Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Ontario average resale home price increased a further 2.2 per cent in September to a record high of $888,622;
- Price growth to remain firm due to lack of inventory;
- Manufacturing sales increased at a very modest clip in August as supply chain issues and labour shortages continues to hamper sales;
- Investment in building construction climbed to $7.5 billion in Ontario driven by strong growth in residential investment

Ontario sales rise for the first time since March, prices accelerate

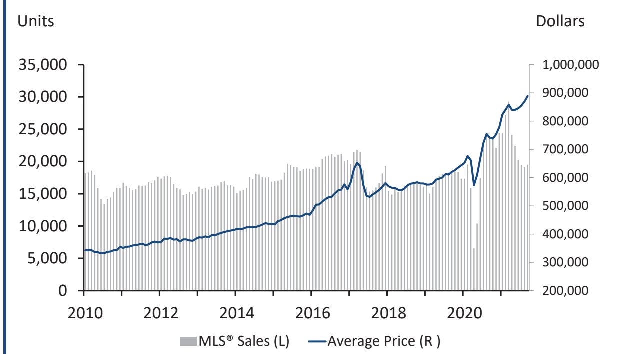
Bryan Yu, Chief Economist

Ontario's existing home market picked up in September with higher home sales and prices to drive the national performance, while suggesting a firming of market conditions heading into the winter months. MLS® sales reached a seasonally- adjusted 19,512 units in September, up two per cent from August and the first increase since the peak in March 2021. While sales have declined by 21 per cent year-over-year, the pace remains in line with pre-pandemic February 2020 pointing to steady demand.

Demand remains driven by low mortgage rates (although off their lows), while persistence of remote work options is triggering continued demand for homes in suburban markets and smaller urban and rural areas. Investor demand is likely percolating amidst return of students, travel and expected surge in immigration.

Among large metro markets, Toronto area sales rose 0.7 per cent, Hamilton sales jumped 3.7 per cent, and Ottawa sales increased 2.9 per cent. Windsor-Essex (up 8.2 per cent) and Sudbury (up 6.4 per cent) also jumped but reflected small absolute changes.

MLS® sales pick up in September, average price climbs



Source: CREA, Central 1 latest: Sep 2021

The average price jumped 2.2 per cent from August to a record high of $888,622, with year-over-year growth accelerating to 20 per cent. Average price growth was largely driven by markets outside Toronto. Average values are influenced by composition of sales. That said, constant- quality housing price index (HPI) growth accelerated in September. The Toronto HPI surged 2.6 per cent, Hamilton rose 2.4 per cent, Kitchener Waterloo increased 3.4 per cent, while London increased 2.0 per cent. Broadly, price growth is aggressive in most markets.

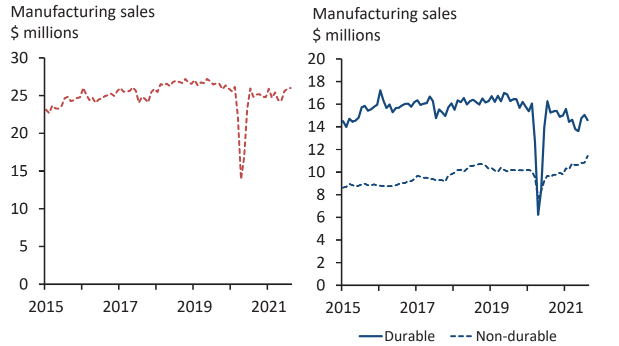
Price growth looks to remain relatively firm owing to a lack of inventory across markets. New listings fell 2.8 per cent to 25,311 units (seasonally- adjusted) which was the lowest since May 2020. A sales-to-new listings ratio sits at 77 per cent which is well into sellers' market conditions, and there is less than one month of inventory according to the Canadian Real Estate Association. While sales have normalized, buyers are scrambling to secure properties and engaging in bidding wars, which will continue to lift prices.

Manufacturing sales moved up only 0.4 per cent in August hampered by weaker sales in a few large sectors in durables

Edgard Navarrete, Regional Economist

Manufacturing sales in Ontario continued to climb in August albeit at a more modest pace than July. Sales in August moved up 0.4 per cent to $26.0 billion a much slower rate of growth than the 5.5 per cent and 1.2 per cent reported over June and July respectively.

Manufacturing sales increased very modestly in August



Source: Statistics Canada, Central 1 latest: Aug 2021

Non-durable sales moved up sharply in August (up 5.4 per cent) offsetting some of the losses in durable sales (down 3.1 per cent) but not fully as some large sectors in durables suffered some significant month-over-month losses.

Year-to-date, manufacturing sales remained 13.3 per cent ahead of last year's pace while durable (up 11.8 per cent) and non-durable sales (up 15.4 per cent) also remained substantially ahead of last year's pace. When compared to a 2019, Ontario sales have yet to return to that level. Major issues to production such as supply chain issues and labour shortages continues to hamper sales.

Manufacturing sales in the large three markets of Toronto (up 2.5 per cent), Hamilton (up 2.1 per cent) and Ottawa-Gatineau (up 3.5 per cent) all increased in August but losses in all other markets outside of these big three (down 1.5 per cent) for the second consecutive month affected overall sales. In Toronto sales increased also but at a slower clip than last month affecting the overall provincial tally.

Year-to-date, sales in the big three markets of Toronto, Hamilton, and Ottawa-Gatineau remained 9.6 per cent ahead of last year's pace while in all other areas of Ontario, excluding these three metro areas, sales remained 17.0 per cent ahead of last year's pace.

By sector sales declined month-over-month in the following large areas keeping growth range bound:

- Plastics and rubber products (down 0.8 per cent)
- Machinery (down 2.6 per cent)
- Transportation equipment (down 9.6 per cent)

The continuing semiconductor chip shortage is keeping the transportation equipment sector's hands tied and it is unable to increase production to lift sales.

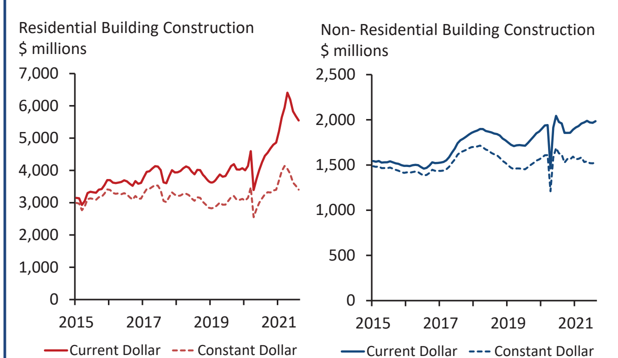
With decreased activity in the new car segment, a complimentary sector such as plastics and rubber products is also feeling the pinch.

Ontario building investment surges but inflated by high construction costs

Bryan Yu, Chief Economist

Dollar-volume investment in Ontario building construction remained robust into August, but growth was largely driven by ballooning construction costs. Investment in building construction reached a seasonally-adjusted $7.5 billion which reflects spending on work-in-place activity of new and renovation projects. This was up 17 per cent on a same-month basis from 2020, but real cost- adjusted investment was up only one per cent. Consistent with strength in the housing market, residential building investment growth led the increase with a current- dollar increase of 25 per cent (but only a four per cent real increase). Non- residential investment rose one per cent in current dollars but fell five per cent after factoring in prices.

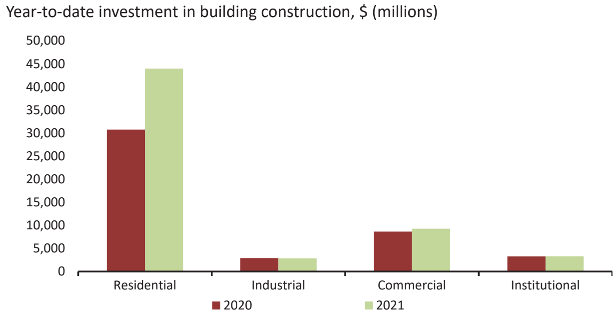
Construction inflation surges in 2021



Source: Statistics Canada, Central 1 latest: Aug 2021

On a year-to-date basis, investment activity through August rose 30 per cent owing largely to construction costs. Real construction activity rose 10 per cent. Outsized growth partly reflects public health restrictions early in the pandemic that affected the construction industry.

Residential construction drives building construction



Source: Statistics Canada, Central 1 latest: YTD Aug

Residential activity was up 43 per cent with more than half due to prices. Among census metropolitan areas (CMAs), Toronto building investment rose 34 per cent accounting for more than a third of the net gain. Strong growth was recorded in many CMAs, highlighted by Hamilton (95 per cent), London (107 per cent), Greater Sudbury (76 per cent), and Peterborough (123 per cent). Gains across the province reflect strong demand for housing, as shifting work environments allowed urban dwellers to relocate further out and in smaller regions.

In contrast, non-residential volume rose only 3.9 per cent with a decline in real spending of 2.7 per cent. A modest increase in commercial investment (7.2 per cent) was offset by a 2.5 per cent decline in industrial construction and a flat government investment. Soft activity reflects the uncertain economic environment.

Going forward, housing will remain a solid driver of construction investment with housing starts forecast to average 98,000 units this year and average 90,000 units in 2022 and 2023. A rebound in private sector investment will further contribute to growth as the pandemic wanes and business look toward expansion and press re-start on paused projects.

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