Ontario Economic Briefing

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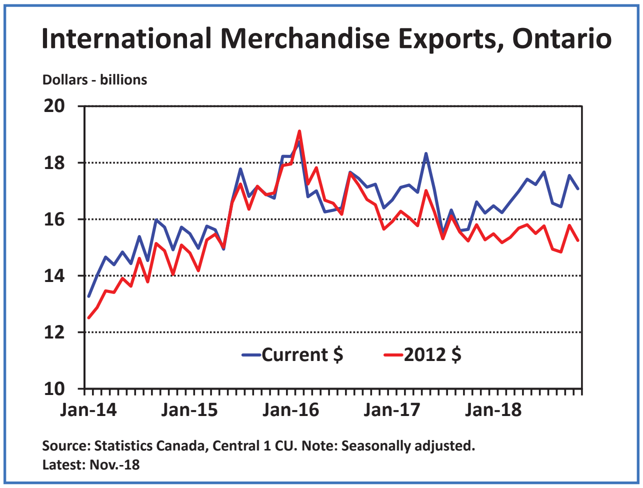
Highlights

- Decreased trade with the U.S. and all other trading partners pushed exports lower in November
- Total starts in 2018 increased due to strong apartment construction offsetting low-rise housing construction cool off
- Building Permits declined in November
- Toronto's home market continued to moderate in December



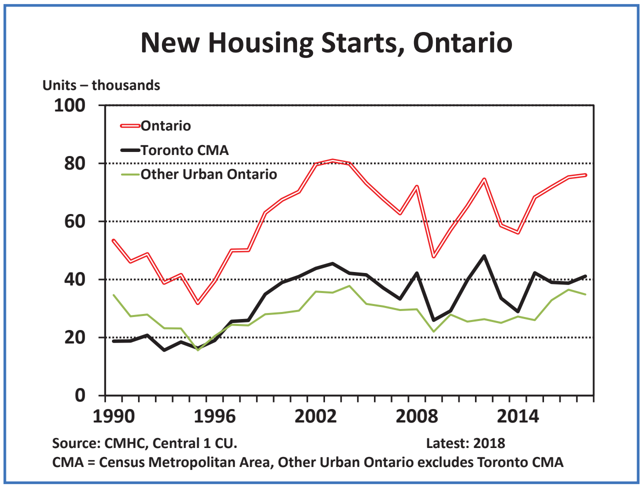
Exports declined 2.7 per cent in November

November figures on Ontario trade point to an eroding trade picture. Exports declined 2.7 per cent to $17.1 billion from $17.5 billion (all month-over-month figures are seasonally-adjusted by Central 1) and imports declined by two per cent to $29.6 billion from $30.2 billion. A greater trade dollar volume decline to imports relative to the decline in trade dollar volume to exports increased Ontario's net trade balance. Ontario's decreased exports in November was due to less trade occurring across the board, not only with the U.S. but also all other trading partners.

By sector, November's decline was broad-based with only four categories posting trade volume gains:

- Energy products (seven per cent increase, one per cent share of total trade)
- Aircraft and other transportation equipment and parts (79.5 per cent increase, three per cent share of total trade)
- Consumer goods (1.9 per cent increase, 15 per cent share of total trade)
- Metal and non-metallic mineral products (1.7 per cent increase, 17 per cent share of total trade)

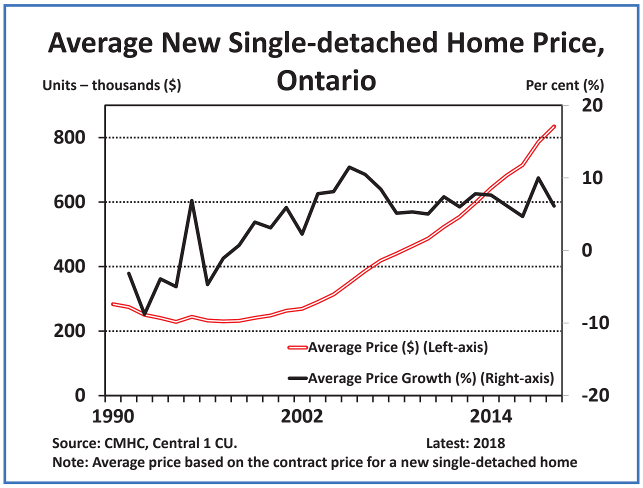
Among large sectors, motor vehicle and parts exports declined 1.4 per cent; industrial machinery, equipment and parts exports declined 2.7 per cent; and, basic and industrial chemical, plastic and rubber products declined by six per cent. Together these three sectors make up typically over half of Ontario's domestic export volumes.

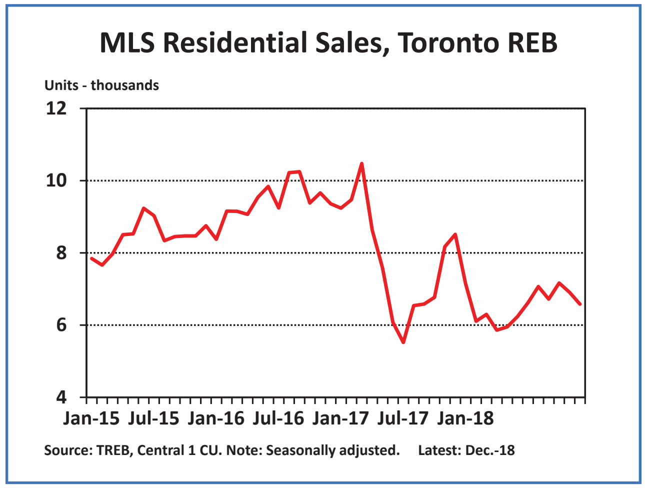


Year-to-date, Ontario exports are up 1.8 per cent mostly due to increased trade with other countries other than the U.S. Over the first eleven months of 2018, exports to the U.S. were nearly unchanged, down 0.2 per cent, while exports to other nations were up 10.1 per cent. Moreover, trade exposure to the U.S. is declining over time. For example, in 2001, Ontario exports to the U.S. accounted for over 93 per cent of all trade. Over the first eleven months of 2018, trade with the U.S. is down to 78.9 per cent of all trade. Surely, some of this was trade-related uncertainty in 2018, but a larger trend is increased diversification of trade as emerging economies continue to grow and new powers such as China continue to expand and need Ontario goods and services.

Despite fluctuations during the year total starts increased one per cent in 2018

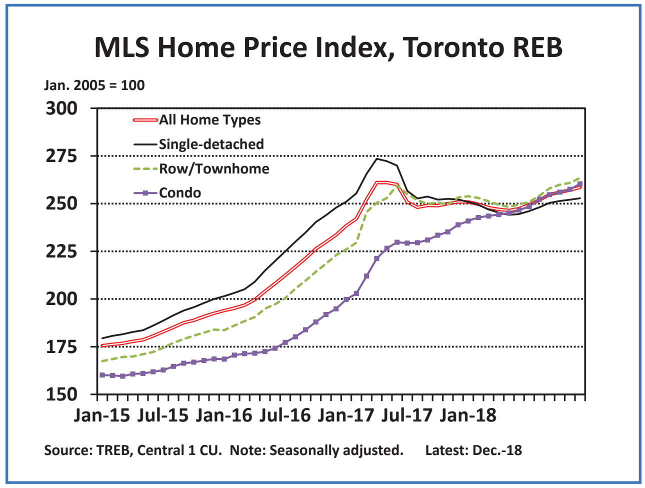
The Canada Mortgage and Housing Corporation (CMHC) released December housing starts numbers





this week. With December data now in the books, a round-up of 2018's performance can be made. Despite declining growth for most of the year, total starts in Ontario managed to increase by one per cent in 2018 to 75,956 units over last year (all figures are actual unless otherwise noted). Low-rise housing—anything other than an apartment start—fell sharply in 2018 by 20.2 per cent to 35,499 units. In contrast, apartment starts jumped 31.7 per cent from 2017 and totaled 40,457 units. A large part of the boom in new apartment starts came from the Toronto Census Metropolitan Area (CMA) where apartment starts totaled 29,639 units. This is a jump of 46.9 per cent from last year and the highest level of apartment starts on record going back to 1990. With Toronto CMA contributing 73.3 per cent of total apartment starts to the provincial tally in 2018, all other urban regions in Ontario excluding Toronto CMA, contributed to the remainder 10,818 units. Despite this 2.5 per cent growth in apartment starts in regions outside of Toronto, total starts declined by 4.4 per cent to 34,849 units over 2017 due to weakness in low-rise housing.

Half of Ontario's 16 CMAs posted fewer starts in 2018 relative to last year, with three of those markets in the Greater Golden Horseshoe region (GGH). Two of those markets—Oshawa and St. Catharines-Niagara—have economies with significant manufacturing exposure particularly in auto manufacturing. In 2018, this sector faced some headwinds which pumped the breaks in new housing demand, especially for low-rise housing. Windsor and London also faced similar headwinds which contributed to less demand for new housing. In Sudbury and Thunder Bay, given the relative smaller size of these metro markets, any large apartment project or group of projects can skew results from one year to the next. Fewer apartment starts in both markets pulled down total starts even though low-rise construction continued to grow.



Total Starts - Census Metropolitan Areas			
	2017	2018	Change
Barrie	1,378	1,396	1.3%
Belleville	666	643	-3.5%
Brantford	415	752	81.2%
Sudbury	195	189	-3.1%
Guelph	1,023	1,122	9.7%
Hamilton	2,893	3,616	25.0%
Kingston	692	910	31.5%
KCW	3,850	3,103	-19.4%
London	3,967	2,679	-32.5%
Oshawa	2,835	2,532	-10.7%
Ottawa	7,457	7,539	1.1%
Peterborough	395	443	12.2%
SCN	2,196	1,863	-15.2%
Thunder Bay	284	158	-44.4%
Toronto	38,738	41,107	6.1%
Windsor	1,187	952	-19.8%
Ontario Metro Markets	68,171	69,004	1.2%

It was noted above that Toronto's apartment starts increased substantially in 2018. This substantial growth in apartments more than offset the 22.3 per cent drop in low-rise housing and allowed total starts to increase by 6.1 per cent. With increased migration, an expensive low-rise housing market and fewer green fields for new housing developments, it's not surprising that more Torontonians looked to buy apartments as either a family home or an investment property to rent to newcomers.

In Ontario, the number of units completed and unsold is down 13.2 per cent to 2,112 units from last year due to fewer unsold apartment units that offset the rise in unsold low-rise units. There is no need for concern yet, but it is pointing to a shift in demand from low-rise housing to hi-rise housing due to affordability concerns. Moreover, the number of units under construction in Ontario are now at their highest level ever (107,369 units) according to data from the CMHC from the last quarter of 2018. While single-detached and semi-detached units under construction trended down in the fourth quarter over the third quarter, the number of row/townhomes and apartments under construction increased. Row/townhomes and apartments now account for 82.7 per cent of all units under construction in the province.

In 2018, the average contract price for a new single-detached home in Ontario increased by 6.1 per cent to $834,206, which is slightly lower rate of growth from last year when the average price increased ten per cent. Even with the moderation in price growth, the average price level is pushing potential homebuyers to the resale market or deciding not to purchase at all. This is especially true in the more expensive markets such as Toronto and Ottawa-Gatineau.

Central 1 expects new home construction in Ontario will continue to moderate as fewer people look to purchase a new home. In 2019, total new starts will total 71,000 units a number closer to 2008 and 2016 building activity.

Non-residential building permit volumes declined in November after three months of growth

Non-residential building permit volumes have had a volatile trajectory in 2018. After three months of month-over-month gains non-residential building permit volumes declined once again in November by 4.2 per cent to $896 million in Ontario's metro markets. This now marks six out of eleven months that they have posted a month-over-month decline. The only bright spot in the data this month is institutional permit volumes, which increased 31.3 per cent month-over-month to $226.6 million in all metro areas. As this segment accounted for only 25 per cent of permit volumes in November, it was not enough to offset the 1.6 per cent (to $112.4 million) and 14.1 per cent (to $557.1 million) decline to industrial and commercial permit volumes that together made up 75 per cent of the non-residential activity.

Half of Ontario's 16 metro markets posted a month-over-month decline. Toronto, which makes up the brunt of non-residential permit activity at about two-thirds, increased by only 0.8 per cent month-over-month—explaining the drop to activity this month from October's data. Of the other seven markets, a few larger ones like Hamilton, Kitchener-Cambridge-Waterloo and Ottawa-Gatineau posted robust volume gains, but not enough to offset declines and Toronto's muted activity.

By sector the volatility this year is due to inconsistent growth in industrial and institutional building permit volumes. Commercial permits have not faltered as much due to sustained consumer expenditures over the course of the year. Year-to-date, volumes are down 14.4 per cent due to a 23.5 per cent and 36.6 per cent decline to industrial and institutional volumes. Commercial volumes are up slightly by 1.6 per cent.

Toronto's home market finished 2018 low-key

Toronto's existing homes market finished off 2018 low-key. All metrics—sales, new listings, and average price—continued to moderate further in December following November's declines. Month-over-month sales declined by 4.8 per cent or 329 units to 6,582 units while new listings declined by 4.1 per cent or 540 units to 12,789 units (all figures in this section seasonally-adjusted). Furthermore, the average price for an existing home declined another 1.2 per cent in December to $791,567 on top of the 1.2 per cent decline in November.

With a moderating market, it is not surprisingly that sellers with listings in the market waited longer to sell their homes. In December, the average days on the market increased to 31 days from 24 days in November. For 2018, this was the second highest average days on the market reading, after posting 32 average days on the market in January 2018.

Benchmark home prices—a measure of quality-adjusted prices—increased by 0.5 per cent in December over November. The increase sits in line with the 0.5 per cent long-term month-over-month average rate of growth since January 2000. By home type, single-detached homes and apartment prices increased by 0.3 per cent and 1.1 per cent respectively while townhome/row prices increased by one per cent. Price growth for detached homes was significantly lower than their long-term average of 0.5 per cent. Prices for apartments and townhomes were significantly higher in December than their respective monthly long-term averages. Cautious buyers looking at relatively lower-priced housing options in higher-density housing is causing the spike in benchmark price growth.

In 2018, all metrics came in lower than last year. Sales declined by 15.9 per cent while new listings and price declined by 12.1 and 3.2 per cent respectively. Fewer year-over-year sales at the start and at the end of the year weighted on 2018's total.

Toronto's market has been in recovery mode since about June 2018. Increased mortgage rates, modest economic growth and tougher mortgage acquisition standards combined to create a perfect storm and keep potential buyers away. Potential buyers are waiting until the dust settles before entering the market.

Edgard Navarrete
Regional Economist
Central 1 Credit Union
enavarrete@central1.com / P **905 282 8501**
www.central1.com