist

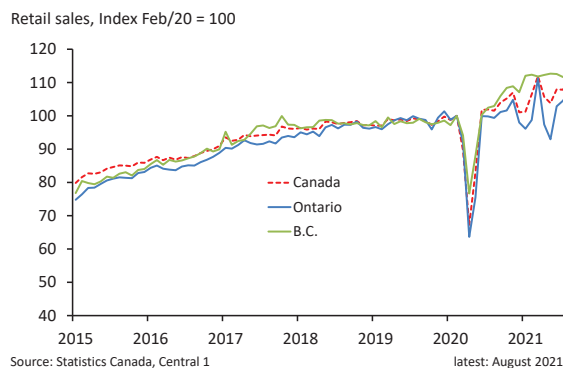
Retail sales estimates for August 2021 were released this week. According to the most recent reading sales increased in Ontario by 2.6 per cent to \$21.0 billion adding to the 1.6 per cent growth from July. Ontario accounted for 36.5 per cent of Canada's sales in August. Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, moved up 4.7 per cent.

Over the first eight months of 2021 retail sales remained 11.5 per cent ahead of last year's pace. Core retail sales remained 6.0 per cent ahead of last year's pace thus far.

Of the 11 sectors surveyed in August retail sales fell in seven among them large areas such as motor vehicle and parts (down 2.5 per cent), food and beverages (down 0.3 per cent), and general merchandise (down 4.6 per cent). Sales were lifted by more transactions at gasoline stations (up 2.4 per cent), building materials and other (up 2.8 per cent), health related (up 0.3 per cent), and miscellaneous (up 11.9 per cent).

Increased food and beverage costs, especially at supermarkets, likely led some consumers to cut back on some purchases. Higher gas prices helped lift sales at gasoline stations. Building material sales increased likely due to supply chain issues being passed onto the consumer. Finally, health related sales increased as people took advantage of decreased public health restrictions and pampered themselves at the salon or returned to gyms etc.

Ontario retail sales increased further in August



Ontario real GDP fell 0.8 per cent in the second quarter

Edgard Navarrete, Regional Economist

Real seasonally adjusted gross domestic product (GDP) edged down 0.8 per cent in the second quarter putting an end to three consecutive quarters of growth as the third wave of the pandemic was not fully under control, according to Ontario Finance's recently released new economic accounts for the second quarter of 2021. At a seasonally adjusted at annualized rate, real GDP fell 3.1 per cent in the second quarter.

The decline in the second quarter was broad-based with only government spending (up 1.0 per cent) offsetting losses in all other areas of the economy such as household spending (down 0.5 per cent), business investment (down 1.3 per cent) and exports (down 5.0 per cent) and imports (down 1.9 per cent).

Household consumption spending declined on lower purchases of semi-durables (down 3.6 per cent), durables (down 2.1 per cent) and non-durables (down 1.1 per cent). Spending on services was the only area to rise in the quarter moving up 0.6 per cent and marking the fourth consecutive quarter of growth in this hard-hit sector.

Business investment fell on weaker residential investment (down 3.7 per cent) even as other areas such as machinery and equipment (up 5.6 per cent), non-residential investments (up 1.2 per cent) and intellectual property products (up 0.6 per cent)

International trade fell in the second quarter as supply chain issues continued to disrupt production. Manufacturing in the transportation equipment, especially new cars, continued to get hit hard by input shortages in areas like semiconductors.

With greater easing of public health restrictions into July allowing for more economic activity many areas are expected to rebound once third quarter accounts estimates become available.

For more information, contact economics@central1.com.