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Ontario Economic Briefing

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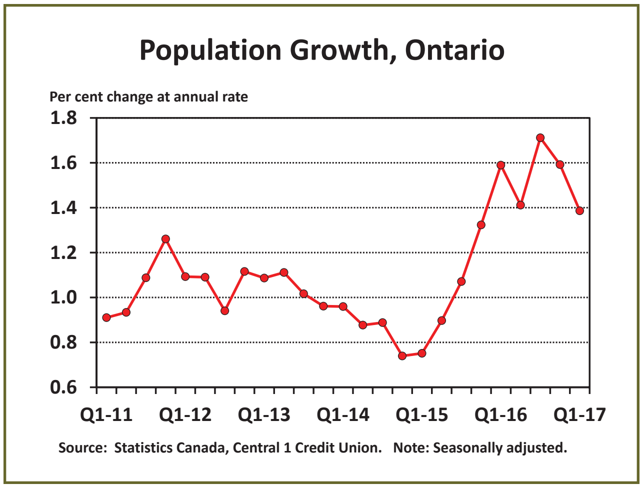
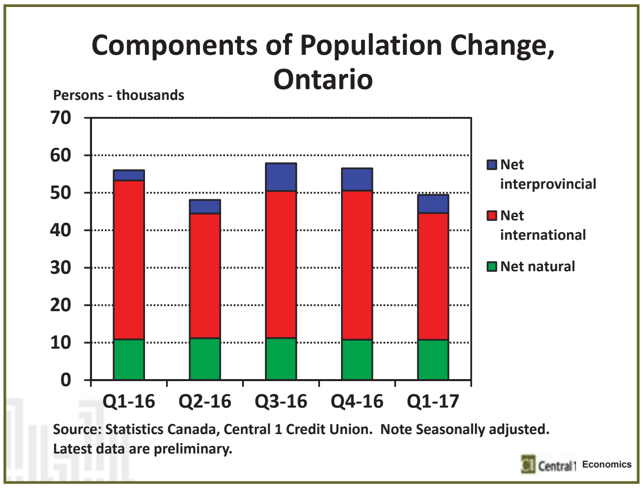
HIGHLIGHTS:

- Population continues to grow
- Home sales and prices drop
- Manufacturing sales stall





Population growth holding up

The latest estimate of Ontario's population as of April 1, 2017 was 14,135,610 persons, up 0.3 per cent from three months earlier and 1.5 per cent higher than one year ago. Population growth shifted to above 1.3 per cent in the fourth quarter of 2015 where it has remained since. The immigration of Syrian refugees in late 2015 and the continuation of rising net interprovincial migration have combined to push population growth higher.

Seasonally adjusted first-quarter population growth slipped to 1.4 per cent annualized from 1.6 per cent in the fourth quarter of 2016 mostly on lower net international migration. Net interprovincial migration eased from the fourth quarter but remained at a multi-year high.

The upshift in net interprovincial migration occurred when recessions hit the Alberta and Saskatchewan economies in 2014 and Ontario's economy began to grow at a faster pace. Ontario's improved economy also reduced the outflow to B.C., Quebec, and other provinces. The more than 10-year run of net out-migration tuned positive in late 2015.

We see population growth slipping to about 1.3 per cent annually in the next two years on lower net interprovincial migration owing to further improvements in the Prairie economies. The national immigration target for 2017 was set at 300,000 persons, similar to 2016's actual level, though higher than the 260,000 average between 2011 and 2015. Ontario will receive between 35 to 40 per cent of the national total.

Housing sales plummet

To no surprise, Ontario MLS® residential sales fell sharply in May. CREA's seasonally adjusted sales fell 14.2 per cent from April, which was down 5.8 per cent from the prior month. In the past two months, sales are down 19.2 per cent, the largest two-month decline since the 2008-09 recession. The sharp decline in Toronto's May sales released earlier in the month foretold the provincial drop.

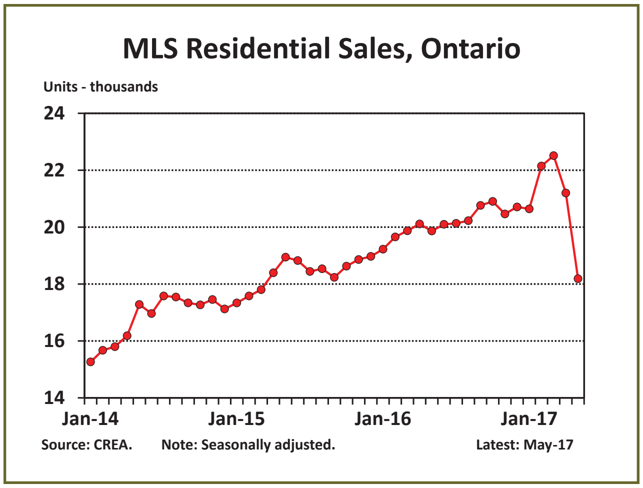
Market conditions and pricing pressures shift quickly with sales. This shift is even more dramatic when new listings are high. MLS® residential new listings remained elevated in May at more than 33,000 units seasonally adjusted, only slightly lower than in April. That new listings shot up in the past two months to record highs could be seen as a welcome supply development, or as a sign of market distress some might describe as speculators rushing for the exits.

The average sale price declined for the second consecutive month falling 10.6 per cent in May on the heels of a 1.7 per cent decline in April. However, CREA's Home Price Index (HPI) for Toronto and Ottawa – no provincial HPI exists – increased in May suggesting a change in the composition of units sold was mainly behind the average sale price drop. However, a shift in the market balance to more listings relative to sales is a factor and can be seen in Toronto's slowing HPI.

Some observers see these developments as the beginning of the often-predicted housing crash or bursting of the housing bubble. Not likely. Demand conditions remain, and are expected to remain, supportive of sales based on factors such as low mortgage rates, income and employment growth, population growth, good consumer confidence, and the desirability of home-ownership. Housing crashes usually occur when the economy falls into recession and there is no sign of that here or in the U.S. The recent example of housing markets falling into recession in oil-dependent provinces is instructive here.

The introduction of Ontario's Fair Housing Plan in April probably plays a large role in market developments of the past two months. The tax on foreign buyers will reduce sales but the expansion of rent controls is more negative for purchases by investors in rental properties. Interestingly, the increase in new listings during May was overwhelmingly in single-detached units, according to Toronto data. Data are incomplete to make a firm assessment on the plan's impact, but the coincidences are too large to ignore in the context of no significant changes in other demand factors.

Sales in markets other than Toronto also declined during May from April. Hamilton-Burlington sales were down 13.4 per cent; Kitchener-Waterloo down 8.5 per cent; Niagara region down 3.1 per cent; and a few other markets saw declines.



However, sales increased in most Ontario markets such as London, Ottawa, Sudbury, and Thunder Bay.

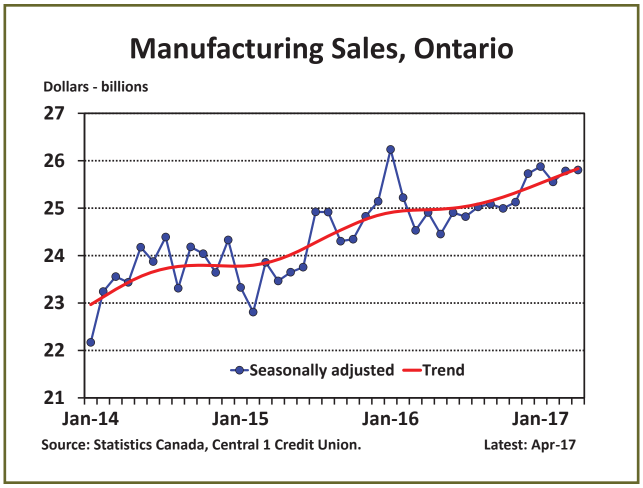
This market adjustment phase, largely in the Golden Horseshoe region, will run its course in another three months or so and then stabilize near current sales and listings levels. Pricing pressure will ease further and cause Toronto's HPI to decline, though less than five per cent. In other regions, markets are more likely to hold up.

Manufacturing sales stall

A lacklustre performance for Ontario manufacturing sales in April with a 0.1 per cent increase over March to $25.8 billion seasonally adjusted. Monthly sales are quite volatile as seen by a 0.9 per cent rise in March and a 1.2 per cent drop in February. Trend sales growth is about 3.5 per cent annually or 0.3 per cent monthly.

Year-to-date sales were up 1.4 per cent over the same period last year led by a 6.3 per cent increase non-durable goods, notably petroleum products up more than 28 per cent and beverages up more than 12 per cent. Sales of durable goods were 1.2 per cent lower than last year with transportation equipment sales off 4.4 per cent. Counter to this trend were wood products up 12.5 per cent, primary metals up 8.3 per cent, and machinery up 7.9 per cent.

Data presented are current dollar sales and adjusting for price changes gives a different result. Total manufacturing sales in 2007 dollars contracted 0.6 per cent in April and were down 2.3 per cent year-to-date. The large gain in current dollar non-durable sales this year is due mostly to higher prices with sales in 2007 dollars up only 0.8 per cent. A similar outcome plays out for petroleum product sales at 4.9 per cent higher while primary metals were down 2.5 per cent in 2007 dollars. However, constant dollar sales of beverages and wood products stood out with gains of 10.9 and 6.5 per cent, respectively.



For the year, manufacturing sales are seen increasing about 2.5 per cent compared to 4.0 per cent in 2016. Non-durable good sales will increase by more than sales of durable goods due to the 'peak auto' situation in the U.S. and its impact on motor vehicle production in Ontario. Some non-auto sectors, though, will see gains and benefit from the low Canadian dollar.

Helmut Pastrick
Chief Economist, Central 1 Credit Union
hpastrick@central1.com
www.central1.com
604.737.5026