# Ontario Economic Briefing

Volume 26 • Issue 2 • Week of January 13-17 2020 | ISSN: 1981-355

**Highlights:**

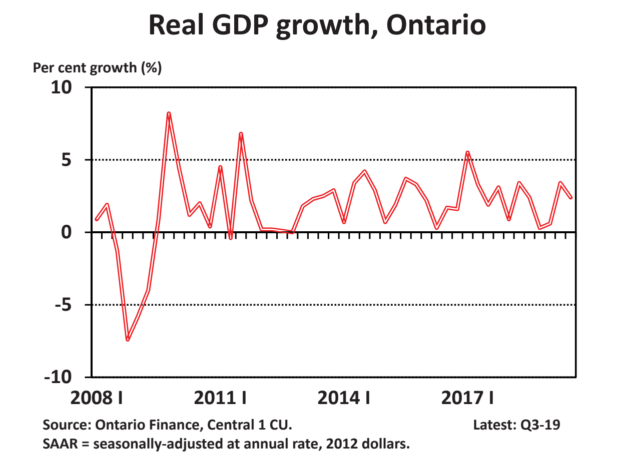
- Business investment, household consumption, and exports supported economic growth in Ontario.
- Ontario's housing market rebounded strongly in 2019; sales climbed 8.9 per cent.
- Ontario's purpose-built average monthly rent jumps by 6.2 per cent in 2019 marking the tenth consecutive year of rent increases of 2.5 per cent or more.

## Real economic growth in Ontario increased by 2.4 per cent annualized in the third quarter of 2019

The Ontario Ministry of Finance recently released its estimates, with third quarter economic accounts showing continued expansion. Real gross domestic product expanded by 0.6 per cent, building on the 0.8 per cent from the second quarter 2019. Despite the deceleration of economic growth in the third quarter over the second quarter current real economic growth remained well above the long-term average of 0.4 per cent from the second quarter of 2008 to the third quarter of 2019, encompassing 46 quarters.

Household consumption posted a marked increase, moving up from 0.4 per cent in the second quarter to 0.9 per cent in the third quarter, buoyed by strong growth in durable goods (1.2 per cent growth), non-durable goods (1.4 per cent growth), and services (0.7 per cent growth). Semi-durable expenditures decelerated from 1.7 per cent in the second quarter to 0.9 per cent in the third quarter. Strong population growth in Ontario has continued to support household spending.

Business fixed gross capital formation – or the net increase in physical assets – rebounded strongly in the third quarter expanding by 3.2 per cent after posting a decline of 0.8 per cent in the second quarter. Specifically, the rebound in the net increase in physical assets came from strong residential (up 5.8 per cent), non-residential (up 2.7 per cent), and intellectual properties (up 1.6 per cent) which comfortably offset the continued decline in machinery and equipment




investments. This area fell an additional 1.2 per cent in the third quarter, down further from the 5.7 per cent decline posted in the second quarter.

Ontario's growing tech sector likely has driven growth in intellectual properties. Strong commercial investments and an awakened housing market drove growth in non-residential and residential expenditures.

Spending at all three levels of government combined increased 0.3 per cent in the third quarter, matching the second quarter gain.

After posting the strongest quarter-over-quarter growth in the second quarter, exports decelerated in the third quarter, increasing by 1.0 per cent (slower from 2.1 per cent in the second quarter). Almost all of the export growth in the third quarter came from exports heading abroad, mostly motor vehicles and parts and consumer goods (which grew by 1.3 per cent in the third quarter and made up 67.2 per cent of Ontario's exports with interprovincial exports making the rest). Interprovincial exports grew by only 0.2 per cent. Year-over-year exports were substantially stronger than the 0.4 per cent decline in 2018. Imports increased by 0.5 per cent in the third quarter, moving up from the 0.7 per cent decline in the second quarter. Year-over-year imports were also substantially stronger, like exports, eclipsing the 0.7 per cent decline posted in 2018.

## Ontario's tight housing market pushed average home price up by 6.3 per cent.

Ontario home sales recoiled by 4.4 per cent in December to end 2019 erasing the 1.3 per cent growth in sales in November. The month-over-month drop in sales in December was the second largest in 2019 (February saw a 9.9 per cent drop in sales). Despite this sales drop, December, 2019 will go into the books with sales havingrebounded by 8.9 per cent from the weakness posted in 2018.

New listings were another story. While sales posted an atypical decline for 2019 in December, new listings have been on an extended slide for the last five months of 2019. December new listings fell an additional 5.4 per cent over November moreover new listings fell over the last five months of 2019. In 2019, new listings fell by 0.3 per cent from 2018.

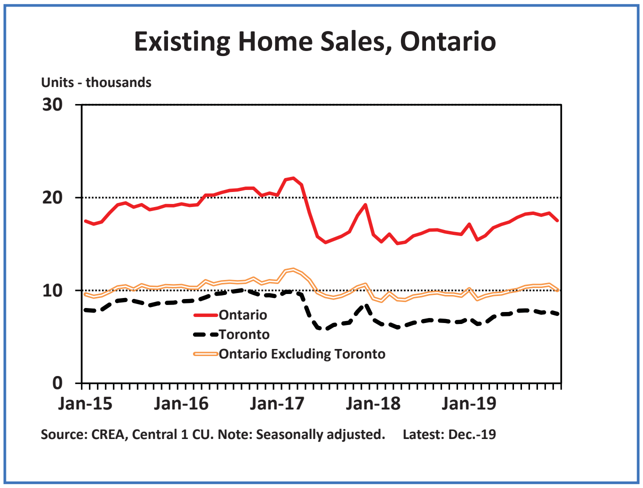
With strong sales throughout nearly all of 2019 and very limited supply, the months of supply figures trended lower year-over-year for nearly all of 2019. In 2019, months of supply was 2.0 months compared to 2.1 months of supply in 2018.

A tighter housing market lifted prices as bidding wars became the norm, especially in the back half of 2019. In December, Ontario's average home price was $640,796, up 1.7 per cent over November; one of the highest month-over-month jumps in average price of 2019. In 2019, average home in price in Ontario came in 6.3 per cent above 2018, ending the year at $605,066.

According to the Canadian Real Estate Association's (CREA) same-quality housing price index (HPI), of the seven real estate boards surveyed, nearly all had very robust price growth, with Barrie the only market posting an HPI price decline in 2019 over 2018 (down 2.4 per cent). Ottawa posted the largest appreciation (up 9.0 per cent), followed by Niagara (up 6.9 per cent), and Guelph (up 6.5 per cent). Toronto posted a 4.3 per cent jump in the HPI over the same period.

In 2019, sales in Ontario were supported by stronger sales in markets in the Greater Golden Horseshoe (GGH) area and markets outside of this region. GGH sales increased by 11.5 per cent while sales outside the GGH increased 5.6 per cent. In the Toronto real estate board area, sales climbed 12.4 per cent. Other large boards that posted strong activity in 2019 included:

- Barrie: up 16.1 per cent
- Durham region: up 17.2 per cent
- Hamilton-Burlington: up 10.1 per cent
- Kitchener-Waterloo: up 1.2 per cent
- Ottawa: up 6.7 per cent
- Quinte: up 7.8 per cent
- St. Catharines: up 9.6 per cent




- Sudbury: up 4.8 per cent
- Windsor-Essex: up 5.8 per cent
- York region: up 19.3 per cent

Ontario's strong population growth which is driven by immigration has continued to keep the homeownership market, evidenced by diminishing supply and strong price growth. The Canada Mortgage and Housing Corporation's First-time Homebuyer Incentive likely added to sales activity in markets outside of the GGH. Within the GGH many potential buyers who were looking to take advantage of this program likely were priced out and had to remain on the sidelines or go outside the GGH for housing.

## Strong rental demand in Ontario continues to push monthly rents higher

The Canada Mortgage and Housing Corporation (CMHC) released their rental market survey results this week. In Ontario's purposed-build rental market (apartments and townhomes) the vacancy rate edged up in 2019 to 2.0 per cent from 1.8 per cent last year: the second consecutive vacancy rate increase. Despite an increase to the provincial vacancy rate two years in a row, it remains well below the 2.6 per cent average vacancy rate from 1990 to 2019.

Average monthly rent (for purpose-built rental townhomes and apartments), increased 6.2 per cent in 2019 to $1,277. The move up in average monthly rent in 2019 marked the tenth consecutive year that average monthly rent has posted an increase of 2.5 per cent or more.

The purpose-built rental market universe, the total of units either currently occupied or available for rent, has continued to increase. In 2019, the universe moved up an additional 4.195 units or 0.6 per cent to 639,515 units. Ontario's purpose-built rental universe has moved up now for six consecutive years.

The growth in the purpose-built rental universe in Ontario signals investments made by several levels of government and the private sector to provide rental housing to meet robust demand. Ontario's population has been growing at a strong clip over the last few years, driven largely by immigration, and thus the tight rental market with a below average vacancy rate and robust monthly rent growth.

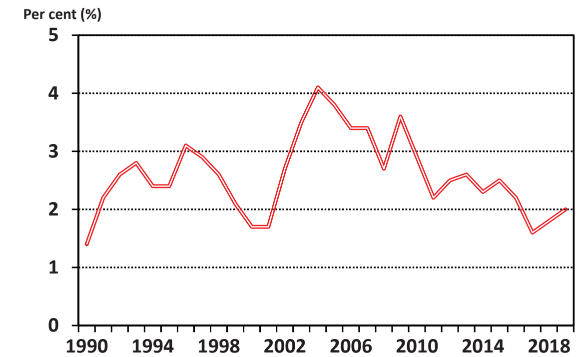
The additions to the purpose-built rental market while robust have proved to be not sufficient to meet the strong demand in the market. Moreover, the purpose-built rental market in Ontario lacked investment for many years and the stock is quite old in many markets and will need to be replaced. The need to play catch-up to replace many aging units will not add sufficiently to the market, likely keeping the purpose-built rental market in this tight state for several years to come.

Looking at metro areas in Ontario, the purpose-built rental market vacancy rates in 2019 ranged from a low of 1.5 per cent in Toronto to a high of 3.8 per cent in Hamilton. Below are the vacancy rates and change from last year's survey for all of Ontario's metro areas that had statistically reliable changes year-over-year:

- Toronto 1.5 per cent (up from 1.1 per cent)
- Brantford 2.4 per cent (up from 1.4 per cent)
- Guelph 1.9 per cent (up from 1.4 per cent)
- Hamilton 3.8 per cent (up from 3.1 per cent)
- Kingston 2.0 per cent (up from 0.6 per cent)
- Kitchener-Cambridge-Waterloo 2.0 per cent (down from 3.0 per cent)
- London 1.8 per cent (down from 2.3 per cent)
- Ottawa-Gatineau 1.8 per cent (up from 1.6 per cent)
- Peterborough 2.0 per cent (up from 1.5 per cent)
- Thunder Bay 3.6 per cent (down from 5.1 per cent)

In addition to the purpose-built rental market, Ontario also has a robust secondary rental market which comprises private condo apartments. With strong inflows of new residents to Ontario, this market has also remained fairly tight, often tighter than the purpose-built rental market, given the relative newness of these projects and the range of amenities provided vis-à-vis the purpose-built rental market. Currently, the CMHC only surveys a handful of large markets in

**Rental Vacancy Rate, Ontario**




Source: CMCH, Central 1 CU. Latest: 2019
Note: Purpose-built rental townhomes and apartments

Ontario. Below are the vacancy rates in the secondary market in those areas surveyed and the change from last year:

- Hamilton 0.2 per cent (down from 0.9 per cent)
- Kitchener-Cambridge-Waterloo 0.6 per cent (down from 1.8 per cent)
- Ottawa Gatineau 0.9 per cent (down from 3.4 per cent)
- Toronto 0.8 per cent (unchanged from last year)
- London 1.3 per cent (unchanged from last year)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