Economics | Current Economic Trends

Ontario Economic Briefing

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Highlights

- Inflation slowed in Ontario largely thanks to falling gasoline prices by base year effects
- Core inflation was down to 4.5 per cent in March
- Fewer multi-family home units led the downtick in Ontario housing starts in March
- Ontario retail spending trended higher in February
- Wholesale trade in Ontario declined by 0.6 per cent in February
- Number of visitors climbed for most types in February

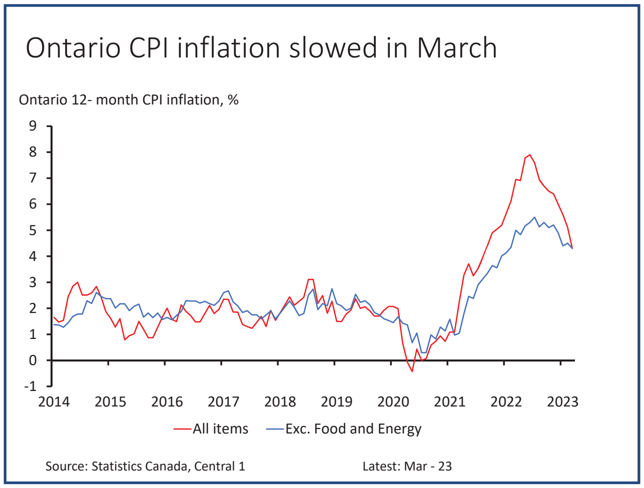
Ontario inflation down in March on lower gasoline and energy

Ivy Ruan, Economic Analyst

The March reading for the Consumer Price Index (CPI) in Ontario slipped lower to 4.3 per cent year-over-year compared to 5.1 per cent during the previous month. The result was driven in large part by base year impacts of a strong increase in prices last March (1.3 per cent m/m). On a monthly basis, the provincial CPI rose 0.6 per cent as consumers still faced higher prices. Core CPI (excluding energy and food) in Ontario was down from last month by 0.5 per cent. Year-over-year core CPI was slightly down from 4.5 per cent in February to 4.3 per cent in March. Goods prices increased 0.7 per cent over the month while the services prices grew 0.6 per cent.

Gasoline prices in Ontario continued to drop on a year-over-year basis (-15.7 per cent). The fall in gasoline prices was mainly driven by steep price increases in March last year, when gasoline rose 10.1 per cent month-over-month as Russia-Ukraine war started on February 24th, 2022. Overall, energy prices were also down 5.4 per cent for the month. That said, Ontario gasoline prices were up 0.7 per cent and energy prices rose 0.1 per cent from February, reversing some of the price declines from the previous month for both categories. Meanwhile, the provincial transportation cost rose 0.6 per cent for the month following the 0.7 per cent decline in February.

Meanwhile, food prices in Ontario remained elevated on a year-over-year basis, up 8.6 per cent from March



last year, yet slowed down from last month's 9.4 per cent yearly growth. The monthly figure was up slightly by 0.3 per cent. Ontario shelter costs' yearly growth also slowed, down from 6.3 per cent to 5.5 per cent in March. That said, shelter price inched up 0.4 per cent month-over-month.

While headline inflation had showed signs of slowing down, prices remained elevated. Potential price hikes in gasoline and energy-related products will gradually pass on the costs to transportation, business and consumers. Services cost stayed relatively strong and wage growth is likely to lift prices. This component of prices will take longer to fall to target levels.

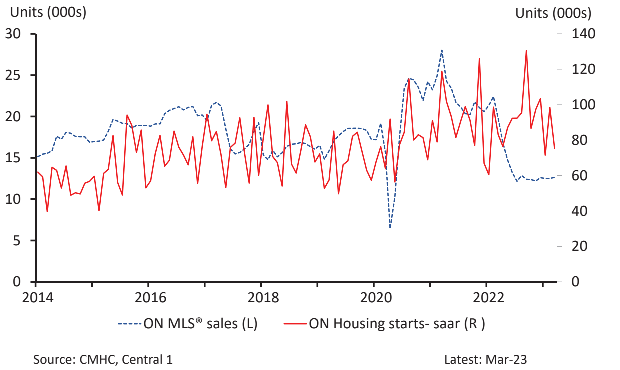
Ontario housing starts retreat in March following February's upsurge

Eloho Ennah, Economic Analyst

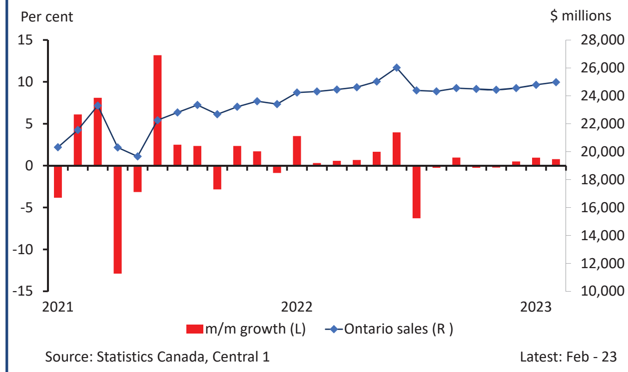
Ontario housing starts declined sharply in March, following February's robust increase. Housing starts dropped 21.6 per cent to a seasonally adjusted annualized pace of 75,381 units during the month. March's decline can be attributed to declines in both multi-family units (down 23.2 per cent to 59,038 units (annualized) and fewer single-detached housing projects. Single-detached starts declined 15.2 per cent to 16,343 units during the month.

Several census metropolitan areas reported declines in housing starts in March. Toronto saw 26.4 per cent fewer housing starts to a seasonally adjusted annualized pace of 38,876 units, offsetting the gain from last month. Amongst other areas was Sudbury, where starts plummeted 96.6 per cent to 263 units, down from 7,651 units in the previous month. In Kitchener-Cambridge-Waterloo, starts fell 61.4 per cent and

Fewer multi-family home units led the downtick in Ontario housing starts in March



Ontario spending gradually trends higher



Hamilton starts dropped 34.9 per cent. Offsetting these declines were increases in monthly housing starts in Ottawa, with housing projects rising 117.2 per cent to reach 13,893 units. In London, housing starts rose 276.5 per cent to 2,436 units in March as well.

Compared to the first quarter of 2022, actual unadjusted Ontario housing starts were up 3.0 per cent to 17,542 units in the first quarter of 2023. 2023's increase was concentrated in higher multi-family units which rose 11.9 per cent during the period to 14,278 units. Within the same period, single-detached project volumes declined 23.5 per cent to 3,264 units. Toronto and Ottawa saw increases of 1.8 per cent and 4.1 per cent respectively, while in Kitchener-Cambridge-Waterloo starts rose 53.1 per cent. Hamilton and London both recorded declines in year-to-date housing starts figures of 41.8 per cent and 22.3 per cent respectively compared to same period of 2022.

Ontario retail spending climbs in February led by autos

Bryan Yu, Chief Economist

Ontario retail spending maintained its traction in February with growth of 0.8 per cent (seasonally- adjusted), which followed a 1.0 per cent increase in January. This marked a third consecutive monthly increase to reestablish an upward trend. That said, higher interest rates and spectre o f economic weakness are likely tempering consumer demand. Ontario retail sales outperformed the national picture, which fell 0.2 per cent (and 0.7 per cent after adjusting for higher price levels). That said, Ontario lagged on a year-over-year basis with the growth of 2.8 per cent compared to 4.3 per cent nationally.

Regionally, areas outside Toronto led the increase. Toronto census metropolitan area sales rose 0.1 per cent to rebound from a January pullback. Growth was decidedly stronger outside the metro with growth of 1.3 per cent, easing from a 1.9 per cent gain in January. This also held on a year-over-year basis down one per cent in Toronto but up nearly six per cent elsewhere.

Sector data pointed to strength in motor vehicle sales (which also drove the national performance). Sales at new car dealers jumped 14.4 per cent in February after an 8.6 per cent increase in January despite high-interest rates and could reflect an increase in vehicle supply. Meanwhile, gas station sales retreated 7.5 per cent y/y after a 10.4 per cent increase in January.

Excluding these two segments, core retail sales were up 1.8 per cent y/y, which accelerated from a 0.1 per cent rate in January. Specifically, housing-related spending remained weaker as the sluggish housing market reduced demand. Sales at building materials and garden stores declined 13.8 per cent y/y, while furniture retailers saw an 8.8 per cent contraction. However, electronic and appliance retailers saw an increase of 1.5 per cent. Pass through of higher food prices and profits lifted grocery store sales by a modest 2.1 per cent, while clothing prices rose 14 per cent.

With preliminary national estimates declining 1.4 per cent m/m, trends are likely to remain temper going forward as high interest rates c urb demand and the economy weakens.

Ontario wholesale trade decreases faintly in February

Alan Chow, Business Economist

Wholesale trade in Ontario was down slightly for the month of February after showing an increase in January. On a seasonally adjusted basis, wholesale trade decreased 0.6 per cent to $42.6 billion. This decline was less than that seen in Canada as a whole, where it declined 1.6 per cent. While the volume did decrease in January in Ontario, it was still 3.6 per cent above the 12-month trailing average of $41.1 billion and the overall trend in this value has been increasing month over month for the past three years.

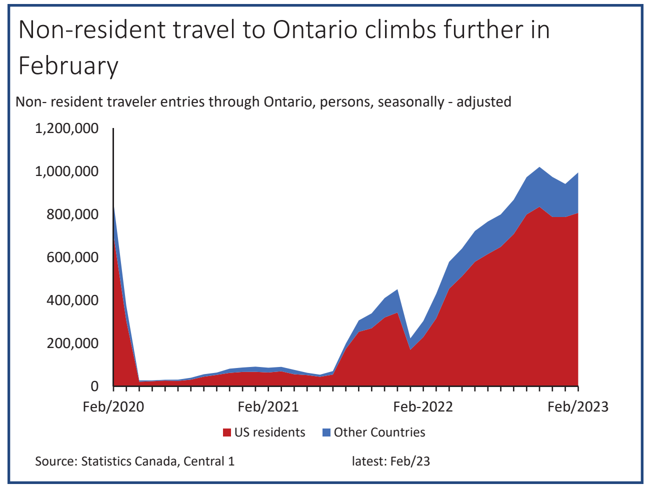
The most recent decline was led by a decline in motor vehicles and parts sales, which are down 6.1 per cent and marks the second straight month of declines. This was followed by food and beverage sales, which declined 1.8 per cent. On the positive side, wholesale trade in building material increased 3.3 per cent while miscellaneous merchant sales increased 3.4 per cent.

Higher number of visitors led by growth in non-U.S. residents

Alan Chow, Business Economist

The number of non-resident visitors entering Canada through Ontario increased in the month of February. On a seasonally adjusted basis, the number has increased by 5.6 per cent to around 995,000, pausing the two consecutive months of declining visitors. Same day excursions increased slightly by 1.9 per cent. The main driving force for the growth was from overnight tourists, which increased 7.9 per cent in February when compared to January.

The number of U.S. residents entering Canada through Ontario increased by 2.4 per cent to around 806,000. Both same day excursions and overnight tourists saw higher numbers, increasing by 1.9 per cent and 2.7 per cent respectively. All modes of travel saw increasing numbers. Air travel increased by 1.4 per cent and automobile travel increased by 2.2 per cent. Other modes of travel saw an increase of 11.2 per cent although this is by far the lowest proportion of overall travellers. On the other hand, travellers from other countries besides the U.S. entering Ontario bounced back in February after a significant fall in January. It increased 22.5 per cent.



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