Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Inflation rate in Ontario climbed in August on higher gasoline prices, food prices slow
- Housing starts continued to fall in August with declines in both single-detached and multi-family home starts
- Weaker monthly motor vehicle and parts dealers' sales drag on Ontario retail spending
- Number of travelers entering Ontario rose in July

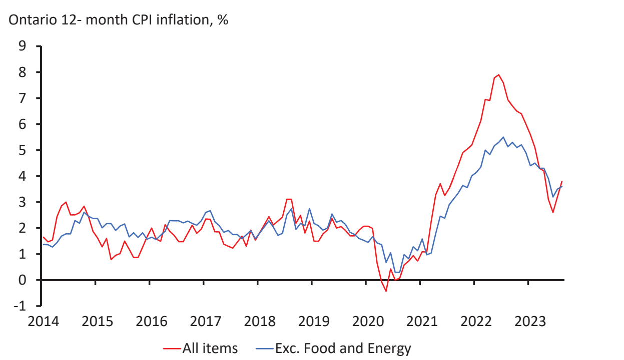
Ontario Inflation pushes forward in August

Eloho Ennah, Economic Analyst

Similar to the national picture, Ontario's Consumer Price Index (CPI) edged higher in August for the second consecutive month. CPI inflation rose to 3.8 per cent in August. This figure came in slightly below the national average of 4.0 per cent but marked an increase from July's 3.2 per cent, making it the highest reading since April 2023. Monthly, CPI reading rose 0.2 per cent at a slower pace than the 0.8 per cent gain in the prior month. Core CPI, which excludes food and energy, was up 3.6 per cent from 3.5 per cent in July.

August's uptick reflected the volatility of gasoline prices and was partly due to base-year effects, as gasoline prices had dropped in August 2022 due to higher global oil production. Gasoline prices rose 2.1 per cent year-over-year after falling 10.4 per cent in July.

Ontario CPI inflation increased further in August



Source: Statistics Canada, Central 1 Latest: Aug - 23

Year-over-year growth in food prices decelerated to 6.3 per cent in August, down from 7.2 per cent. However, consumers still faced elevated prices at the grocery aisles. On the other hand, growth in year-over-year shelter prices accelerated to 5.1 per cent in August from 4.4 per cent in July, with the recent interest rate hikes feeding again into the shelter index. Monthly, shelter prices increased 0.5 per cent, on par with July's gain. Prices for household operations, furnishings and equipment increased during the month by 0.2 per cent, offsetting the dip of 0.1 per cent in the prior month.

Prices for goods increased from 2.3 per cent in July to 3.5 per cent year-over-year, while prices for services increased from 4.0 per cent to 4.1 per cent. Prices of Items related to recreation, education and reading increased 1.2 per cent while alcoholic beverages, tobacco products and recreational cannabis prices increased 5.2 per cent.

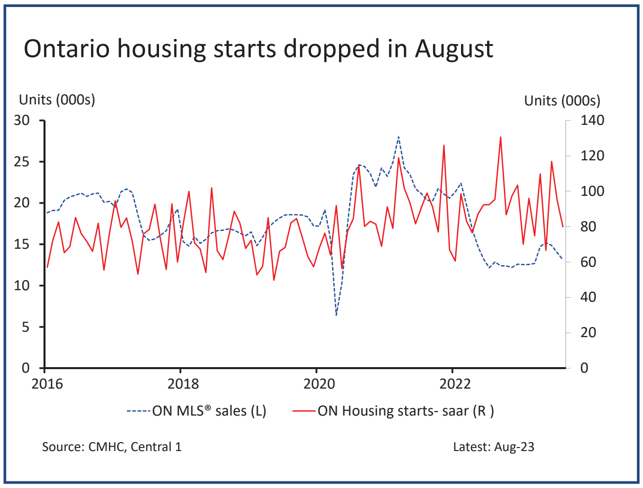
Ontario housing starts declined in August following the fall last month

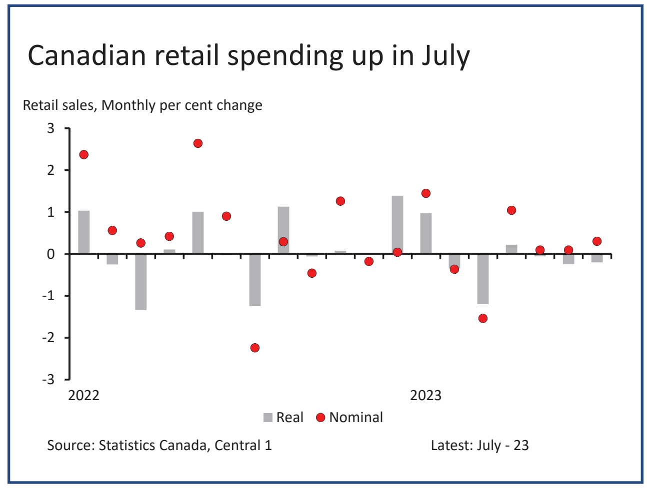
Ivy Ruan, Economic Analyst

After retreating in July, Ontario urban-area housing starts continued to decline through August, slumping to a seasonally adjusted annualized pace of 79,893 units compared to 94,764 units recorded in the prior month. With the monthly updates, the provincial housing starts in August fell below the 6-month moving average of 90,432 units. Both multi-family home starts (-17.0 per cent) and single-detached starts (-8.5 per cent) contributed to the provincial decline in housing starts.

Among census metropolitan areas (CMAs), Toronto saw a decrease of 20.4 per cent in housing starts in August to an annualized 48,592 units. In contrast, St. Catharine's-Niagara housing starts almost tripled in August, whereas Ottawa experienced a relatively modestincrease of 17.1 per cent in housing starts in the same month. Hamilton, Windsor and Thunder Bay all reported growths of one or two thousand units, likely due to the starts of large multi-unit complex. Most of other CMAs reported declines in their housing starts' results in August, yet the number of starts among those areas was much smaller compared to the major cities.

Volatility in monthly housing starts is not unusual given the scale of multi-family projects. Despite the second consecutive monthly decline in August, multi-unit starts were steady this year. Ontario's actual unadjusted urban-area housing starts in the first eight months of 2023 increased by 3.1 per cent to 57,827 units when compared to same period in 2022, driven entirely by the increase in multi-family starts (16.0 per





cent). Meanwhile, single-detached unit starts declined by 32.5 per cent to 10,021 units compared to the same period last year. In Toronto, total housing starts from January to August 2023 was up 27.8 per cent in comparison to 2022. In contrast, Ottawa recorded fewer total housing starts, down 26.5 per cent. Declines were also seen in other CMAs, such as London and Kitchener-Cambridge-Waterloo, down by 27.9 per cent and 19.8 per cent respectively.

Substantial growth in starts is somewhat surprising given market demand but largely reflects projects planned years in advance that have moved to construction stage. We anticipate starts to turn lower given fewer pre-sales in the past year and high interest rates impacting the ability of buyers to purchase in the short term.

Ontario retail spending contracts in July

Eloho Ennah, Economic Analyst

In July, Canadian consumers faced higher prices, spending more in nominal terms but getting less value for their money. Nationally, dollar-volume spending on goods increased 0.3 per cent to $66.1 billion, following a meagre 0.1 per cent rise in June. Year-to-date, retail sales grew 2.2 per cent. Much of July's gain was due to inflationary pressures as real spending, which adjusts for prices, fell 0.2 per cent during the month and was consistent with June's pullback. July's increase was driven by larger food and beverage retailers' sales while, motor vehicle and parts dealers saw their first decline in four months, with sales falling 1.6 per cent. Preliminary data for August points to further softening with sales down 0.3 per cent. Consumer spending is losing steam as many Canadians grapple with sharp increases to interest rates and higher debt servicing costs.

Ontario experienced the largest decline among provinces, with retail sales down 0.2 per cent to $24.8 billion and was driven by lower motor vehicle and parts dealers' sales during the month. At the store-segment level, data is unadjusted for seasonality, but year-over-year retail sales of motor vehicles and parts accelerated to 4.8 per cent, up from 2.7 per cent in June. Retail sales of food and beverage rose 5.5 per cent year-over-year while furniture, home furnishings, electronics and appliances sales increased by 2.8 per cent. In addition, retail sales of health and personal care increased 3.9 per cent. Offsetting these increases was a decline in sales at gasoline stations and fuel vendors, falling 14.0 per cent year-over year. Sales at building material and garden equipment suppliers also saw a decline, dropping by 8.9 percent over the 12-month period, while general merchandise sales fell by 1.4 percent.

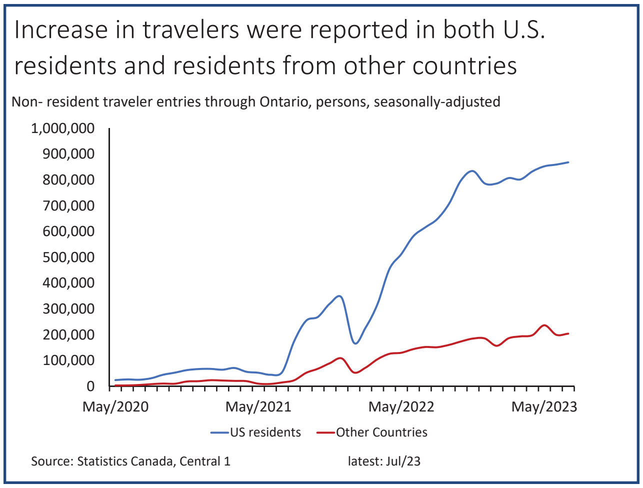
Adjusted for seasonality, Toronto saw retail sales decline 0.3 per cent during the month. Year-to-date sales in the area also decreased by 0.6 per cent. Ottawa sales data is unadjusted for seasonality, but year-over-year sales declined 2.9 per cent while year-to-date sales increased by 1.4 per cent.

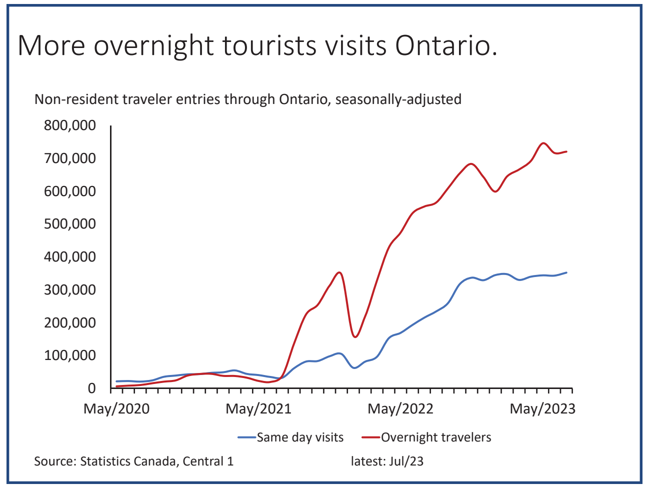
U.S. travelers to Canada through Ontario higher in July

Ivy Ruan, Economic Analyst

The number of non-resident visitors entering Canada through Ontario grew in July following a June decline. On a seasonally adjusted basis, there were 1.2 per cent more non-resident visitors in July than there were in June, reaching a total of 1.072 million persons. The monthly increase in visitors partly reversed the prior month's decline . The increase in July can bet attributed to the increase in overnight stays (0.6 per cent) and same-day excursions (2.6 per cent).

The number of U.S residents visiting Canada through Ontario rose 1.0 per cent from June to July. Over the same period, the number of residents from other countries rose 2.2 per cent following a large decline last month. Amongst U.S. residents, the increase in travelling was seen across travel options. Air entry from U.S. residents was up slightly by0.2 per cent





while those that arrived via automobile was up 0.4 per cent. Following last month's decline, other modes of transportation were up 17.1 per cent. Residents from other countries saw a 0.8 per cent increase when coming by air and saw a 8.0 per cent decrease when coming by land or water.

Travel between the U.S. and Canada exceeded86.0 per cent of the trips taken during the same month in 2019, before pandemic, from both sides. Cruise vacations remained popular, as Canadians took 24,100 cruise trips in July 2023.

For more information, contact economics@central1.com.