Economics | Current Economic Trends

Ontario Economic Briefing

Volume 27 • Issue 33 • Week of August 16 - August 20 2021 | ISSN: 1981-355

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Economics

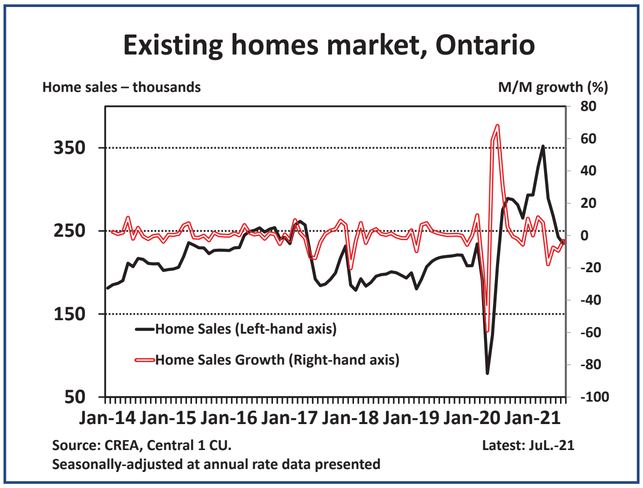
Highlights

- Existing home sales and new listings slid for fourth consecutive month in July
- Manufacturing sales rebounded very strongly in June led largely by transportation equipment manufacturing
- Housing starts up significantly due largely to a surge in multi-family housing starts in Toronto
- Headline inflation increased 3.5 per cent in July and core inflation, excluding food and energy, moved up 2.9 per cent
- Retail spending up 9.8 per cent in June, core retail spending up 16.0 per cent

Average home price continued to climb in June despite weaker sales

Ontario's resale homes market continued to slow down in July as sales slipped an additional 3.3 per cent and new listings slipped 6.9 per cent marking four consecutive months that sales and new listings have slipped. Moreover, looking at current levels for sales and new listings market activity for both these metrics have now descended back to pre-pandemic levels. Sales and new listings are back to 2019 and 2018 levels respectively.

Despite the moderation in sales and new listings the average home price continued to climb. In July, the average price moved up 1.0 per cent to $853,007, up slightly from the 0.6 per cent growth in June. While sales and new listings have slipped for several months the average home price has continued to climb for three consecutive months now. The market has continued to support price growth as supply lags demand and keeps the market very tight. In July, the sales-to-new-listings-ratio (SNLR) was 72.7 per cent up from 70 per cent in June. The average months of supply has remained at one month of supply for four consecutive months. On average, since January 2018, months of supply has averaged 2.1 months.



Ontario's condo apartment market continues to rebound, especially in dense urban markets like Toronto, and this is adding some lift to price on top of the pool of buyers, albeit reduced, still looking for low-rise housing. Buyers continue to be attracted by low mortgage rates while looking to get in before immigration flows pick up.

Year-over-year, sales are down 14.7 per cent while new listings are down 13.3 per cent due in part to base year effects. Average price remained up 18.2 per cent. Over the first seven months of 2021 sales (up 51.9 per cent), new listings (up 34.4 per cent) and average price (up 26.6 per cent) remain well ahead of last year's pace.

Of Ontario's 44 real estate boards, month-over-month sales activity fell in well over half the markets (29) including several large markets such as the Toronto region (down 2.0 per cent), Durham region (down 9.7 per cent), Hamilton-Burlington (down 5.4 per cent), and London St. Thomas (down 2.0 per cent). The average month-over-month drop in sales in all markets that reported a drop in sales was 8.7 per cent in July.

The Canadian Real Estate Association (CREA) publishes constant quality housing price indexes (HPI) for seven markets in Ontario monthly. Only the Ottawa real estate board posted a month-over-month HPI decline (down 0.8) while four of the other markets saw the HPIs stay the same or the rate of growth slow down. The biggest slowdown occurred in Oakville-Milton where the HPI in July came in at 0.6 per cent;

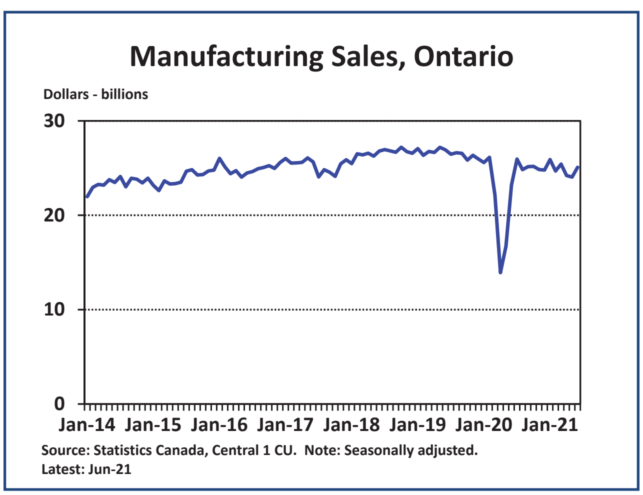
much slower than the 3.1 per cent growth in June. The HPI in Hamilton-Burlington registered the biggest acceleration moving up to 0.9 per cent in July from 0.4 per cent in June. The HPI growth in these seven markets averaged 0.7 per cent in July, much slower than the 1.1 per cent from June. Since peaking in February, the average HPI in these seven markets has been steadily declining.

After two-month slide manufacturing sales jumped 4.3 per cent in June

After two months of lower manufacturing sales volumes sales roared back in June, moving up 4.3 per cent to $25.1 billon. Ontario sales outpaced the national average (up 2.1 per cent). A strong surge in durable goods sales (up 6.6 per cent) largely lifted overall sales in June with non-durables (up 1.5 per cent growth) providing the remaining lift. Of the 21 sectors surveyed, sales increased in 11 with several large sectors among them such as:

- Food manufacturing (up 1.6 per cent).
- Chemicals manufacturing (up 4.3 per cent).
- Machinery manufacturing (up 5.5 per cent).
- Transportation equipment manufacturing (up 16.5 per cent).

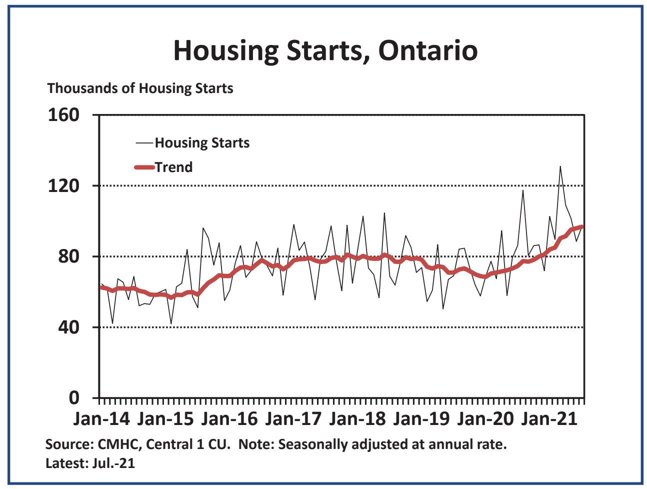
Manufacturing sales declined in Toronto in June by 2.2 per cent, the third consecutive monthly decline. Most of the sales decline in Toronto was due to a production slowdown at a major auto assembly plant. Despite a strong dip in sales in Toronto, a major manufacturing hub, sales in the rest of Ontario comfortably offset these losses. Sales in Ontario, excluding Toronto, moved up 8.6 per cent.



Year-to-date sales are up 16.9 per cent with both durables (up 18.2 per cent) and non-durables (up 15.2 per cent) up significantly. With June's data now in the books, compared to pre-pandemic activity from February 2020, sales volume is 95.9 per cent back.

Housing starts up 9.0 per cent in Ontario putting an end to a three-month skid

The Canada Mortgage and Housing Corporation (CMHC) released July new housing starts estimates this week. According to the latest data, new housing starts in all areas of Ontario moved up an impressive 9.0 per cent to 96,942 units at seasonally adjusted annual rate (SAAR) putting an end to a three-month skid where new housing starts fell by an average rate of 12.1 per cent month-over-month.



Housing starts in regions of Ontario with at least 10,000 residents increased at a faster clip (up 11.2 per cent month-over-month) largely due to very strong growth in single-detached home construction (up 20.8 per cent) and condo apartments (up 8.8 per cent). Together, these two home types accounted for 90.3 per cent of the net increase in construction in July. Semi-detached homes and row/townhomes also increased in July by 18.1 per cent and 3.1 per cent respectively. New home construction activity was largely concentrated to dense areas in Ontario in July with 94.3 per cent of all new home construction occurring in areas with at least 10,000 residents.

Over the course of the first seven months of 2021 new home construction in centres with at least 10,000 residents is ahead of last year's pace by 27.2 per cent due to very strong growth in low-rise housing (up 38.5 per cent) compared to growth in condo apartments (up 17.4 per cent).

A significant surge of new home construction occurred in the Toronto metro area in July, up 28.8 per cent and accounting for nearly 51 per cent of all new construction in the province. Nearly 60 per cent of that construction was in Toronto in multi-family homes, which includes everything except single-detached homes.

Among other large metro areas in Ontario new home construction increased in the following:

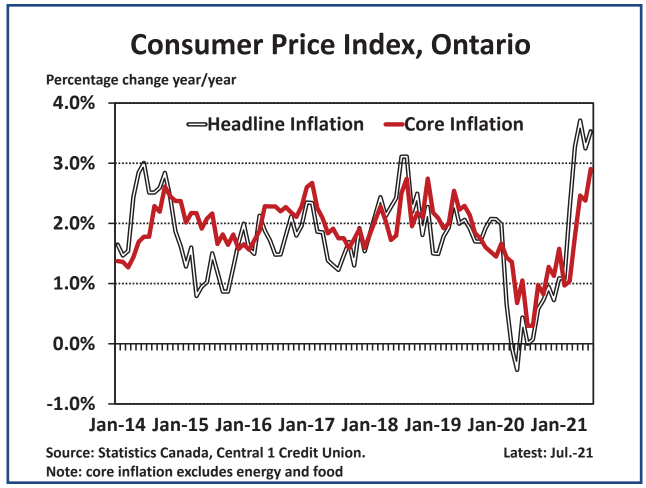
- Barrie up over 2,300 net units
- Ottawa-Gatineau up over 320 net units
- St. Catharines-Niagara up over 475 net units
- Kitchener-Cambridge-Waterloo up over 2,900 net units

In July, both the average and median contract price for a single-detached home increased substantially at 4.8 per cent and 6.3 per cent respectively. As discussed in last week's briefing residential construction developers are facing some headwinds with increased input costs (i.e., wages and materials) due to supply and skilled labour shortages. This could be part of the reason for the increased cost for a new single-detached home now being passed onto buyers.

Inflation picks up in July as the economy continued to open and supply chain issues persist

Headline inflation increased 3.5 per cent in July up from the 3.2 per cent growth posted in June. Core inflation, excluding food and energy, moved up 2.9 per cent in in July up from 2.4 per cent in June. Inflation picked up for goods, particularly durable goods (up 5.0 per cent) and services (up 2.8 per cent). The rate of growth for semi-durables (up 0.5 per cent in July slower than the 1.0 per cent in June) and non-durables (up 5.6 per cent in June slower than the 5.9 per cent posted in July) slowed down in July.

Increased inflation in areas such as food (up 1.4 per cent), shelter (up 5.2 per cent), transportation (up 5.8 per cent), recreation, education, and reading (up 2.1 per cent) and household operations, furnishings and equipment (up 1.7 per cent) lifted headline inflation. Energy prices decelerated in July due to slower price growth for gasoline, water, natural gas, and fuel oil and other fuels.



Over the first seven months of 2021, inflation is up 2.6 per cent compared to last year with core inflation up 1.9 per cent. Inflation for goods is up 3.6 per cent largely on strong price growth for durable and non-durable goods while prices for services are up 1.9 per cent.

With greater ease of public health restrictions in July, economic activity increased leading to inflation in many areas with substantial client-facing traffic.

Durable goods inflation picked up on higher costs for automobiles as increased costs for semiconductors are passed to consumers. Furniture costs increased as government tariffs for some furniture showed up in showrooms. Costs for new televisions, likely again due to increased semiconductor costs, also contributed to inflation in household operations, furnishings and equipment.

Inflation increased in the metro areas of Toronto (up 2.8 per cent), Ottawa-Gatineau (up 4.6 per cent), and Thunder Bay (up 4.1 per cent) with the largest absolute increase month-over-month occurring in Thunder Bay due to strong inflation in shelter costs, in particular rental housing.

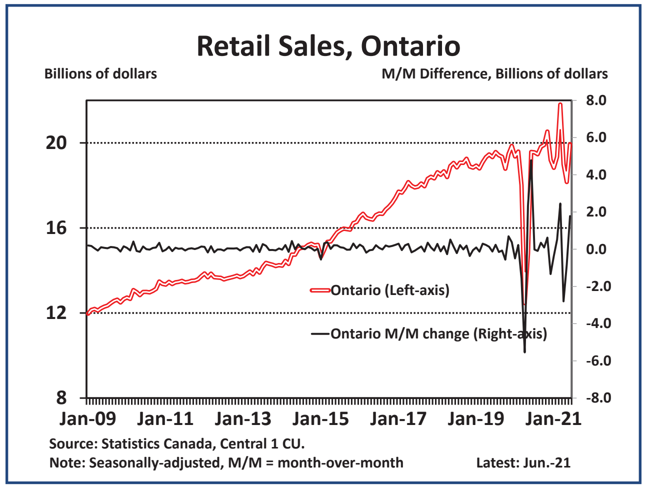
Lifting of public health restrictions stokes 'revenge' retail spending in June at non-essential retail

Retail sales in Ontario picked up significantly in June supported by easing of public health restrictions and people 'revenge' spending after months of being unable to live like the pre-pandemic era. Seasonally adjusted sales increased 9.8 per cent in Ontario to $19.9 billion. With the strong surge in sales in June, sales are now 1.8 per cent ahead of where they were before the start of the pandemic in February 2020.

Over the first half of the year retail sales are 13.6 per cent ahead of last year's pace.

Seasonally adjusted sales in the Toronto metro area increased at a faster clip than the province in June moving up 11.3 per cent to $7.9 billion. Sales in the rest of Ontario, excluding the Toronto metro area, also moved up 8.8 per cent to $12.0 billion. Over the first half of the year sales in Toronto are pacing 8.2 per cent ahead of last year's pace while in the rest of Ontario, excluding Toronto, sales are pacing 16.9 per cent ahead of last year's pace.

All areas contributed to increased retail sales in June with one exception, sales at food and beverage stores. Sales in this segment fell 2.5 per cent. Among large retail areas sales increased at motor vehicle and parts dealers (up 7.3 per cent), health and personal care stores (up 4.7 per cent), gasoline stations (up 5.6 per cent), and general merchandise stores (up 32.7 per cent). These areas accounted for 57.5 per cent of all retail sales in the month, meaning that other areas increased at a faster clip signaling that 'revenge' spending mentioned earlier. For example, clothing and clothing accessories stores picked up 145.5 per cent and sales of furniture picked up 53.8 per cent. Core retail spending, excluding sales of motor vehicle and parts and at gasoline stations, moved up 16.0 per cent in June.



Sales at food and beverage stores fell on weaker sales at supermarkets and other food stores. Gasoline station sales were supported by high gasoline prices.

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