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Ontario Economic Briefing

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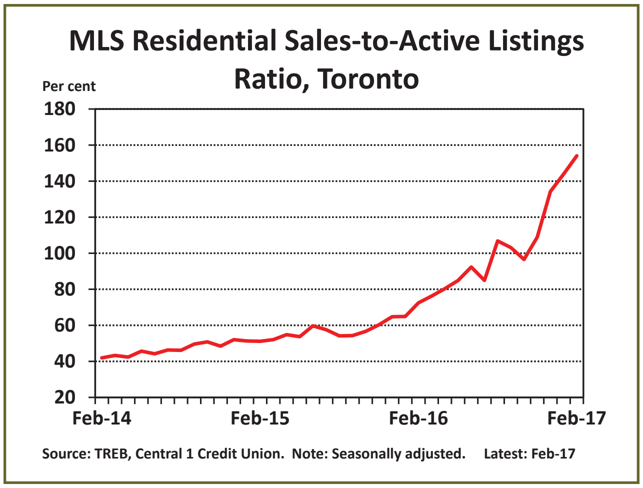
HIGHLIGHTS:

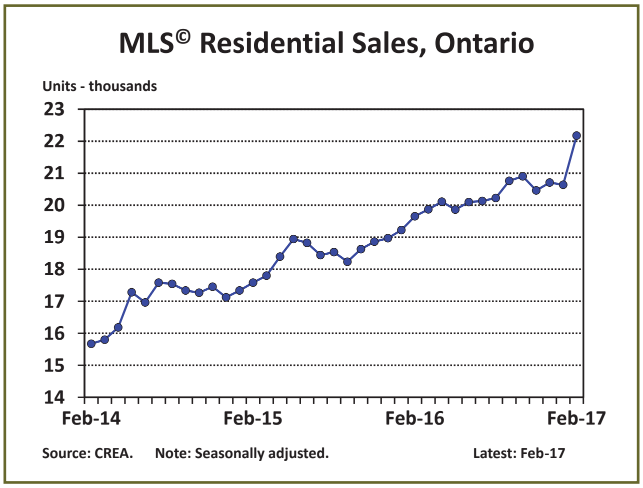
- Home sales increased 7.4 per cent to a seasonally adjusted 22,177 units in February
- Housing prices continued to rise with average prices hitting new records
- Ontario's manufacturing sales climbed 1.0 per cent in January

Home sales post strong rebound during February

February housing sales in Ontario registered the largest monthly increase in the past six years, as strong demand was met with a much-needed boost in supply of new listings in the market. Total home sales rose 7.4 per cent to a seasonally adjusted 22,177 units, raising the year-over-year growth rate to 12.8 per cent. Solid price gains coincided with the sales gain, reflecting a continuing market supply-demand imbalance.

MLS residential sales gains in February were widespread across the province with the usual suspects, in and around the greater Golden Horseshoe region, leading the way. In the Toronto area, sales increased by 6.4 per cent to 10,325 units seasonally adjusted. Neighbouring Hamilton-Burlington sales were up 6.5 per cent, Barrie (16 per cent), Mississauga (9.8 per cent). Sales were strong as well in the Niagara Region (6.9 per cent), Windsor (4.3 per cent) and to a lesser extent London (3.7 per cent) among others. Some offset was observed with small declines in Kitchener-Waterloo and Sudbury (-1.2 and -1.2 per cent respectively).





Ontario's average sale price jumped 6.8 per cent to a record high $623,107 seasonally adjusted – a 24 per cent increase from a year ago. In the Greater Toronto area, February's average price was also at a record high $867,575 seasonally adjusted, up 7.9 per cent from January – a 27 per cent increase from a year ago. On a year over year basis, price gains in excess of 20 per cent, seasonally adjusted, were registered in Toronto, Hamilton-Burlington, Kitchener-Waterloo and Niagara Region. These price increases likely also reflect compositional changes, as more homes on the upper end of the price spectrum are being sold in these centres. The average market price was at or near record highs in most markets in the province.

The average sale price is not the most accurate housing price measure, because it is overly influenced by compositional changes in units sold, resulting in large monthly swings. A measure which is not influenced by such changes, is the Home Price Index (HPI) that is based on a constant set of property characteristics making comparisons through time more meaningful. The HPI is produced only for Toronto and Ottawa areas in the province and those measures are at record highs. The pace of price increase in Toronto is high at plus 20 per cent annualized, using the HPI measure.

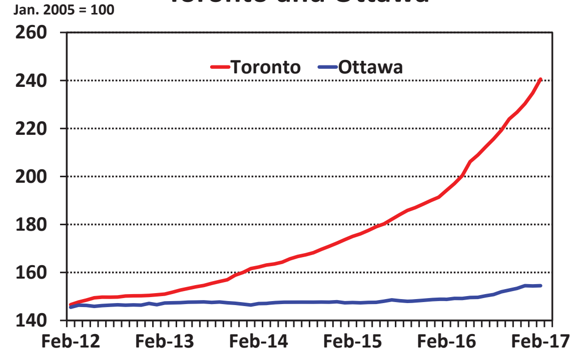
Toronto's sales-to-active listings ratio has climbed steadily since 2014 and accelerated in 2017 to record highs. The lack of market supply, or listings, is just as important a factor pushing up prices as is demand caused by low interest rates, income growth, rising in-migration, and the desirability of homeownership. New listings rebounded in February by 14 per cent (seasonally adjusted) after falling sharply in January by the same percentage, but are still down six per cent from a year ago. This much-needed rebound in new listings was widespread across the province but the sales-to-new listings ratios remained in a sellers' markets territory.

Ontario's housing market will remain strong this year, as the market appears to have shrugged off faster than anticipated the recently introduced policy measures. A growing economy, higher employment, rising incomes, expanding population, supportive mortgage rates, and a strong desire for homeownership are supportive. On the negative side, mortgage credit is less available for low-equity and first-time buyers and higher housing prices will squeeze out potential buyers. Housing sales are forecast to rise about five per cent, while prices climb 10 per cent because of ongoing supply constraints.

Ontario's Manufacturing Sales climbs 1.0 per cent from December

Ontario's manufacturing sector posted a small sales pick up to start the year on a positive note. Total sales reached a seasonally adjusted $25.9 billion during January, up 1.0 per cent from December but down one per cent from the same month in 2016. While down from a spike in January, 2016, this month marked a move within the range-bound trend seen for most of the previous year.

MLS© Home Price Index, Toronto and Ottawa



Source: CREA, Central 1 Credit Union. Note: Seasonally adjusted.   Latest: Feb-17

Relative to December, gains were led by a sharp increase in the petroleum and coal industries (+10.4%) which were in fact responsible for half of the provincial increase. While motor vehicle manufacturing sales were a strong contributor, up 4.5 per cent this month, failing nonetheless to offset the overall decline of 0.5 per cent in the transportation equipment industry (aerospace down by 16 per cent and motor vehicle parts down by two per cent).

The 2017 outlook is mixed with limited growth prospects for U.S. motor vehicle sales because that sales cycle is near or at its peak. Non-transportation equipment manufacturing sales are seen growing, led by the food, chemical, machinery, and wood sectors. Interprovincial exports of manufactured products will contribute more in 2017. Total manufacturing sales are seen expanding between two to four per cent in 2017.

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