Ontario Economic Briefing

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central 1 Economics

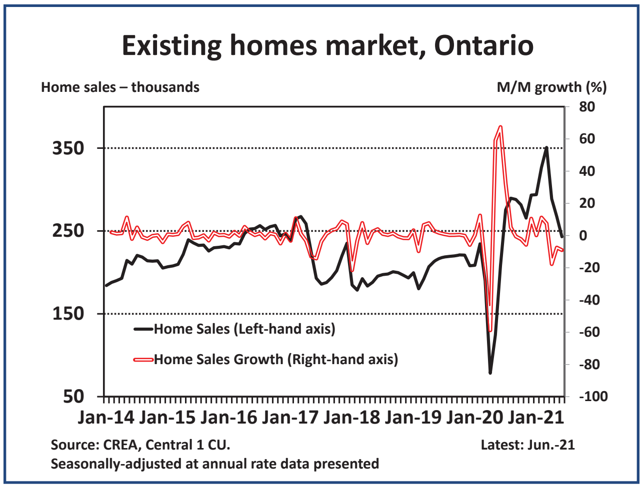
Highlights

- Resale homes market continues to cool substantially
- Increased unaffordability despite attractive mortgage rates continues to scare potential buyers away, especially in large urban markets
- Skilled labour shortages and increased costs for building materials continued to put downward pressure on new housing starts in Ontario in June
- Manufacturing sales fell 1.0 per cent in May due to a strong contraction in durable goods sales

Ontario's resale homes market activity trending down

Three months marks a trend, and the Ontario resale homes market is now trending down. The Canadian Real Estate Association (CREA) released June data this week and home sales in Ontario fell 9.0 per cent in June adding to the strong pullback in sales posted in this quarter (down 17.7 per cent in April and 7.5 per cent in May). As demand for housing returns to more normal levels so has supply as new listings remained nearly unchanged in June. With a stronger pull back in sales relative to the very slight move up in new listings, the sales-to-new-listings-ratio slid down to 67.9 per cent in June; the lowest this metric has been since August 2020 and a marker to how quickly the market is moderating after red hot activity in the first quarter to much closer to its long-term trend.

A cooling market has also cooled average price growth as prices moved up only 0.4 per cent in June to $843,113. Over the second quarter, average price growth averaged a drop of 0.6 per cent compared to 3.3 per cent growth over the first quarter. Months of supply remained unchanged at 1.0 month in June, likely due to very anemic growth in new listings.



Year-to-date, all metrics remain substantially ahead of last year's pace with sales up 69.6 per cent, new listings up 45.8 per cent and the average price up 29.2 per cent. Like many other sectors in Ontario, base year effects are to blame for these very lopsided rates of growth when comparing 2019 and 2020.

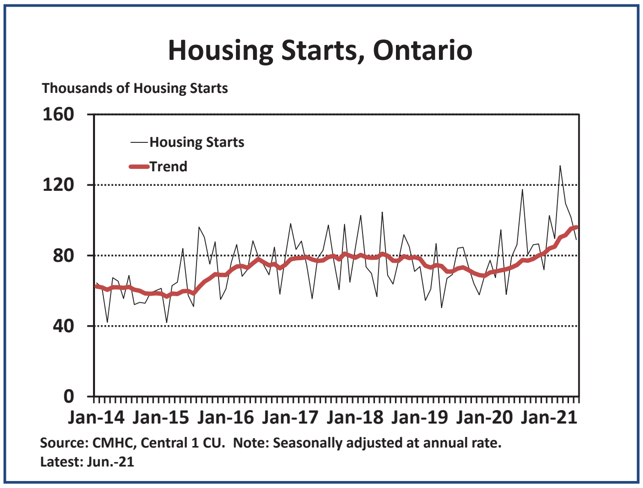
The constant quality housing price index (HPI) from the Canadian Real Estate Association (CREA) surveys seven Ontario real estate boards. In June, the HPI growth of these seven boards averaged 1.2 per cent; nearly unchanged from the 1.1 per cent average growth posted in May. The HPIs in Hamilton-Burlington, Guelph, Ottawa, and Greater Toronto all posted slower rates of growth in June putting downward pressure on the overall average.

By real estate board, of the 44 boards surveyed by CREA, month-over-month sales activity recoiled in 36 of them and sales declined in all nine of the largest boards. Moreover, the average contraction in sales in June was 12.8 per cent and in the nine largest boards the contraction in sales averaged 6.7 per cent.

Eroding affordability is keeping some potential buyers on the sidelines, attractive mortgage rates notwithstanding. Those able to work remotely, even in a post pandemic world, are continuing to leave the big cities for smaller markets in search of affordable housing. Substitution away from single-family homes to multi-family homes (e.g., condo apartments) in large urban areas is also keeping price growth range bound for those buyers still set on remaining in the big cities.

New housing starts continued to slide in June

Ontario's new home construction continued to slide in June. CMHC data for new home construction in all areas shows that new housing starts fell 12.5 per cent month-over-month in June following strong declines in April and May. Currently, new housing starts in all areas of Ontario stand at just over 89,000 units at seasonally adjusted annual rate (SAAR).



In urban areas, new housing starts fell 12.5 per cent to 82,086 units due to an overall contraction in new home construction across all home types but especially for single-detached homes (down 19.4 per cent) and condo apartments (down 10.3 per cent). Together these two housing types accounted for just over 86.0 per cent of the contraction in activity in June.

Of the 15 metro areas surveyed by CMHC in Ontario, housing starts fell in 11 in June with only Guelph (up 1,904 net units), Hamilton (up 987 net units), London (up 4,224 net units), and Toronto (up 5,020 net units) posting gains.

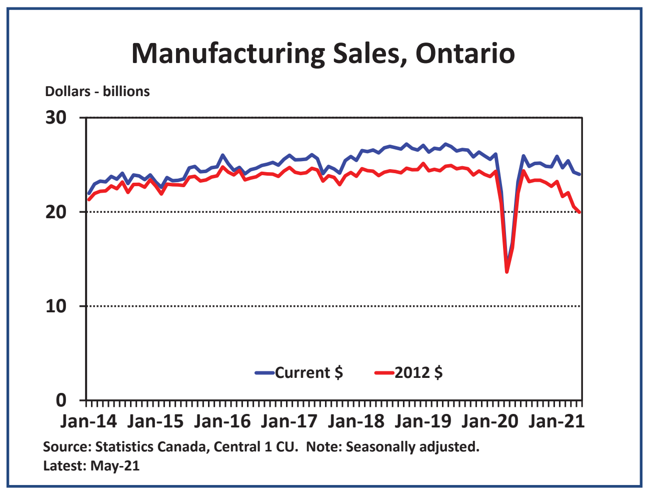
Year-to-date, housing starts in urban areas are up 31.2 per cent ahead of last year's pace still.

The average new single-detached contract home price remained nearly unchanged in June (down 0.4 per cent) while the median single-detached contract home price increased 1.6 per cent. Over the first half of 2021 the average and median single-detached contract home prices remained 3.9 per cent and 9.2 per cent ahead of last year's pace respectively.

Home builders are still facing skilled-labour shortages despite raising wages to attract more workers. Lumber prices and other inputs into construction are facing pandemic era inflationary pressures and this is also having an effect on how many units builders can break ground on. Perhaps once international borders open again, skilled trades from abroad can arrive to alleviate some of these pressures.

Ontario's decline in manufacturing sales in May led the nation

Nationally Ontario had the dubious honour to lead the month-over-month decline in manufacturing sales in May as sales fell 1.0 per cent to $24.0 billion. May's fall in sales adds to the 4.7 per cent drop in sales from April. While non-durable sales inched up 0.5 per cent in May the overall decline in sales came completely from weaker durable sales (down 2.1 per cent). Moreover, of the 21 sectors surveyed, monthly sales fell in 13 areas led by machinery (down 16.2 per cent), fabricated metals (down 1.4 per cent), chemicals (down 4.2 per cent), and transportation equipment (down 1.2 per cent). Petroleum product sales posted the largest gain (up 10.6 per cent).



Total manufacturing sales in the Toronto metro area inched up 0.6 per cent in May to $9.7 billion, offsetting some of the double-digit dip in sales from April.

Over the first five months of the year, total manufacturing sales in Ontario remained 18.9 per cent ahead of last year's pace with durables (up 22.0 per cent) and non-durables (up 14.8 per cent) up substantially largely from base year effects when comparing 2021 to 2020.

Sales of machinery in May fell largely from weaker sales of agricultural, construction, and mining machinery. Several machinery manufacturers indicated that the lack of raw materials (including microchips) and delay in shipments affected their production which dampened the capacity utilization rate.

Sales of chemicals fell on lower sales in the basic chemicals and pharmaceutical and medicine manufacturing industries. While sales of fabricated metals fell on fewer sales of boiler, tank, and shipping containers along with coating, engraving, cold and heat treating and allied products. Transportation equipment sales fell on weaker sales of motor vehicle parts.

With the pandemic largely beginning to be put in check in Ontario in June and beyond, the economy continues to open but supply chain issues should persist as other jurisdictions are not faring so well with the pandemic. This will affect production of key inputs into Ontario manufacturing.

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