Economics | Current Economic Trends

Ontario Economic Briefing

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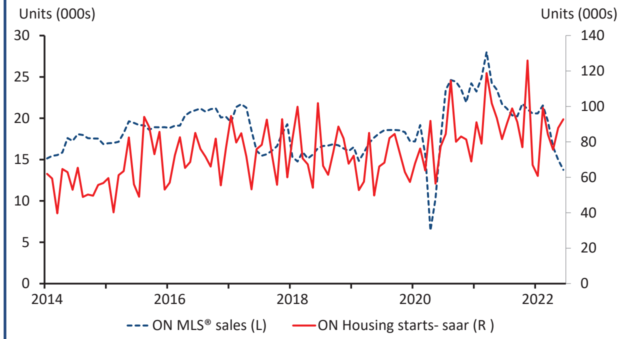
central 1 Economics

Highlights

- Resale homes market correction has not yet hit the new homes market
- Inflation climbed to another record high in June
- Ontario total retail spending grew 1.9 per cent in April, while core retail sales were up 0.8 per cent
- Tourism visits increased 20.5 per cent in May with robust growth in overnight stays

Ontario new home construction remains firm in June, resale downturn expected to weigh



Source: CMHC, CREA, Central 1 Latest: Jun-22

Housing starts highest since February despite resale market slowdown

Bryan Yu, Chief Economist

Ontario housing starts remained firm through June despite a deep slump in the housing market, providing a reminder that current conditions take time to filter into new home market activity. Ontario builders accelerated new construction activity pushing urban-area housing starts to a seasonally adjusted 92,720 units, marking a six per cent increase from May's 87,844 unit pace and the highest pace since February. June's gain was entirely led by a bump up in multi-family construction.

Multi-family starts rose 9.7 per cent to an annualized 71,263 units while detached units fell 6 per cent to 21,457 units. Sales have eased in the latter, potentially reflecting the more immediate effect of recent rate hikes on affordability and demand for custom homes in suburban and smaller markets. Among Ontario's Census Metropolitan Areas (CMA), starts were wildly mixed. The Toronto CMA led net growth with a 27 per cent jump in annualized starts to 49,860 units. The CMAs of Kitchener-Cambridge-Waterloo and Hamilton posted increases in starts of more than 150 per cent to reach annualized rates of 6,286 units and 4,540 units, respectively. In contrast, areas reporting significantly fewer starts included Brantford and St. Catharines-Niagara.

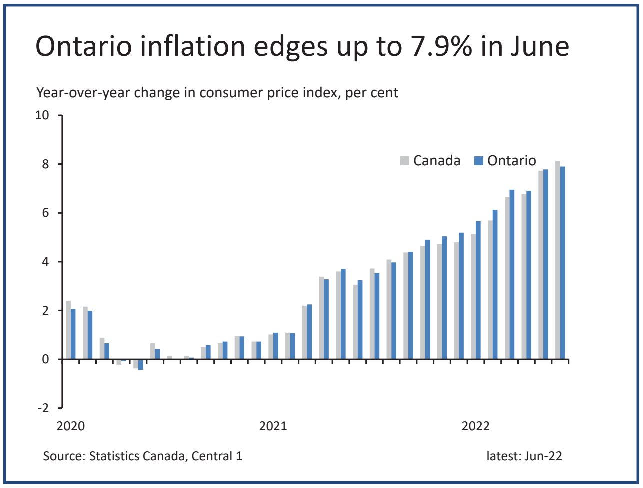
With June's increase, year-to-date urban-area starts reached 38,833 units through the first six months, narrowing the year-over-year decline to 11 per cent following a robust 2021. Single-detached starts fell 17 per cent while multi-family starts were down 9 per cent. The taming of pandemic demand for suburban and smaller urban areas combined with the interest rate bite have likely tempered starts for the former. Based on tenure, owned housing starts fell 9 per cent while rental starts declined nearly 18 per cent, with the former remaining elevated. Toronto CMA starts rose 7 per cent during the period, reflecting one of the lone areas where starts rose through the first six months. In contrast, most urban areas recorded substantial declines including Hamilton (-29 per cent), Kingston (-41 per cent), Kitchener- Waterloo-Cambridge (-47 per cent) and Ottawa (-16 per cent) as construction pulled back after a strong 2021 and rising capacity constraints.

Deteriorating resale housing market conditions will take time to cascade into the new home market. Most projects are pre-sold and will likely proceed to construction despite challenges faced by builders such as softer demand, pricing conditions and rising cost associated with interest rates and construction. That said, we should expect the pace of starts to ease in the back end of the year and through 2023 due to reduced demand and higher costs but supported by strong population growth.

Ontario inflation climbs to 7.9 per cent

Bryan Yu, Chief Economist

Canadian inflation ramped up to another 40 year high in June and, unsurprisingly, Ontario largely followed the same pattern given external drivers and a solid domestic labour market. Growth in Ontario's consumer price index (CPI) reached 7.9 per cent year-over-year, up from 7.8 per cent in May, while prices rose 0.5 per cent month-to-month. While Ontario's reading fell below the national gain of 8.1 per cent, this is splitting hairs given the magnitude of increase.



Like the national picture, Ontario households are experiencing massive pressure on their finances as prices rise across the board. Gasoline prices rose 54 per cent year-over-year and four per cent from May as global prices rose. While July prices have eased, high costs are likely fueling further movement to electric vehicles (if they are available). More broadly, energy prices were up 37 per cent year-over-year. Food prices were flat relative to May but the pinch at the grocery checkout was severe. Food prices rose 9.5 per cent with store-bought foods up 10 per cent in addition to strong gains across meat, produce and cereals.

Growth in shelter costs decelerated to 6.7 per cent from 7.4 per cent in May as easing home values contributed to slowing growth for replacement costs, while rents gains also slowed (albeit likely temporarily). Rising mortgages is moving in the opposite direction. Meanwhile, prices related to broader re-opening and tourism such as airfares and travel accommodations continue to rise.

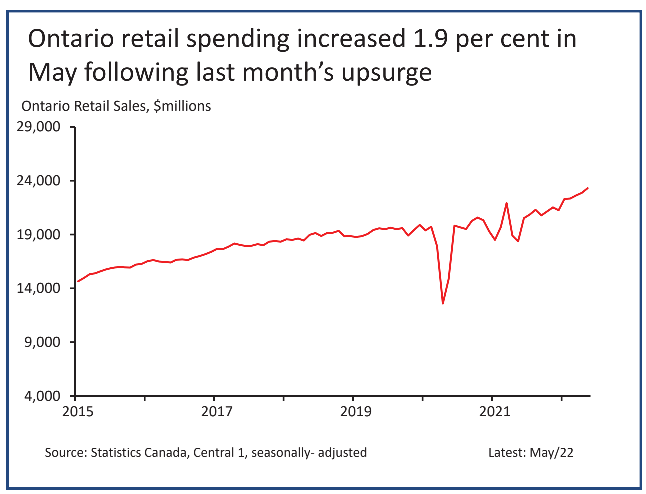
While there are some signs of an inflation peak with commodity prices and oil prices retreating in July, it will take time for goods price inflation to normalize, with levels up nearly 11 per cent on gas prices and supply chain constraints on durable goods. Indeed, household furnishing and equipment were still up 12 per cent. Services prices rose 5 per cent year-over-year and tend to be stickier — we can expect rising rents to contribute to ongoing strength, while rising wages will likely contribute to higher services prices. Higher interest rates will go some ways to dampen broader inflationary pressure as they slow the economy but will also mark further short-term pain for the longer-term benefits of stable prices for many households.

Ontario retail spending increased 1.9 per cent in May following last month's upsurge

Ivy Ruan, Economic Analyst

Retail sales saw growth in all provinces and Ontario continued to report gains in May, up 1.9 per cent, to a seasonally adjusted $23.3 billion, following the 1.1 per cent growth in April. On a year-over-year basis, total retail sales surged 26.9 per cent in May, keeping the robust momentum seen in April at 21.1 per cent. That said, base year effect also added to the elevated yearly change given the relatively weak performance during the pandemic. 10 out of 11 categories posted yearly growth with food and beverage being the only sector with 2.5 per cent decline from last year.

On a constant dollar basis, national retail sales rose 0.4 per cent in May, lower than last month's growth as inflation propped up dollar-volume sales. The range-bound pattern was likely similar in Ontario given consumer behaviours under broadening inflationary pressures. In May, national CPI inflation was up 7.7 per cent year-over-year and Ontario inflation jumped 7.8 per cent.



Despite elevated year-over-year gains, some retail sectors reported modest growth from last month and some posted monthly declines. Ontario consumers spent less on categories such as home furniture and furnishings (4.9 per cent), food and beverage (3.9 per cent), clothing (3.1 per cent) and sporting goods and recreation (6.2 per cent) down from last month. Spending at gas stations surged again, seeing 9.8 per cent monthly growth in May, and 83.4 per cent higher compared to a year ago. Core retail sales (excluding gasoline stations and motor vehicle and parts dealers) was up 0.8 per cent from last month and was 27.7 per cent higher compared to a year ago.

Dollar-volume sales are expected to keep rising, supported by high inflation, demands from resumed immigration and the tight labour market. That said, with unceasing concerns over economic downturn, rising interest rates and the new COVID-19 variant emerging, real spending will be constrained as consumers look for ways to cut spending, pay off mortgages early and start savings for uncertainties.

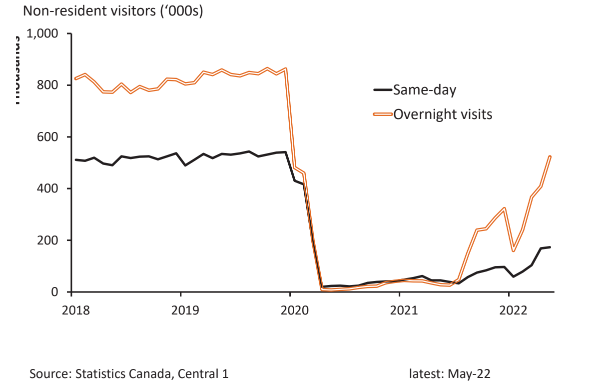
Over five-fold recovery in tourism numbers year-to-date

Edgard Navarrete, Regional Economist

The number of tourists entering Ontario continued to climb robustly in May as the province welcomed over 696,000 visitors (up 20.5 per cent m/m) with over 75 per cent of these visits including at least one overnight stay. The majority of tourists coming into Ontario are U.S.-based visitors (over 77 per cent).

Overnight visits are continuing to climb robustly as activity at airports ramps up to welcome more visitors. In May, overnight visitors increased 27.8 per cent up from 11.3 per cent in April. The rate of growth of same-day excursions decelerated from 62.4 per cent in April to 2.8 per cent in May.

Ontario has welcomed over 2.2 million visitors so far in 2022



Ontario tourism continues to rebound — May travel into Ontario was back up to 79.4 per cent of pre-pandemic levels.

Moreover, year-to-date, Ontario has welcomed over 2.2 million visitors compared to nearly 500,000 at the same time last year, a five-fold recovery.

Despite the ongoing recovery, increased costs to travel being passed onto travelers and capacity constraints at airports like Pearson in Toronto may slow the pace of rebound as increased number of travelers will forego the added costs (and headaches) of travel at this time.

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