Housing starts increased in March led by strong growth in single-detached and condo apartment starts

The Canada Mortgage and Housing Corporation (CMHC) released housing starts numbers for March this week. Total housing starts in Ontario increased by 9.6 per cent to 58,927 units at a seasonally-adjusted annual rate (SAAR) due to strong growth in apartment starts (41.8 per cent to 32,148 units SAAR) and single-detached starts (19.9 per cent to 14,955 units SAAR). Strong growth to single-detached and condo apartment starts more than offset decreased semi-detached and row/townhome building activity. Despite the month-over-month pick-up in building activity in March, total SAAR starts remained 14.6 per cent off the SAAR long-term average from January 2010 to March 2019.

The seasonally-adjusted contract average and median prices for single-detached homes declined in March by 12.6 per cent and 7.3 per cent respectively. From January 2018 to March 2019, the drop in median and average prices were the deepest. The federal mortgage ‘stress tests’ and greater household savings is likely making low-rise housing unattractive for most potential homebuyers. First quarter data on homes under construction pointed to a strong increase in apartment units under construction, which increased 3.5 per cent quarter-over-quarter and 11.3 per cent year-over-year. During the same period, low-rise housing under construction has fallen 10.0 per cent quarter-over-quarter and 18.7 per cent year-over-year due to strong declines to single-detached and row/townhome construction.

Total starts in Ontario for the first quarter are off last year’s pace by 27.8 per cent due to strong moderation to low-rise housing starts that offset gains in condo
dpartment starts. The strong decline in month-over-month activity in February pulled down the first quarter’s numbers.

In metro areas, total housing starts increased by 17.1 per cent to 50,284 units SAAR. In non-metro areas total housing starts declined by 20.0 per cent to 8,643 units SAAR.

Despite the overall increase in starts in metro areas not all areas saw increased activity in March. The following metro areas reported fewer housing starts:

- Barrie (70.2 per cent decline)
- Greater Sudbury (45.1 per cent decline)
- Guelph (91.8 per cent decline)
- Ottawa-Gatineau, Ontario-part (56.4 per cent decline)
- Thunder Bay (91.1 per cent decline)
- Windsor (26.0 per cent decline)
Non-residential permit volumes fell by 7.9 per cent in Ontario in February

Total non-residential permit volumes (all figures are seasonally-adjusted unless otherwise stated) fell by 7.9 per cent to $1.1 billion in February due to declines to industrial permit volumes (down 26.8 per cent to $199.0 million), commercial permit volumes (down 0.6 per cent to $640.5 million) and institutional permit volumes (down 6.3 per cent to $234.4 million). February’s slowdown erased January’s 1.1 per cent gain. With February’s slower numbers over the first two months of the year, non-residential permit volumes are down 7.9 per cent from last year’s pace.

In Ontario’s Census Metropolitan Areas (CMAs), which made-up 82.1 per cent of all non-residential permit volumes in the province, non-residential permit volumes fell by 5.9 per cent to $881.2 million. The drop was due to strong moderations to industrial permit volumes (down 43.2 per cent to $104.3 million) and commercial permit volumes (down 1.4 per cent to $583 million). Strong growth to institutional permit volumes (up 19.7 per cent to $194.0 million) could not offset the declines in the volumes in the other two areas. With consumers keeping their belts tightened and economic uncertainty—particularly through trade-related concerns—commercial and industrial permit volumes have declined.

Over the first two months of the year, non-residential building permit volumes in Ontario’s metro areas are 6.4 per cent off last year’s pace. Commercial permit volumes are up 3.8 per cent from last year’s pace even with two consecutive months of lower permit volumes to start 2019. Industrial and institutional permit volumes are both double-digits off last year’s pace at 19.0 per cent and 21.9 per cent respectively.

Excluding Ontario’s metro areas, non-residential building permits declined 16.1 per cent to $192.6 million due to a 54.1 per cent decline to institutional permit volumes that could not be offset with 7.2 per cent and 7.9 per cent growth respectively to industrial and commercial permit volumes.

Only seven metro markets posted higher permit volumes in February over January. Together, these markets accounted for 38 per cent of total permit volumes, which was not enough to offset declines in the larger metro markets in Ontario. Specifically, the following metro markets posted permit volume gains in February:

- Barrie (up 97.3 per cent)
- Guelph (up 63.4 per cent)
- Kitchener-Cambridge-Waterloo (up 23.7 per cent)
- Oshawa (up 25.2 per cent)
- St. Catharines-Niagara (up 1,608.4 per cent)
- Thunder Bay (up 1,950 per cent)
- Windsor (up 50.8 per cent)

Ontario’s Real Gross Domestic Product growth slowed down in the fourth quarter

Ontario released its quarterly economic accounts this week and all signs pointed to decreased economic activity in the fourth quarter of 2018. Real seasonally-adjusted at annual rate (SAAR) Gross Domestic Product (GDP) growth slowed down considerably from 0.6 per cent in the third quarter to 0.2 per cent in the fourth quarter. Real SAAR GDP was the lowest quarter-over-quarter reading in ten quarters, since the second quarter of 2016.

Household consumption helped prop up real GDP growth in the fourth quarter mainly through growth in non-durables (1.5 per cent growth). This growth offset declined expenditure in durables (0.5 per cent decline) and slower growth expenditure in semi-durables (0.1 per cent increase down from 0.8 per cent in the third quarter). Service real SAAR GDP growth held steady at 0.5 per cent in the fourth quarter down only slightly from the third quarter’s reading of 0.6 per cent.

Consumer Price Index data and retail sales data throughout the year has been pointing to consumers in Ontario shying away from big-ticket purchases such as new cars. Instead, they have spent their dollars on items such as food purchased in restaurants and food stores; services such as recreation, arts and health services; and, certain products, in particular pharmaceutical products.
Residential structure investments declined further in the fourth quarter by 4.7 per cent SAAR—nearly a seven-fold increase from the 0.7 per cent SAAR decline in the third quarter. Households are being cautious spenders particularly when it comes to home purchases. Moderating economic growth, which has tempered wage growth and full-time hiring, coupled with stricter mortgage lending rules has cooled the once hot residential structure investment segment.

The slow down to business investment increased in the fourth quarter. Business fixed gross capital formation—or the net increase in physical assets—declined a further 2.4 per cent SAAR in the fourth quarter, doubling the 1.2 per cent SAAR decline posted in the third quarter. With less net physical asset accumulation, non-residential structures fell 4.0 per cent SAAR eclipsing the 2.1 per cent SAAR decline from the third quarter. Business investment in machinery and equipment increased by 1.5 per cent SAAR in the fourth quarter as businesses took advantage of new federal regulations to speed up depreciation of assets. The decline in non-residential investment mirrors the permit volumes data—less demand and growth in industrial permits. Business confidence has been moderate. Businesses have decided to shelf big investments until the economic uncertainty goes away, particularly for industries that are heavily exposed to exports of their goods and services.

Real domestic and international export growth fell in the fourth quarter by 0.6 per cent SAAR and 0.1 per cent SAAR respectively, while imports edged up 0.1 per cent SAAR due to growth in international exports. Consumer expenditure growth in non-durables helped prop up imports while less auto demand, particularly in the U.S., cooled exports.

With slower growth in some sectors, inventories increased to $8.1 billion in the fourth quarter up from $1.9 billion in the third quarter.

Comparison on quarter-over-quarter SAAR growth by industry varies. Within the goods sector, manufacturing output decreased 0.3 per cent, led by declines in paper products and printing (down 5.5 per cent), chemical and petroleum products (down 1.5 per cent) and food, beverage and tobacco products (down 1.3 per cent). Higher output in primary and fabricated metal products (up 3.7 per cent) and electronics (up 1.0 per cent) partially offset the decline. Transportation equipment manufacturing—a big sector in Ontario—posted 0.5 per cent lower growth in the fourth quarter.

Construction output decreased 3.1 per cent in the fourth quarter, as both residential (down 5.0 per cent) and non-residential and engineering (down 1.7 per cent) declined.

Primary industry output increased 1.8 per cent, as output rose in mining (up 3.1 per cent) and agriculture and forestry (up 0.7 per cent).

Utilities output edged up 0.1 per cent, as lower electric power output (down 0.7 per cent) was offset by higher output in natural gas, water and other utilities (up 3.0 per cent).

Increased output in service-producing industries was supported by gains in professional and administrative services (up 1.1 per cent); finance and insurance (up 1.0 per cent); real estate, rental and leasing (up 0.4 per cent); retail trade (up 0.2 per cent); and, wholesale trade (up 0.1 per cent).

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