



Highlights

- Ontario's inflation was the highest in December since May 1991
- Exodus out of large metro areas prompted much of Ontario to remain a sellers' market in 2021
- Ontario manufacturing sales climbed another 0.9 per cent in November, reporting in both durable and non-durable goods
- Despite slower sales momentum in November retail sales remained 9.1 per cent of last year's sales so far
- Following blockbuster activity in November new housing starts retrenched in December
- Real GDP increased 1.4 per cent in the third quarter

Ontario's inflation hit 5.2 per cent in December

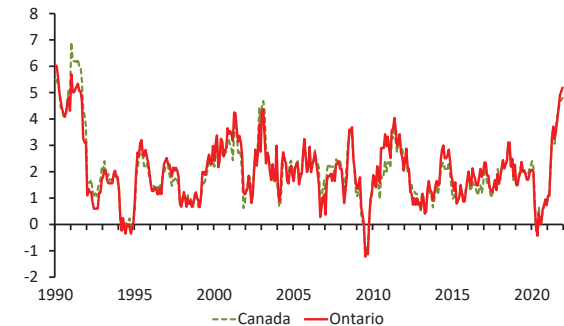
Bryan Yu, Chief Economist

Consumer price inflation in Ontario continued to drive national gains into December as growth in the consumer price index jumped to a year-over-year pace of 5.2 per cent, up from 5.0 per cent in November, and the highest since May 1991. This compared to a national reading of 4.8 per cent.

Mirroring much of the national story, Ontario households experienced a sharp increase in costs among key consumer staples during the month. Food prices accelerated to a year-over-year pace of 5.7 per cent, up from 4.8 per cent in November and led by grocery stores amidst high meat prices (8.4 per cent) and a spike in fresh fruit (5.4 per cent) and other produce prices. Meanwhile, shelter costs also accelerated to a 6.0 per cent year-over-year rate as rent accelerated to a pace of 3.6 per cent, and elevated home prices contributed to a 14 per cent increase in homeowners' replacement cost. A hot resale housing market, affordability erosion, and high construction costs are contributing to the increase.

Ontario CPI Inflation surges to 5.2 per cent in December and 40-year high

Consumer Price Index, Year-over-year per cent change



Source: Statistics Canada, Central 1

Latest: Dec-21

Meanwhile, supply chain impacts continued to lift costs for household goods, furniture and appliances which accelerated to a 6.5 per cent rate led by appliances (11.8 per cent), and furniture (9.9 per cent).

Motorists experienced some relief at the pump as prices fell 4.0 per cent from November and dampened some pressure on inflation. That said, levels were still up 32 per cent year-over-year, compared to 44 per cent in November. Excluding food and energy, prices rose 4.0 per cent, compared to 3.6 per cent in November.

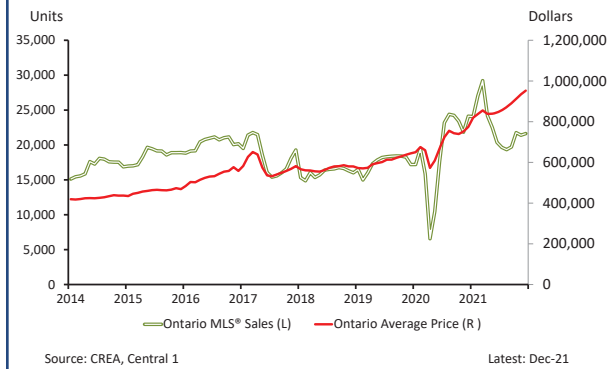
There are signs that inflationary trends are near peaking. However, consumers will continue to feel the pinch of higher prices which have run ahead of wages. Lower income households are faring worse in this environment given trends for non-discretionary items.

Ontario's average home price increased 22.3 per cent in 2021 to \$869,270

Edgard Navarrete, Regional Economist

New data coming from the Canadian Real Estate Association (CREA) for Ontario points to increased erosion of affordability in Ontario as prices climbed an additional 1.9 per cent month-over-month. The average price in Ontario now stands at \$952,556. Furthermore, with December data now in the books, prices in Ontario have been on an unprecedented eight-month streak of month-over-month gains intensifying over the last five months as competition for homes remains intense and supply, while growing, is insufficient to placate demand from end users and investors.

Very tight market conditions lifted Ontario average price 22.3 per cent in 2021



Supply keeps ramping up in the market as average price growth continues to draw out sellers while very tight market conditions continue to price out some buyers. In December sales increased 1.1 per cent while new listings moved up 2.9 per cent. The continued influx of new listings has cooled the market only slightly. The SNLR in December came in at 73.9 per cent slightly lower than the 75.3 per cent posted in November. Any reading above 60 per cent signals a sellers' market and 2021 has seen every month come in as a sellers' market as remote work, large influx of local investors, and low interest rates continue to boost competition for limited supply.

In 2021, the average price of a home moved up 22.3 per cent while sales and listings increased 18.6 per cent and 8.3 per cent respectively. The SNLR for 2021 came in at 77.9 per cent up from 71.1 per cent in 2020. 2021 was a record year for Ontario as activity heated up not only in the large markets but throughout many regions of the province.

In 2021, of the 44 real estate boards in Ontario, sales increased in all but three: Southern Georgian Bay – Western District (down 3.8 per cent), Muskoka/Haliburton (down 0.9 per cent), and Southern Georgian Bay – Eastern district (down 2.4 per cent). In the other 41 real estate boards, sales increased by an average of 14.5 per cent. In the largest real estate boards, sales increased by 19.2 per cent in 2021 with strong activity in large markets outside of Toronto and Ottawa as people chased more space, quality of life, and affordability.

CREA releases constant quality housing price indices (HPIs) monthly for seven real estate boards including Toronto and Ottawa. In December, HPI growth ranged from 1.7 per cent in Ottawa to as high as 2.8 per cent in Oakville-Milton and Hamilton-Burlington. Compared to November, the HPIs lost momentum in all but two regions (Ottawa and Hamilton-Burlington) likely due to compositional effects as affordability erosion in many markets which is compelling buyers to switch to higher density housing.

The strongest growth was seen in Barrie (up 36.2 per cent) and Niagara (up 35.2 per cent) while Toronto posted the "lowest" growth in 2021 up 20.1 per cent. Again, the exodus from large expensive markets to the suburbs and beyond drove robust activity in these markets in 2021.

In 2022 the central bank will look to tame inflation by raising its policy rate. With mortgage rates continuing to increase, the deceleration in activity in 2022 will come from fewer buyers as many have already purchased over the 2020-21 pandemic while another set are priced out unless they get family help. Investor activity will also likely stall if governments start implementing measures to cool this segment of the market that has been responsible for much of the exuberance seen in the market in 2020-21.

Manufacturing sales recovery continued in Ontario

Ivy Ruan, Economics Research Associate

Ontario manufacturing sales reported a modest growth of 0.9 per cent to \$27.5 billion, maintaining the growth momentum from last month. Higher sales of motor vehicle parts (5.3 per cent), food (2.0 per cent) and non-metallic minerals (12.9 per cent) were partially offset by a 5.8 per cent decline in machinery sales.

Both durable and non-durable goods output continued to rise in November. Non-durable goods reported a 0.5 per cent monthly increase. Durable goods sales rose by 1.3 per cent, almost reaching the highest sales volume since January 2021. As the holiday season approached, higher demand and inflationary prices kept contributing to the overall sales dollar volume.



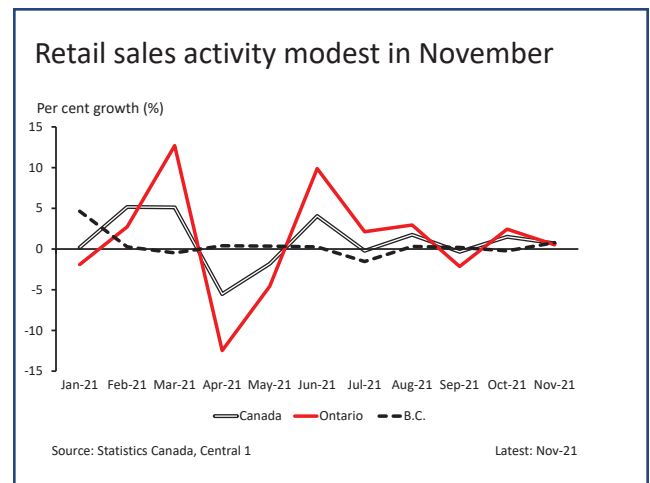
Consistent with the national trend, Ontario, as one of the largest players for motor vehicle and motor vehicle parts production, saw its manufacturing sales ramped up in November, despite the global semiconductor supply disruption. Manufacturers had been trying to fulfill their contracts with dealerships at the year end. Sales of motor vehicles increased 1.7 per cent, while motor vehicle part sales rose 5.3 per cent. Supply shortage may sustain in the foreseeable future, while mounting demand for private transportation, which gained more popularity during the pandemic, will likely continue in the new year.

Ontario's manufacturing sales of computer and electronic products increased 2.3 per cent, the fourth consecutive month of increase. Primary metal manufacturing sales in Ontario were down 1.79 per cent following last month's increase. Both paper (2.1 per cent) and wood (12.5 per cent) manufacturing sales reported an increase in November.

Retail sales momentum slowed down in Ontario in November

Edgard Navarrete, Regional Economist

Retail sales growth momentum slowed down in November as sales increased 0.5 per cent to \$21.2 billion. This comes after the province reported a 2.4 per cent jump in sales in October. Much of the slowdown in momentum in November comes from modest sales in Toronto which accounts for a large margin of sales typically, about 40 per cent or higher. In November, sales in Toronto increased 0.1 per cent to \$8.5 billion while in the rest of the province, excluding Toronto, sales also slowed down but came in slightly higher for the month at 0.8 per cent growth to \$12.7 billion.



Province wide, much of the growth came from higher sales at gasoline stations, and at building material and garden equipment and supplies dealers.

Year-to-date, sales in Ontario are still up 9.1 per cent from last year while sales in Toronto and the rest of Ontario, excluding Toronto, are up 7.5 per cent and 10.2 per cent respectively.

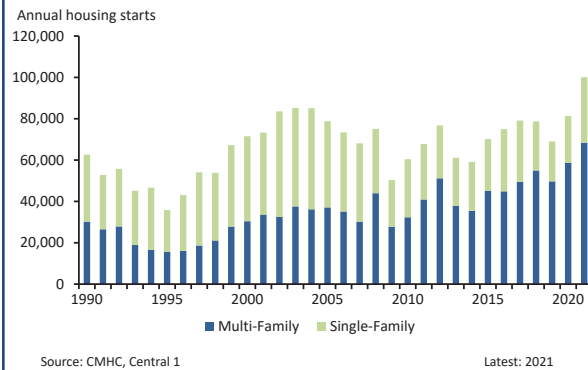
In December, retail sales in Ontario will likely come in significantly lower due to increased public health restrictions to slow the spread of the new COVID-19 variant. As of today, the province has signaled that come January 31, 2022, restrictions will again start easing and this will help retail sales rebound a bit. Restrictions during the always-busy holiday season really hurt many retailers.

Ontario new housing starts surpassed 100,000 units in 2021 since 1980

Bryan Yu, Chief Economist

As expected, Ontario housing starts retrenched in December following November's blockbuster performance. Annualized urban-area starts fell from a pace of 125,380 units to 66,287 units in December, overshooting the average trend of about 94,000 units during the first three quarters of the year. Given the fluctuation, it is no surprise that the decline was driven by a more than halving of multi-family starts (-56 per cent) to a pace of 44,211 units while single-detached starts declined nine per cent. December declines were widespread among large urban areas with Toronto (-58 per cent), Ottawa (-71 per cent), and Hamilton (-41 per cent) leading the decline.

Ontario housing starts surge to record high in 2021



Despite the latest pullback, Ontario's new home market had a banner year for construction with total starts surpassing 100,000 units for the first time on record dating back to 1990. This marked a 23 per cent increase from 2020 led by a 40 per cent increase in single-detached units to 31,700 units and a near 17 per cent increase in multi-family units to 68,388 units. Urban-area starts rose 17 per cent to 92,284 units. In contrast, rural-area starts more than tripled to 7,800 units. Record starts have reflected broader market conditions with strong housing demand spread across the province due to pandemic shifts in living and working, low interest rates and flow of residents from large markets to mid-sized urban and smaller regions in Ontario.

Indeed, this dispersion of demand to smaller market it easily observable in the housing starts data and aligns to last week's estimates of annual population growth. Housing starts in the Toronto Census Metropolitan Area (CMA) came in at a relatively benign nine per cent ahead of a year ago. This paled in comparison to gains of 30 per cent in London and Kingston, 22 per cent in Hamilton, and 49 per cent in Kitchener-Cambridge-Waterloo.

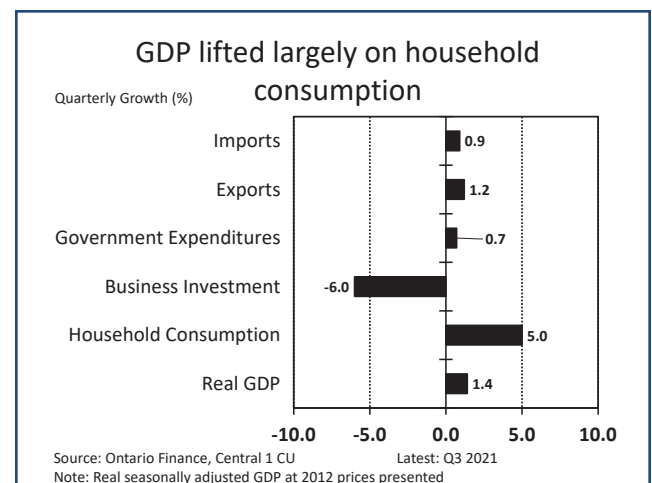
Going forward, housing starts are expected to remain elevated in 2022 and near 85,000 units. Affordability will further erode as demand is expected to slow due to higher prices and interest rates, but higher immigration is forecast to be an offset.

Household consumption jumped five per cent in the third quarter helping real GDP rebound, business investment remains down

Edgard Navarrete, Regional Economist

After edging down 1.2 per cent in the second quarter, real seasonally adjusted gross domestic product (GDP) rebounded in the third quarter increasing 1.4 per cent according to the latest Ontario Economic Accounts. At a seasonally adjusted annualized rate, GDP increased 5.9 per cent in the third quarter.

The rebound in the third quarter can be nearly fully attributed to strong consumer spending by households (up 5.0 per cent¹) and to a lesser extent, government expenditure (up 0.7 per cent) and exports growth (up 1.2 per cent). Imports declined by 0.9 per cent; the second consecutive quarter imports have been down. Business investment fell substantially in the quarter (down 6.0 per cent) adding to the 1.3 per cent contraction posted in the second quarter.



Household consumption in the third quarter was concentrated largely on semi-durable goods (up 19.5 per cent), services (up 6.6 per cent), and non-durables (up 1.1 per cent). Durable goods consumption contracted 0.9 per cent marking the fourth consecutive quarter this has now occurred. Expenditures on durable goods such as automobiles have been constrained due to supply chain issues and due to increased costs being passed onto the consumer.

¹ Figures in this paragraph and rest of the section are quarter-over-quarter growth not annualized

Increased economic uncertainty and supply chain issues raising costs of production have dampened business investments. Residential investment declined 10.2 per cent while non-residential investment declined 0.2 per cent. Machinery and equipment investments fell 0.2 per cent and intellectual property products declined 1.4 per cent in the quarter. The third quarter marked the first time in one year that intellectual property products posted a decline. Again, increased uncertainty is affecting planning including for non-physical investments such as intellectual properties. Also, inflationary pressures faced by businesses are also taking a bite out of future investments.

Exports increased on stronger international exports (up 1.4 per cent) and interprovincial exports (up 1.0 per cent) while imports fell for the second consecutive quarter on weaker international imports (down 1.6 per cent) offsetting increased interprovincial up 1.3 per cent.

For more information, contact economics@central1.com.