Economics | Current Economic Trends

Ontario Economic Briefing

Volume 29 • Issue 29 • Week of July 17 - July 21 2023 | ISSN: 1981-355

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Highlights

- Ontario retail spending dropped 0.6 per cent from last month.
- Ontario energy prices rebounded in June
- Core inflation remained unchanged at 3.9 per cent in June
- Gains in multi-family housing starts contributed to surge in Ontario's housing starts in June
- Number of visitors increased in May
- Ontario wholesale trade rose 3.1 per cent in May

Ontario retail spending turns negative in May, curbs national spending

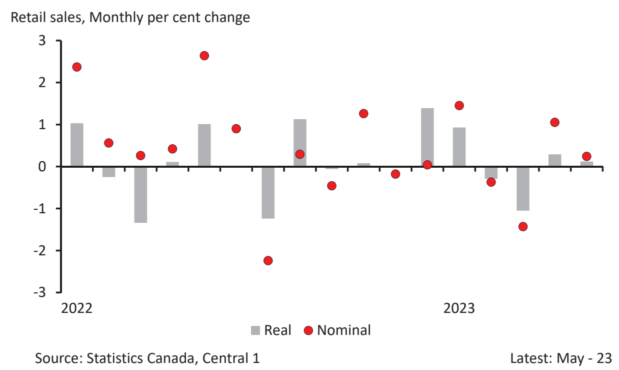
Bryan Yu, Chief Economist

Canadian retail goods spending edged slightly higher in May, but it is evident that consumers are pulling back as higher interest rates bite, wage growth decelerates and prices remain high. Households are bypassing more discretionary purchases. National retail spending rose 0.2 per cent from April and 0.5 per cent year-over-year to $66 billion. Adjusting for prices, sales rose 0.1 per cent from April, and 1.3 per cent year-over-year. Spending has held range-bound for the past year and — considering the strong pace of population growth —per capita spending is contracting. Slow consumer spending is expected to continue through the second half of this year.

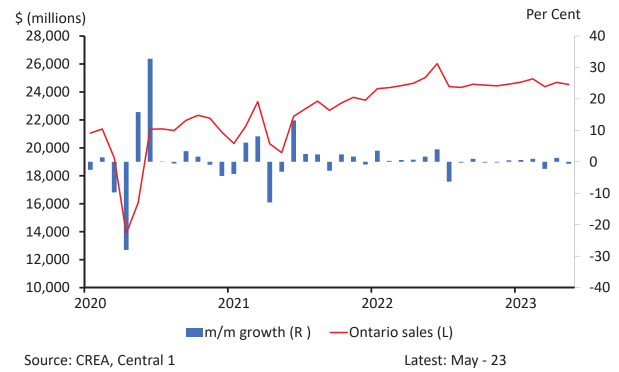
Early estimates for June point to a further deceleration with no gains projected during the month. If this holds, annualized nominal retail spending would decline from a 2.7 per cent pace during the first quarter to 0.5 per cent in the second quarter, signaling a sharp slowdown.

A scan of sector spending showed growth was driven by motor vehicle spending, which rose 0.8 per cent month-to-month and 6.3 per cent year-over-year. This was owing to higher new car sales and could reflect backlogged shipments getting back to normal. In contrast, core retail spending, which excludes vehicles and gasoline sales, was unchanged during the month.

Canadian retail spending growth slows



Ontario retail sales pull back, underpins national softness



Specifically, furniture sales fell 3.1 per cent, clothing declined 1.0 per cent, while food and beverage sales rose 1.0 per cent highlighting high prices at grocery aisle and shift to necessities.

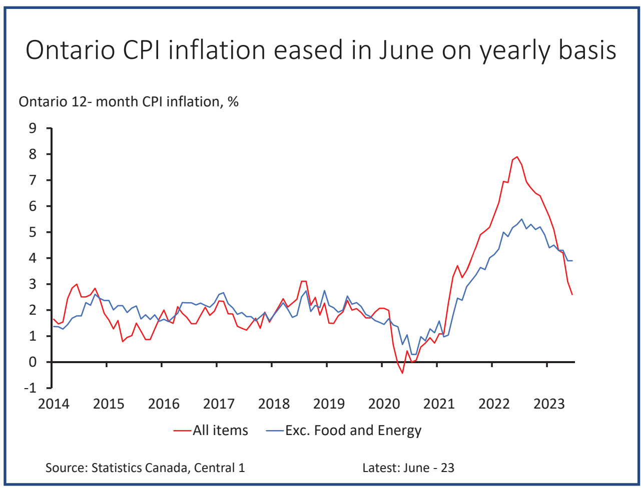
While national spending stalled, there were provincial differences with provinces like Alberta (2.0 per cent), B.C. (2.7 per cent) and Newfoundland and Labrador (6.0 per cent) recording stronger monthly increases. In contrast, Ontario was a drag on retail spending with sales down 0.6 per cent month-to-month and 1.9 per cent year-over-year to $24.5 billion. Year-to-date sales growth has deteriorated sharply to 0.8 per cent. May's decline was driven by markets outside Toronto as the GTA posted a 0.9 per increase in sales. Broadly, spending is slowing as consumers face financial headwinds of higher interest rates.

On a year-to-date basis, building materials, equipment and supplies fell 12 per cent, while gasoline sales were down 15.5 per cent and sporting goods and hobby shops fell 2.7 per cent. Food and beverage (2.3 per cent), clothing stores (8.3 per cent) and health and personal care stores (10.2 per cent) reported stronger growth.

Ontario CPI readings eased on yearly basis, but monthly growth continued

Ivy Ruan, Economic Analyst

June's reading for the Consumer Price Index (CPI) in Ontario further eased to 2.6 per cent year-over-year compared to 3.1 per cent during the previous month and drove the national pattern lower. On a monthly basis, the provincial CPI edged down 0.1 per cent following the consecutive monthly gains during the past five months. Core CPI (excluding energy and food) in Ontario also edged down from last month by 0.2 per cent. Year-over-year core CPI was unchanged at 3.9 per cent in June. Goods (0.1 per cent) increased from last month while services prices were down 0.3 per cent from May.



Gasoline prices in Ontario created a drag on inflation, as prices sit down 22.8 per cent from a year ago. The yearly percentage change was mainly driven by the base year effect from the surge in energy prices since spring last year. Overall, energy prices were also down 14.4 per cent from last June. O a monthly basis, Ontario gasoline prices rose 1.9 per cent and energy prices went up 1.1 per cent in June, following the brief monthly decline from last month. Meanwhile, the provincial transportation cost increased 1.3 per cent for the month following the brief decline seen in May.

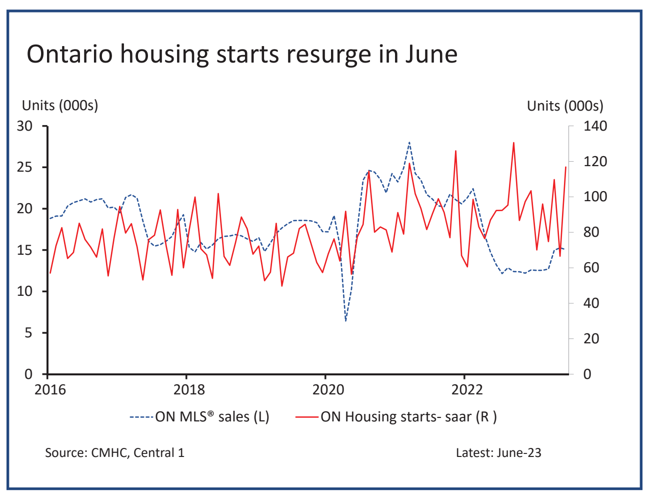
Food prices in Ontario remained elevated on a year-over-year basis, up 7.7 per cent from June last year, yet slightly eased from last month's 7.8 per cent yearly growth. The monthly figure was also 0.3 per cent below May. Ontario shelter costs' yearly growth picked up, slightly up from 4.4 per cent to 4.8 per cent in June. Similarly, shelter price inched up 0.5 per cent month-over-month.

June's inflation results were positive as headline numbers continued to slow, although monthly figures showed more volatility and persistence.

Ontario housing starts shows strong rebound in June

Eloho Ennah, Economic Analyst

Ontario housing starts turned higher in June, following May's pullback. Urban area housing starts spiked 75.5 per cent in June to reach 116,794 units at a seasonally adjusted annualized pace. The longer-term trend across the province — represented by the six-month moving average of the seasonally adjusted annual rate — shows 93,794 units, up 2.3 per cent from the previous month. The uptick in housing starts during the month can be linked to more multi-family unit construction, which nearly doubled in June, and now up to 101,342 units. Meanwhile, the single-detached sector saw modest increase of 2.4 per cent to 15,452 units during the month. It is noteworthy that multi-family construction can be highly volatile on a monthly basis due to the scale of new condo projects.



Within the census metropolitan areas, Toronto housing starts doubled in June to an annualized 85,774 units. This figure was up 71.3 per cent year-over -year and the largest recording of housing starts in Toronto. In Ottawa, housing starts jumped 88.1 per cent during the month, while housing starts rose in Hamilton by 270.3 per cent. Barrie also reported an increase, with 3.8 times more starts than the previous month. On the other hand, Kitchener-Cambridge-Waterloo housing starts fell 27.3 per cent while starts in St Catharines-Niagara were reduced by 16.0 per cent during the month.

On a year-to-date basis, Ontario's actual unadjusted urban-area housing starts rose 8.7 per cent compared to same period last year. Most of the increase was due to higher multi-family units which rose 22.6 per cent to 35,018 units. Single-detached units fell 30.0 per cent to 7,191 units during the same period as well. Within the areas, Toronto saw housing starts increase 32.0 per cent in the first half of 2023 compared to same period in 2022. Barrie also saw starts rise 25.2 per cent. Housing starts fell in Hamilton by 17.8 per cent and in Ottawa starts were down 13.8 per cent.

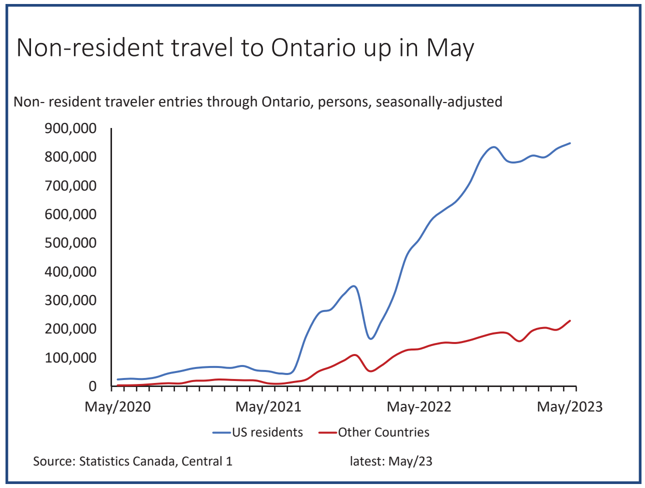
The strength in housing starts will likely be short lived due to the presence of higher interest rates and construction costs. Current elevations in multi-family home units are a result of already pre-sold projects, and future readings will likely be dampened as adjustment to impacts of multiple interest rate hikes materialize in the sector. Although a much-needed growth in housing construction is important to mitigate Canada's housing shortage issues, developers/builders are likely to stall new project starts, likely prompting a decline in housing starts in the coming months.

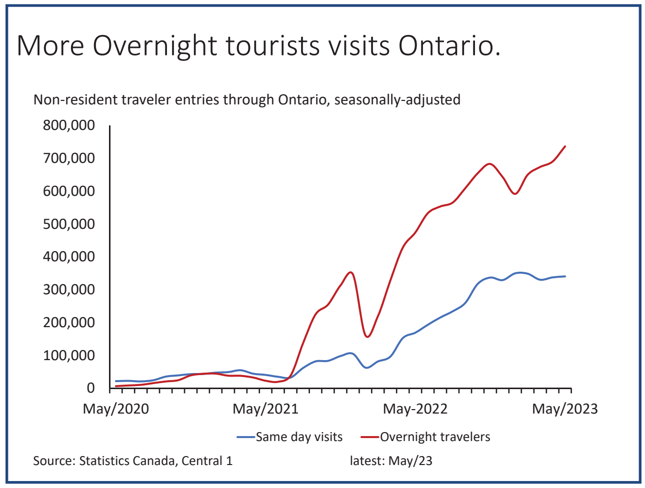
Greater number of visitors from both U.S. residents as well as other countries

Alan Chow, Business Economist

The number of non-resident visitors entering Canada through Ontario increased in the month of May, which is the fourth straight month of increases. On a seasonally adjusted basis, the number has increased by 4.7 per cent to around 1,077,000. Same day excursions increased by only 0.9 per cent to 340,000 while overnight tourist was up by more, with an increase of 6.7 per cent to 736,000.

The number of U.S. residents increased by 2.2 per cent to around 848,000. Same day excursions increased by 0.9 per cent while overnight tourists increased by 3.0 per cent. All modes of travel saw increasing numbers. Air travel increased by 2.0 per





cent and automobile travel increased by 1.4 per cent. Other modes of travel saw an increase of 16.5 per cent — although this is by far the lowest proportion of overall travelers. Travelers from other countries besides the U.S. entering Ontario increased as well in May, up 15.6 per cent. Those who traveled by air increased 5.4 per cent while those who came via land or other modes was up 53.4 per cent.

Travel continues to recover well from the pandemic but remain below levels seen in 2019. The average monthly number of non-resident visitors for 2023 is still about 26.2 per cent below the average number of monthly visitors for 2023.

Ontario wholesale trade rose in May, led by machinery sales

Alan Chow, Business Economist

Wholesale trade in Ontario was up for the month of May after experiencing a decline in April. On a seasonally adjusted basis, wholesale trade (excluding petroleum, petroleum products, and other hydrocarbons and excluding Oilseed and grain) increased 3.1 per cent from $41.3 billion to $42.6 billion. This increase was less than that seen in Canada as a whole, where it increased by 3.5 per cent. While this figure is lower than most provinces, because of its size, the dollar volume increase was the highest amongst the provinces, followed by Alberta. Year over year, wholesale trade increased 4.9 per cent.

Industries that saw strong growth in wholesale trade include machinery, equipment and supplies merchant wholesalers, which saw a 6.6 per cent increase to $4.8 billion in May from $4.5 billion in April. This nearly reversed the 7.2 per cent decrease from March's $4.9 billion in trade. Miscellaneous merchant wholesalers also saw a strong growth in sales, up 6.6 per cent.
A small decrease in wholesale trade was seen in personal and household goods merchant wholesalers (down 0.6 per cent) and building material and supplies merchant wholesalers, down 0.6 per cent.

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