Economics | Current Economic Trends

Ontario Economic Briefing

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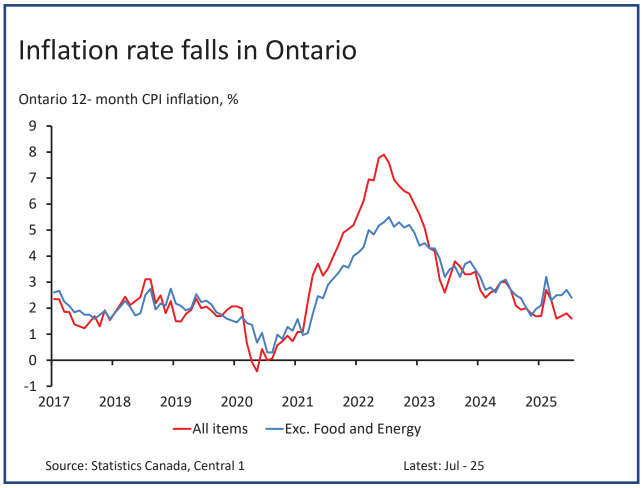
central 1 Economics

Highlights

- Ontario sees inflation slow
- Canadian retail spending grew in June following decline in May
- Ontario retail sales increased by 3.2 per cent in June
- Multifamily housing starts led the overall gain in Ontario in July
- Optimism indexes weaken in Ontario and Canada



July inflation in Ontario slows down to 1.6 per cent

Alan Chow, Business Economist

Ontario's annual inflation rate declined to 1.6 per cent in July from 1.8 per cent in June. Core measures also declined as inflation excluding energy slowed to 2.5 per cent from 2.8 per cent, while excluding food and energy slowed to 2.4 per cent from 2.7 per cent. Nationally, inflation was also down from 1.9 per cent year-over-year to 1.7 per cent with inflation excluding energy down from 2.7 per cent to 2.6 per cent and excluding food and energy down from 2.6 to 2.5 per cent. Ontario inflation was the fifth lowest among provinces.

Energy prices declined 12.2 per cent year-over-year. Gasoline prices dropped 19.1 per cent in July, compared to 16.3 per cent in June. The elimination of the consumer portion of the carbon tax was still the biggest factor in the overall decline in energy prices. From April, the first full month the tax was eliminated, to July, gasoline prices rose 1.7 per cent. The exception was natural gas, which saw year-over-year prices up 1.8 per cent. This was because the Ontario Energy Board approved a price increase application by Enbridge Gas Inc that was effective July 1.

Food prices rose by 3.4 per cent year-over-year in July, up from 3.0 per cent in June. Grocery price growth accelerated to 3.0 per cent from 2.4 per cent with fruit, fruit preparations and nuts up 7.1 per cent. Bakery and cereal products and vegetables both saw year-over-year price declines of 0.1 per cent and 0.5 per cent, which continued from June. Restaurant food prices were up 4.1 per cent, a marginal slowdown from the previous month's 4.2 per cent gain.

Shelter costs rose 2.2 per cent year-over-year in July, up from 2.0 per cent in June. This was the first month the year-over-year inflation rate was higher than the previous month since May 2024. Rented accommodation inflation slowed slightly to 4.1 per cent from 4.2 per cent. On the other hand, price growth for owned accommodation eased again to 1.6 per cent, which was the lowest year-over-year price growth in the last five years.

Household operations, furnishings and equipment prices grew by 1.4 per cent, down from 1.9 per cent. Clothing and footwear prices also grew 0.1 per cent, down from 2.5 per cent. Transportation costs were down 1.5 per cent year-over-year for the fourth month in a row the year-over-year inflation rate was negative. Health and personal care prices grew by 3.0 in July, unchanged from June while recreation, education and reading prices grew by 1.9 per cent, down from 2.4 per cent.

The cost of goods declined by 0.1 per cent year-over-year, the same as the previous month. This is the fourth month in a row the year-over-year price of goods declined. Within goods, durable goods prices rose 2.5 per cent (same as the previous month), and semi-durable goods climbed 0.5 per cent (down from 1.7 per cent). Non-durable goods saw prices fall 1.6 per cent, a slower rate of decline compared to April's 1.8 per cent. Service prices increased 2.8 per cent year-over-year in July, down from 3.1 per cent in the previous month.

Ontario monthly retail sales rose in June

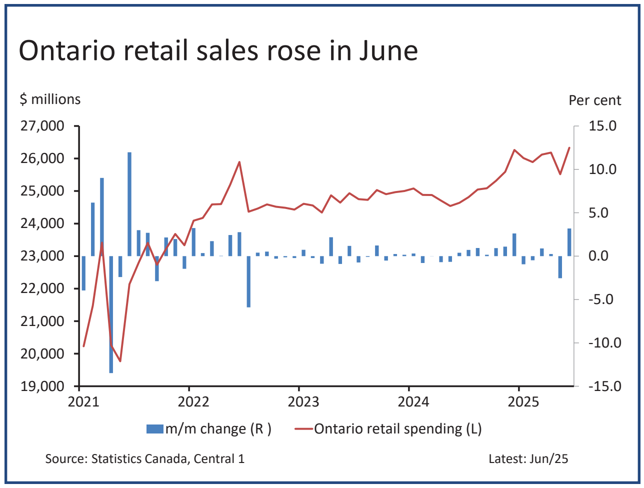
Ivy Ruan, Senior Analyst

Canadian retail sales increased by 1.5 per cent in June to $70.2 billion following the decline of 1.2 per cent in the prior month. The largest increase was noted in the food and beverage category, which saw sales rise by 2.3 per cent after three consecutive monthly decreases. Motor vehicle and parts dealers' sales edged up 0.2 per cent, following the large decline in the previous month. Core retail sales, which exclude gasoline stations and fuel vendors and motor vehicle and parts dealers, reported 1.9 per cent growth on a seasonally adjusted basis.

The pressure from trade tensions continued to ease as only 27 per cent of retail businesses were impacted by tariffs during the month, suggested by the survey by Statistics Canada. This was down from 32 per cent in May and 36 per cent in April. The primary concern remained in price increases, changes in demand for products and delays in the supply chain. That said, these impacts are likely to remain in the presence of tariffs. Advance estimates suggest a modest decline in retail spending in July.

Ontario retail spending increased by 3.2 per cent during the month on a seasonally-adjusted basis following the 2.5 per cent decline in May. This was also the largest gain amongst the provinces, and the growth was led by higher motor vehicle and parts dealers' sales. Unadjusted retail sales in Ontario increased by 5.8 per cent compared to the same month in 2024. Year-to-date, retails sales have risen by 4.6 per cent.

Subsector data is unadjusted for seasonality, but year-over-year figures showed higher sales at motor vehicle and parts dealers, with a jump of 9.3 per cent, although this was lower than the year-over-year gains reported in March and April. Health and personal care retailers' sales increased by 14.9 per cent in the same period. Clothing and sporting goods retailers also reported higher sales compared with last June at 10.6 per cent and 9.6 per cent respectively. In contrast, food and beverage sales edged down by 0.5 per cent on a yearly basis. Gasoline and fuel vendors saw a 6.1 per cent drop in the same period, likely due to lower prices.

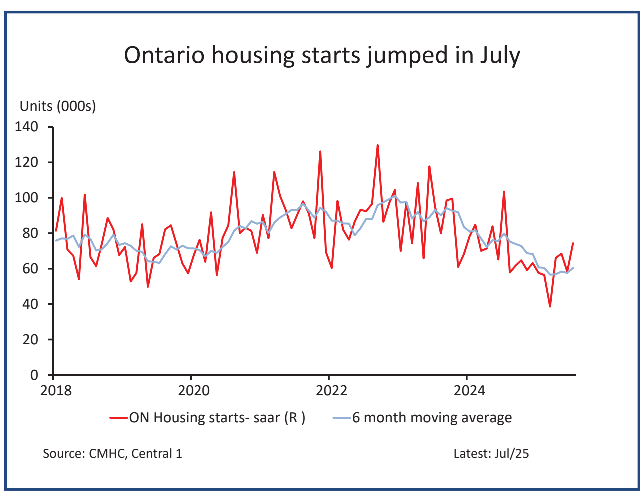


Regionally, the Toronto metro area saw seasonally-adjusted retail sales increase by 3.9 per cent on a month-over-month basis in June. Compared to a year ago, unadjusted sales were up 2.7 per cent. Ottawa unadjusted retail sales also increase by 6.6 per cent year-over-year.

Ontario housing starts surged in July

Ivy Ruan, Senior Analyst

Ontario housing starts jumped in July following the decline in the previous month. On a seasonally adjusted annualized basis, housing starts rose 27.4 per cent to 74,348 units. Multifamily starts contributed to the overall growth, up 36.9 per cent to 63,856 units, while single-detached homes declined 10.4 per cent to 10,492 units. National housing starts also increased, with Ontario's growth offsetting the declines in B.C. and Prairies. With July's surge, Ontario's housing starts seasonally-adjusted volume reached the highest level since July 2024. That said, overall performance has trended downward since 2023 and below past average, consistent with the lagged impact of housing sales.



Of Ontario's 16 metro areas, 12 recorded increases in the seasonally-adjusted annualized rate of housing starts in July. Hamilton led the overall gain as it reported a sevenfold increase in building permits to 11,124 units, the highest level since October 2023. Kitchener-Cambridge-Waterloo also saw a notable increase to 4,654 units following two consecutive monthly slumps. Ottawa reported a 13.7 per cent gain with housing starts rising to 13,869 units from 12,196 units in June. On the other hand, Toronto reported no change, with a mere 625 units decrease, following the large decline recorded a month earlier.

On an unadjusted basis, Ontario's year-to-date housing starts fell sharply, declining 25.4 per cent year-over-year. In the first seven months of 2025, 33,821 units were started compared to 45,322 units during the same period in 2024. Despite July's surge in starts, the year-to-date results are more indicative of the province's housing market downward trend and weak construction cycle. Multifamily starts led the decline, falling 26.4 per cent to 28,400 units from 38,576 units the previous year. Single-family starts also dropped by 19.6 per cent, from 6,746 to 5,421 units. Toronto saw a notable 49.0 per cent decrease in year-to-date housing starts compared to July 2024, reflecting a collapse in new construction amidst housing downturns. In contrast, Ottawa bucked the trend, with 68.4 per cent more housing starts year-over-year. Across Canada, year-to-date housing starts grew 3.6 per cent year-over-year in July 2025. Multifamily starts increased by 4.2 per cent, while single-family starts rose 0.6 per cent from the level in last year.

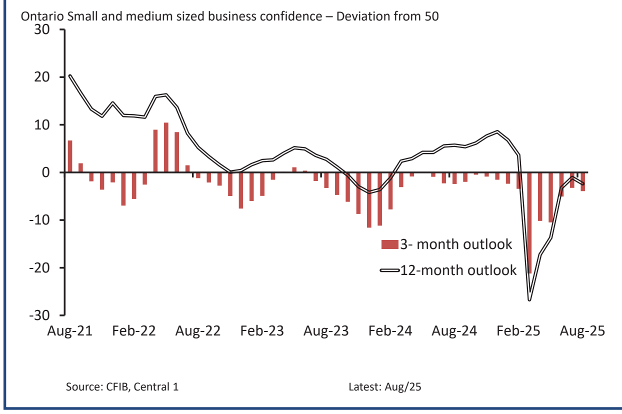
Business Barometer index declines while hiring expectations remain weak

Alan Chow, Business Economist

The Canadian Federation of Independent Business (CFIB) Barometer Survey weakened a bit in August, following July's increase in sentiment amongst Small and Medium-sized Enterprises (SMEs). The long-term 12-month confidence index declined by 3.7 points from a revised 51.5 points in July to 47.8 points in August. The short-term index also declined, but by only 2.6 points from a revised 49.5 points to 46.8 points. This is the first time both indexes declined since reaching a bottom in March 2025 when the long-term index was at 34.7 points and the short-term index was at 31.7 points.

Canadian exporters and importers reported another monthly improvement in sentiment as they further adapt to the new trade environment. August saw exporter sentiment index value increase to 47.0 points from an upward revised 45.5 points, while importer sentiment was up to 45.1 points from an upward revised 43.5 points. The index values are still below what they were at the end of 2024, which was in the 60s and still lag businesses that trade within Canada, which most recently had an index value of 53.6 points, up from 48.8 points. An index value of 60 is typically what has been viewed during times of normal economic growth. Of the 12 sectors listed, only four had a higher long-term index value compared to the previous month. The highest jump was in agriculture, which moved from 40.0 points to 50.0 points. The largest decline was in personal and other services, which fell 9.5 points to 43.8. For the short-term index, seven out of the 12 sectors saw a higher index value. The biggest jump was again in health and education services, up 9.7 points to 64.3. The largest decline was in manufacturing, which fell 10.7 points to 35.0 points.

Business confidence weakens slightly in Ontario



In Ontario, the long-term index declined 1.8 points to 47.6 points while the short-term index marginally declined 0.7 points to 46.1 points. Both index values have been in the mid-40s over the past three months. Compared to other provinces, Ontario was on the lower end of optimism index values in both the long run and the short run index. In both indexes, it was the seventh highest amongst the provinces. Insufficient demand and shortages of skilled labour continued to be the most noted constraints to sales or production growth for businesses in the province. Shortage of working capital ranked third, above limited physical space. Tax, regulatory costs, insurance and wage costs were the top input cost constraints while occupancy, product input, electricity and fuel costs were also on this list of constraints. Business staffing plans were unchanged from the previous month, with 11 firms expecting to increase staff and 16 anticipating reductions.

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